

Global Insurance Market Quarterly Briefing

GLOBAL INSURANCE RATES CONTINUE DECLINE IN FOURTH QUARTER

Trends Favorable to Buyers Likely to Continue

The Marsh Global Insurance Index showed rate decreases for the fourth quarter of 2014 compared to the fourth quarter of 2013, marking the seventh consecutive quarter of decline. The slide in rates varied by geography and product (see **FIGURES 1, 2, and 3**).

The property line showed the largest renewal rate decreases in the quarter across all regions. Continental Europe saw the largest decreases, followed by Latin America and Caribbean and Asia-Pacific. “The abundant supply of capital in the global marketplace and the relative decrease in catastrophe losses fueled the decline in property rates in the fourth quarter,” said Dean Klisura, Marsh’s Global Industry Specialties and Placement leader.

FIGURE 1 Renewal Rate Change Ranges by Region and Line of Business Q4 2014
Source: Marsh Global Analytics

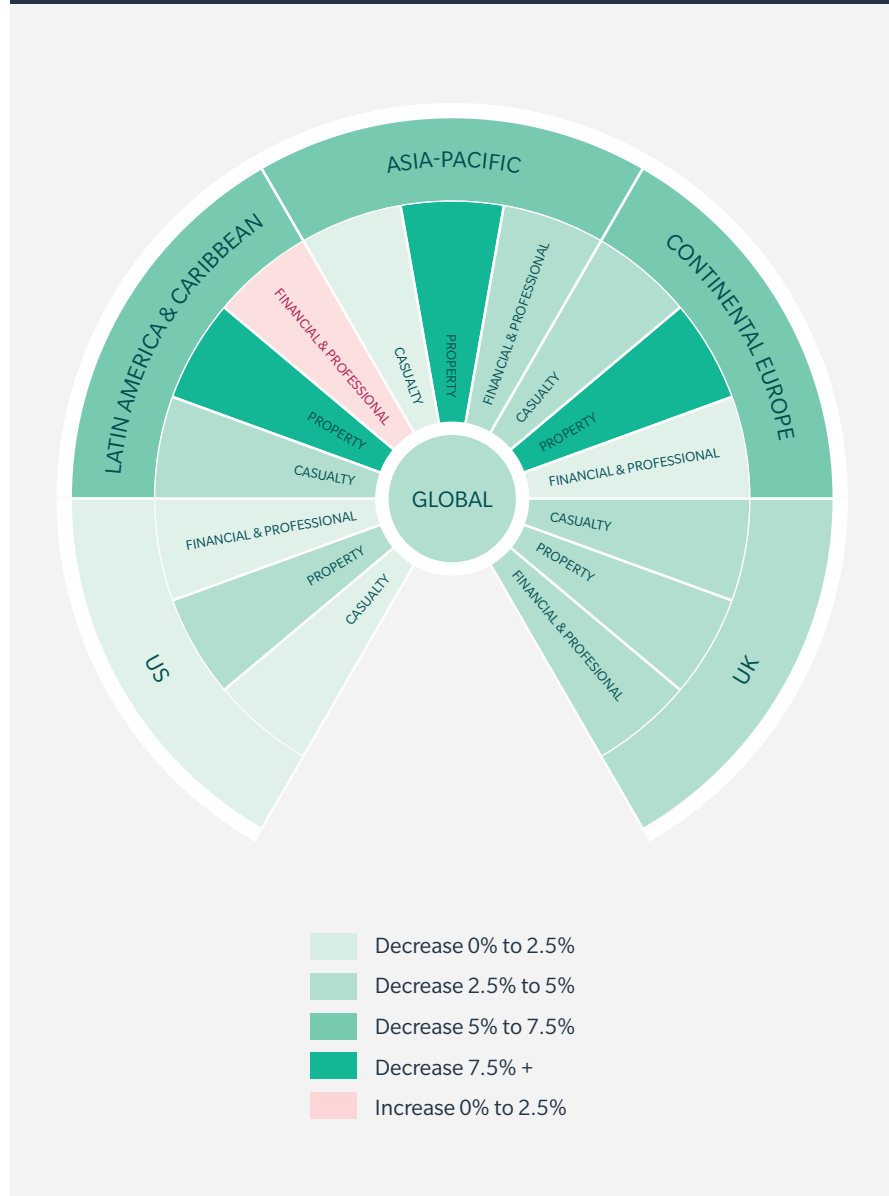


FIGURE 2 Composite Renewal Rate Change Ranges By Region
Source: Marsh Global Analytics

