Global Insurance Market Quarterly Briefing

GLOBAL INSURANCE RATES LOWER IN THIRD QUARTER

Market Favors Buyers Willing to Access Global Capacity; New Business Pricing Suggests Competitive Market

The Marsh Global Insurance Index showed an overall rate change of -2.8% for the third quarter of 2014, compared to the third quarter of last year. Although this marks the sixth consecutive quarter of rate decreases, the slide in rates has accelerated from the beginning of the year, with several noteworthy regional and line-of-business variations (see **FIGURES 1, 2,** and **3**).

Property rate levels showed the largest decreases globally. In the US, major catastrophes have been limited, continuing a period of stability since Superstorm Sandy struck in October 2012. "With conditions remaining favorable to buyers, insureds are researching alternative risk management solutions, including catastrophe bonds and collateralized insurance solutions — and many insureds are also seeking to secure multiyear policies to lock in currently low rates," said Duncan Ellis, Marsh's US Property Practice leader.

FIGURE 1 Renewal Rate Changes by Region and Line of Business
Source: Marsh Global Analytics

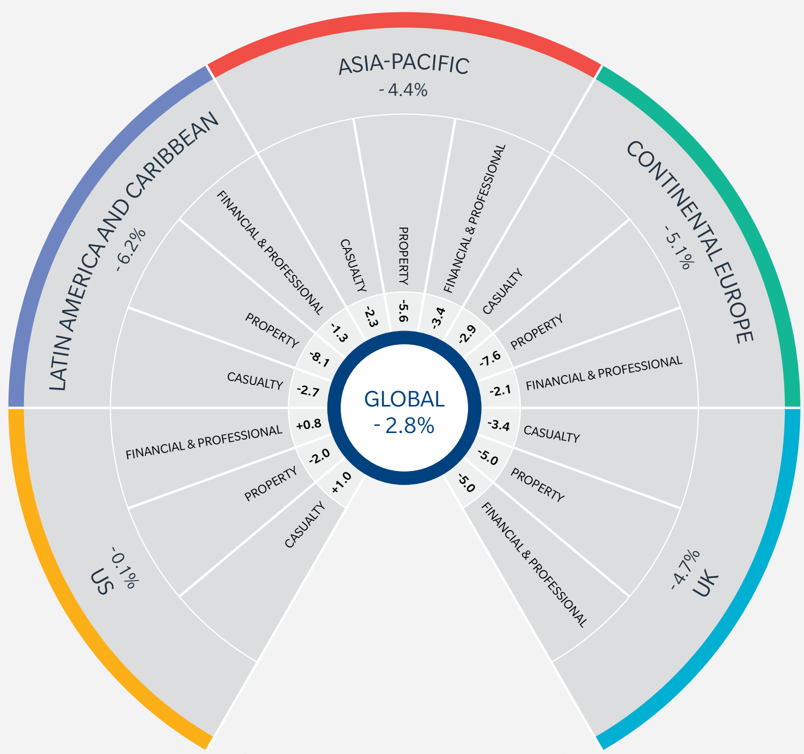


FIGURE 2 Composite Renewal Rates by Region
Source: Marsh Global Analytics

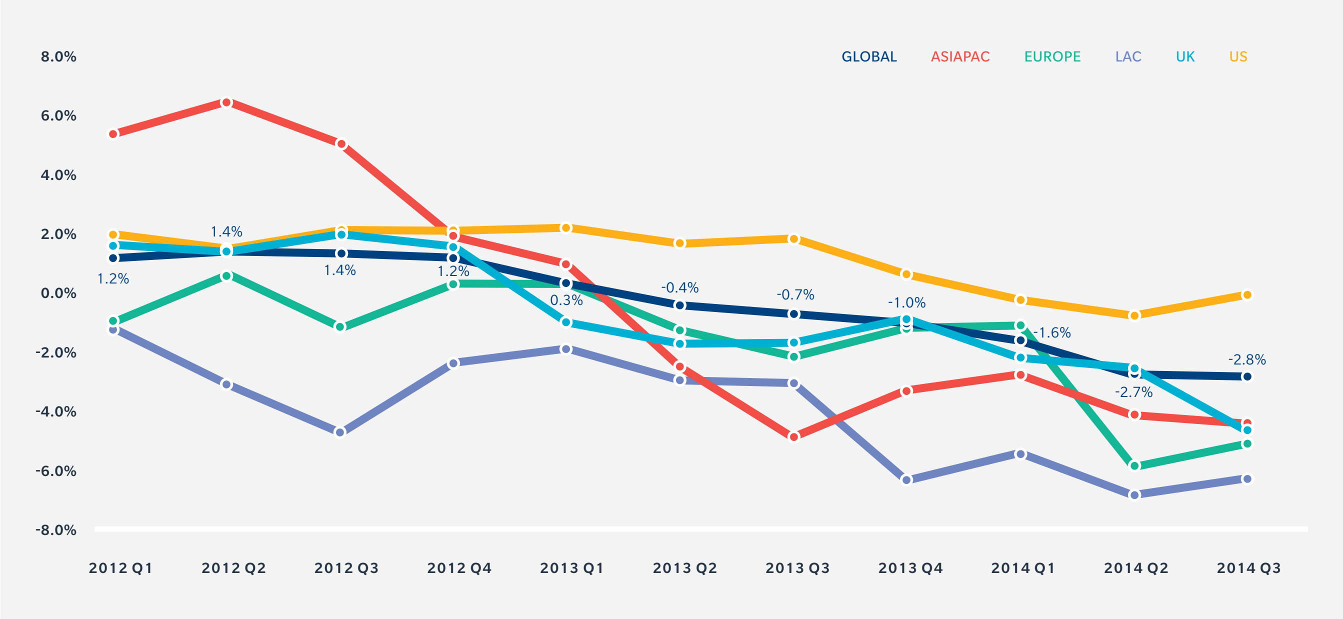
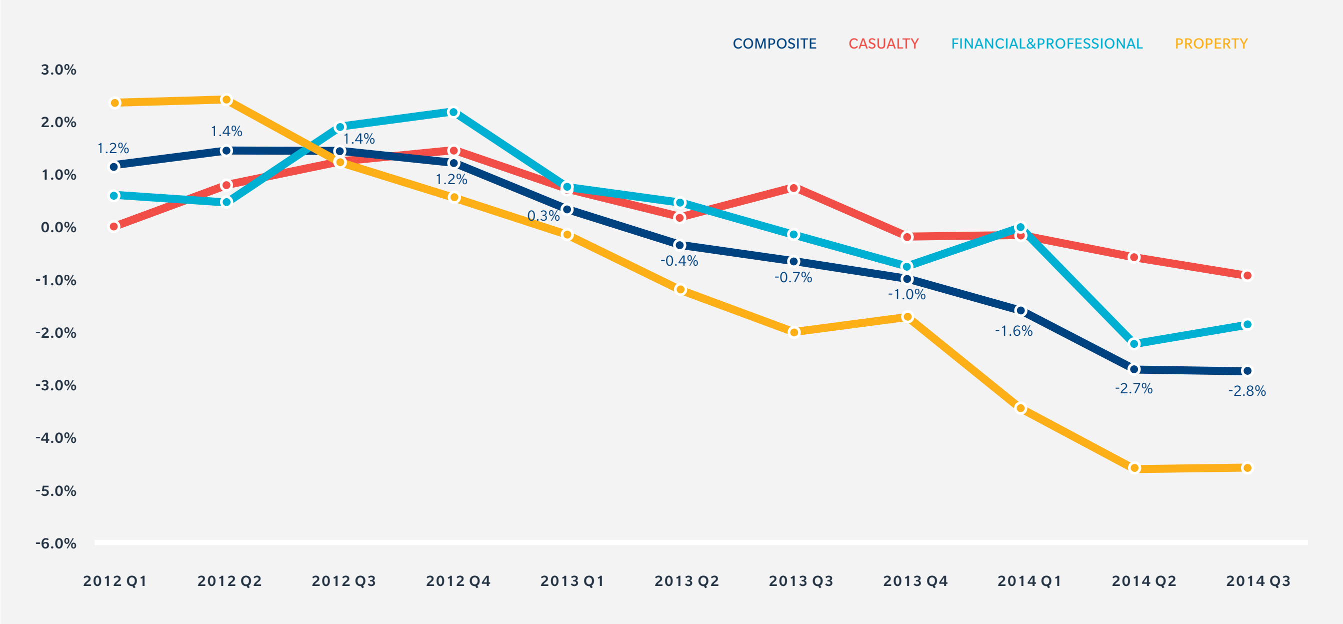