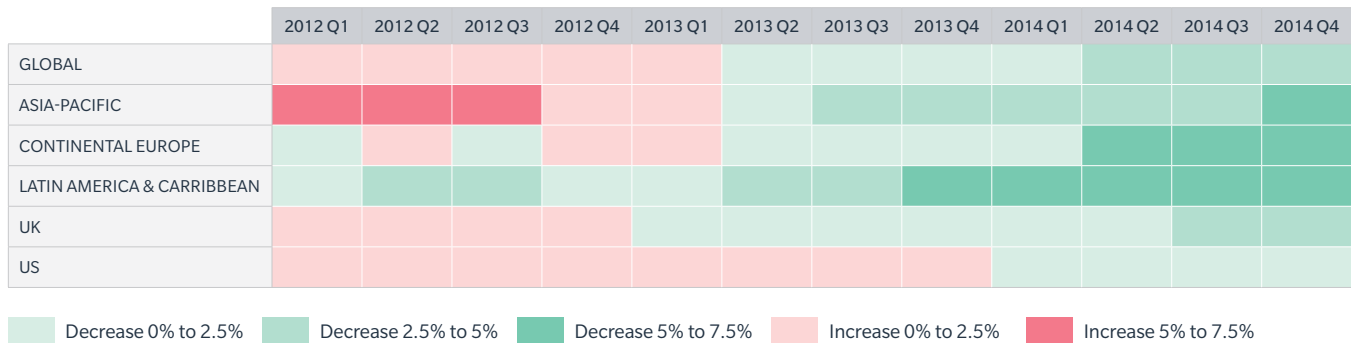
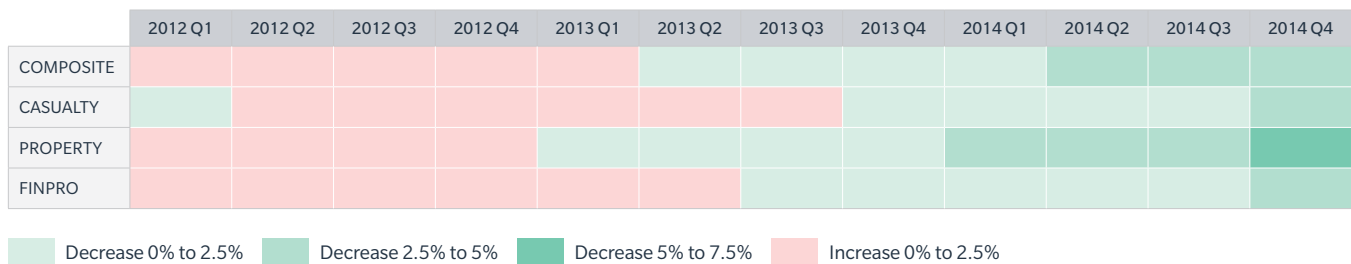


FIGURE 3 Renewal Rate Change Ranges By Insurance Line
Source: Marsh Global Analytics



Casualty insurance rates, on average, also decreased in all major regions. As would be expected, some programs experienced increases and some decreases, however, the declines were more pronounced. In the UK, the entry of new insurers and an increase in capacity affected lines such as general liability and motor/auto liability. “Insurers face significant growth targets, which increases competition and, in turn, fuels the opportunity to negotiate broader coverages and/or rate decreases,” said Matthew Rolph, Marsh’s UK Specialties Placement leader.

Headline cyber losses in the US presaged hardening in the fourth quarter for this line of business, evidenced by a modest rise in rates, one of the few areas of increase. While other financial and professional liability lines – for example, directors and officers (D&O) and errors and omissions (E&O) – showed slight decreases in the fourth quarter in the US, overall renewal rates for financial institutions remained essentially flat.

COMPONENTS OF THE PRICING ENVIRONMENT

Our index methodology captures 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**).

Contributing to market conditions in the fourth quarter were several underlying economic factors, which can be organized broadly within a supply-and-demand framework. We describe this market framework through:

- ▶ The flows of capital into the market.
- ▶ Insurer profitability.
- ▶ Insurer pricing methodologies (for example, insurers considering more sophisticated approaches to underwriting and pricing business, and demand-side influences).

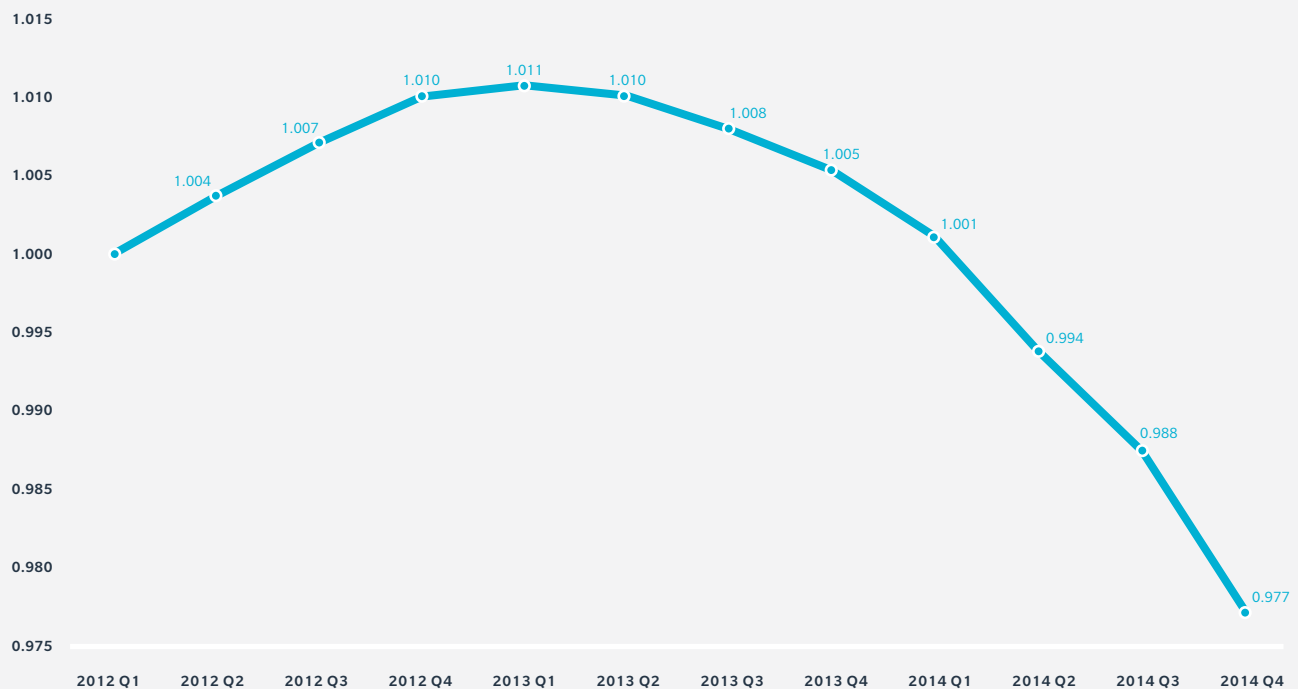
CAPITAL INFLOWS AND OUTFLOWS

Insurance buyers generally benefitted from an increase in supply in the fourth quarter as a number of insurers offered higher levels of capacity. Competition and available capacity have expanded in recent years with the increasingly global nature of the insurance market. Buyers are now more likely to consider insurers located outside their region. Positive performance on claims and a desire to diversify insurer panels have helped the markets grow outside of Europe and North America.