FIGURE 3 Renewal Rate Changes – Global
Source: Marsh Global Analytics



Casualty and financial products lines were more stable overall. "Increasing regulation continues to be a top concern for banks globally, given the cost of regulatory investigations," said Siobhan O'Brien, managing director in Marsh's FINPRO Practice. "In addition, recent cyber-attacks on several high-profile banks have also caused increased concern for financial institutions."

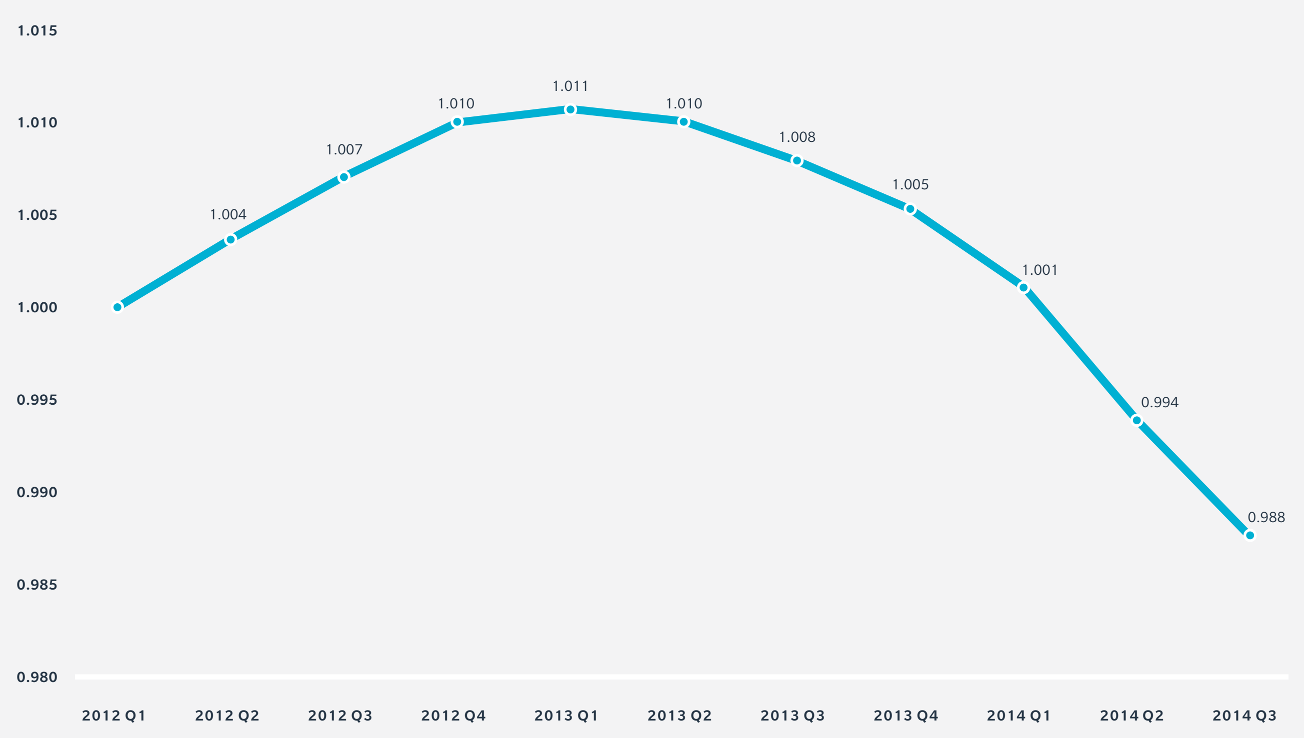
Regionally, the US was essentially flat overall for the quarter, while rate levels in Latin America, Asia-Pacific, the UK, and Continental Europe traded in a range of -4% to -6%.