Terrorism insurance is a small but important component of insureds' programs. In the US, most industry observers were surprised that Congress allowed the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) to expire at the end of 2014, although it became the first bill passed by Congress and signed by the president in 2015. TRIPRA's passage brought greater certainty to organizations that depend on terrorism coverage, and should generally prevent any short-term increase in pricing.

Insurers are more likely to be competitive and offer their full capacity with the protection of this backstop, which is in place for six years.

FIGURE 4 Marsh Global Insurance Index
Source: Marsh Global Analytics



INSURER PROFITABILITY

Profitability increases insurers' willingness to compete for business through lower prices. In 2014, underwriting results were generally strong, with most insurers posting better year-over-year results. However, results for many insurers in 2015 are likely to be affected by the continued decline in the pace of reserve releases, which have served in recent years to support earnings.

A low level of insured natural catastrophes losses for 2014 — roughly half the 10-year average and almost 25% lower than 2013 — helped drive these positive results. Despite the impact of Superstorm Sandy in the northeastern US in 2012 and other regional events, there have been 15 straight quarters of benign catastrophe losses globally.

In the property line, this caused an acceleration of rate decreases in the fourth quarter — rates were down 6% globally versus a decrease of 4.6% in the third quarter. Both incumbent and non-incumbent markets were notably more aggressive in the quarter. Casualty rates were also down globally in the fourth quarter.

In the Asia-Pacific region, where renewal rates decreased by an average of 5.5% overall in the fourth quarter, insurance pricing remains highly competitive. “We are seeing competitive pricing across most product lines, with continued pricing pressure as more competition enters the market,” said Martin South, CEO of Marsh Asia-Pacific. “Insurers continue to have reasonably profitable results, which is helping keep overall price levels down.”

The soft market is creating additional considerations in certain regions. In India, for example, the Insurance Regulatory and Development Authority (IRDA) issued a directive in December for insurers to become more disciplined and quantitatively driven around the pricing of property insurance starting in February. This follows a long period of steeply discounted pricing, which the regulator is looking to reverse to ensure a more stable market over the longer term.

INSURER PRICING METHODOLOGIES

As insurers increasingly turn to sophisticated predictive analytics, underwriters' pricing and risk selection decisions are becoming more refined. Insureds with good loss histories and that can provide supporting data to positively differentiate their risk profile should benefit.

Other demand-side influences on pricing include the effects of alternative capital. On the reinsurance side, the influx of new capital has made significant inroads. The impact has been greatest in the US and Asia-Pacific, while minimal in Europe, the Middle East, and Africa.

Looking ahead, the market should remain competitive in 2015, barring unforeseen changes from a large catastrophe or other event. The increasingly global market has created greater competition, but it also provides a larger, more interconnected world of loss events. Fortunately, natural catastrophes have been at historically low levels, and other unexpected large loss events have been notably absent in recent years.

MARSH IS ONE OF THE MARSH & MCLENNAN COMPANIES, TOGETHER WITH GUY CARPENTER, MERCER, AND OLIVER WYMAN.

This document and any recommendations, analysis, or advice provided by Marsh (collectively, the “Marsh Analysis”) are not intended to be taken as advice regarding any individual situation and should not be relied upon as such. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Marsh shall have no obligation to update the Marsh Analysis and shall have no liability to you or any other party arising out of this publication or any matter contained herein. Any statements concerning actuarial, tax, accounting, or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, tax, accounting, or legal advice, for which you should consult your own professional advisors. Any modeling, analytics, or projections are subject to inherent uncertainty, and the Marsh Analysis could be materially affected if any underlying assumptions, conditions, information, or factors are inaccurate or incomplete or should change. Marsh makes no representation or warranty concerning the application of policy wording or the financial condition or solvency of insurers or reinsurers. Marsh makes no assurances regarding the availability, cost, or terms of insurance coverage. Although Marsh may provide advice and recommendations, all decisions regarding the amount, type or terms of coverage are the ultimate responsibility of the insurance purchaser, who must decide on the specific coverage that is appropriate to its particular circumstances and financial position.

Copyright © 2015 Marsh LLC. All rights reserved. MA15-13320 8043