Our index methodology has been enhanced to capture a rolling four-quarter view of rate movements. Each quarterly change shows the rate change for the current quarter over the prior year for the same period. By rolling the last four quarters together, we are able to capture the effective rate level for a full year. This enhancement enables a clearer view into the pricing cycle around the world (see **FIGURE 4**).

Marsh continuously monitors a number of underlying insurance market fundamentals to predict, quantify, and explain rate movements across the globe:

- Capital inflows and outflows (equal changes in capacity).
- Carrier underwriting results, including investment returns and reinsurance costs.
- Insurer pricing methodologies and behavior, such as postures on new business versus renewal or customer lifetime value (CLTV) models, for example.

FIGURE 4 Rolling Four-Quarter Rate Change Global Index
Source: Marsh Global Analytics



COMPONENTS OF THE PRICING ENVIRONMENT

CAPITAL INFLOWS AND OUTFLOWS

Reflective of the $50 billion in new capital that has been invested in the reinsurance market in the last two years, insurance capacity has been on the rise. While larger global insurers have made available additional capacity in all major product lines, and some true new capacity has emerged, the actual deployment of capacity has remained relatively consistent. What has changed most dramatically with capacity is the ability and willingness of buyers to access it globally. This trend has emphasized the value of multinational platforms, as well as access to capacity now available from insurers in Asia, Europe, and Africa.

INSURER UNDERWRITING RESULTS

The competitive market conditions over the last 18 months are also explained in part by historically good underwriting results and the lack of large catastrophe losses. Within property and casualty, underwriting results in the US were slightly lower than the previous year, although still producing a profit (without the benefit of investment returns).

For the UK, property underwriting results further demonstrate that the environment has been favorable for lower rate levels. Over the last five years, 19 loss ratio points have been taken down in prior year reserves for UK property, according to *Best's Journal* (October 13, 2014). Consistent with this theme, our index shows UK property insurance with a -5.0% rate change so far in 2014.

For other regions, such as Asia, underwriting results have also been favorable. "Within Asia, insurer results have remained profitable, typically with relatively few natural catastrophes and overall favorable underwriting results," said Martin South, CEO of Marsh Asia-Pacific.

Investment yields generally remain at low levels, requiring insurers to earn an underwriting profit or chase returns by diversifying their asset mix and potentially exposing themselves to more risk.

Additionally, prices for insurers to transfer risk have been extremely favorable. This bottom line benefit is driving competition among insurers to write more business. "Primary insurers have been able to become more competitive due to reductions in the cost of treaty reinsurance as a consequence of increased levels of reinsurance capacity and a lack of natural catastrophes," said Andrew Chester, CEO of Bowring Marsh, Marsh's specialist international placement unit.

INSURER PRICING METHODOLOGIES AND BEHAVIOR

Marsh tracks both new and renewal business price trends. Current rate levels are typically 5% to 10% lower for business that has moved to a new insurer than renewal policies that stay with an incumbent. A market cycle where insurers reduce the amount of coverage they are willing to write would typically be heralded by the convergence of the two, which we have not seen in some time. The differential between new and renewal is largest in the US for workers' compensation, property, and errors and omissions (E&O) lines; it is smaller for directors and officers (D&O) and auto liability, but has been consistent over the last four quarters of monitoring this trend.

Pricing is becoming increasingly sophisticated and analytical insights into new versus renewal pricing trends is just one aspect to gaining the CLTV benefits associated with renewal business by writing new business at a discount. Other pricing methods — such as predictive analytics — are making the inexorable march from personal to commercial lines and further accelerating competition risk by risk.

Over time, this sophistication should shorten the insurance pricing cycle from years to months. Our current 18-month downward trend in rate levels could see a quicker, albeit muted, turnaround in the coming quarters.