

GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

MAY 2014

GLOBAL RATES EDGE DOWN AS PROPERTY PRICING FALLS

A continued softening of property pricing generated overall insurance market declines in the first quarter in every major region globally. Reflecting this activity, the Marsh Risk Management Global Insurance Index moved to 100.4 (see **FIGURE 1**), its lowest level since the third quarter of 2012 — and its fourth consecutive quarterly decline. For the first time since the second quarter of 2012, insurance rates in the US fell slightly overall during the quarter.

Falling property insurance rates were a familiar story globally in the first quarter (see **FIGURE 2**), thanks to ample capacity and a scarcity of major events. Latin America saw the most significant drop in rates on renewal (7.6%) among the major regions. Both the US and UK experienced their largest quarterly declines in more than two and a half years (2.5% and 5%, respectively). In Asia-Pacific, rate reductions of up to 20% became more common for commercial business, in some cases nearing 25%, depending on the size of the risk.

Casualty rates continued a more moderate softening, led by decreases in Latin America, Asia-Pacific, and the UK; Continental Europe and the US saw slight increases in casualty rates. Financial and professional lines were stable and generally flat on a composite basis across all geographies from prior periods. Increases in the US were moderate, rate declines slowed in Continental Europe, and rates were flat in the UK.

The first quarter benefitted from additional capacity surfacing across most of the global market, primarily from existing players looking to increase market share. Countries that have been growing as insurance centers, such as Dubai and Singapore, continued to increase their presence with capacity gains during the first quarter. In Singapore, new capacity came largely from international carriers continuing their growth agendas.

FIGURE 1 MARSH RISK MANAGEMENT GLOBAL INSURANCE INDEX AND REGIONAL INDICES

Source: Marsh Global Analytics

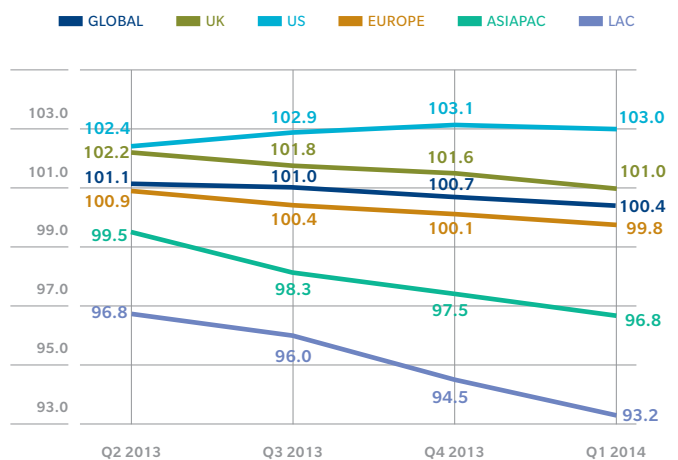
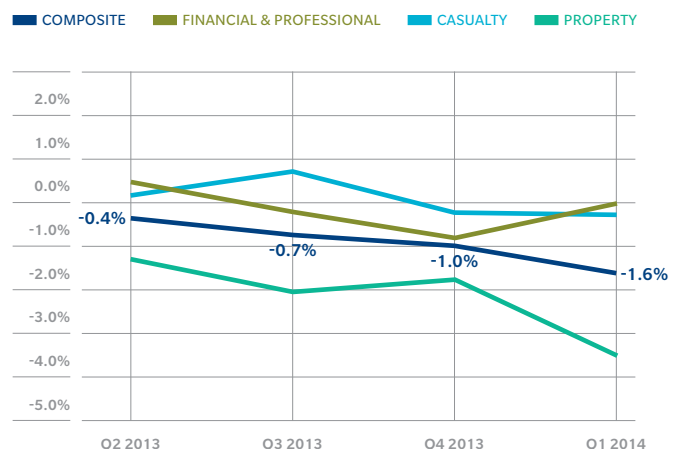


FIGURE 2 RENEWAL RATE CHANGES BY LINE OF BUSINESS

Source: Marsh Global Analytics



GLOBAL PROPERTY UPDATE: FAVORABLE CONDITIONS

Limited catastrophe losses in the first quarter — and a two-year absence of significant market-moving events — contributed to the growth of global property capacity. As a result, prices and contract conditions were generally favorable to buyers. Several geographies, most notably Latin America and Asia-Pacific, reported property insurance capacity at very high levels, with the abundance of supply driving carriers to compete aggressively on price to retain business.

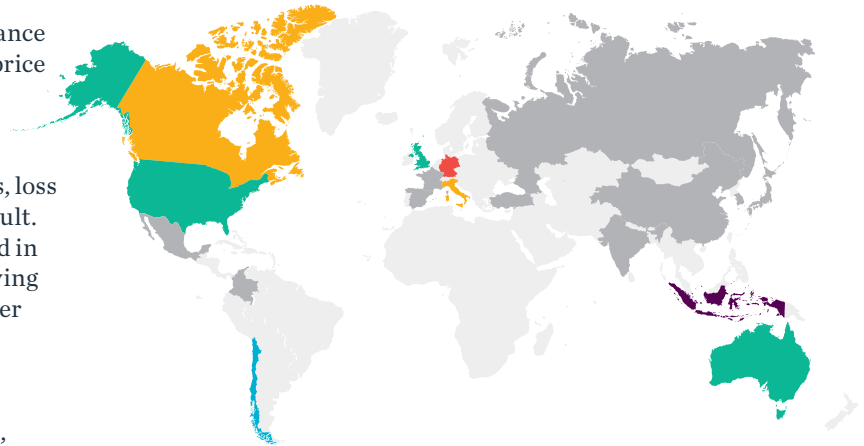
In Africa, where the end of summer can often bring widespread and heavy damage from wildfires or floods, loss activity was negligible and prices moved down as a result. In Asia, a lack of significant losses during 2013 resulted in reduced reinsurance pricing on renewals, which is having a positive effect on primary markets through both lower reinsurance costs and primary price reductions.

Insurance buyers for large corporations in the US experienced particularly beneficial market conditions, with many programs being offered more capacity than requested, requiring risk managers to decide between new and incumbent insurer relationships, weighing the merits of premium savings. Softening market conditions in the US prompted insurers to attempt to stabilize rates through the offering of multi-year policies or long-term agreements. Insurers are generally willing to offer longer-duration, binding policies, provided that terms are equally binding for both parties over the full term of the agreement.

Not all countries experienced favorable conditions and rate reductions in the first quarter. In Germany, major losses

from severe flooding and hailstorms in 2013 prompted several lead carriers to increase rates, particularly for catastrophe-exposed risks. Rates for catastrophe-exposed properties also spiked in Indonesia due to a new tariff regime that has effectively held the line on existing earthquake rates and introduced new minimums for flood and storm/water damage.

MAJOR MARKET PROPERTY (CATASTROPHE-EXPOSED RISKS): RATE CHANGES



| PROPERTY (CAT-EXPOSED) | | PROPERTY (CAT-EXPOSED) | |
|------------------------|---|------------------------|---|
| AUSTRALIA | ▼ | ITALY | ▲ |
| CANADA | ▲ | JAPAN | — |
| CHILE | ▼ | KOREA | — |
| CHINA | — | MEXICO | — |
| COLOMBIA | — | RUSSIA | — |
| FRANCE | — | SINGAPORE | — |
| GERMANY | ▲ | SPAIN | — |
| HONG KONG | — | TURKEY | — |
| INDIA | — | UK | ▼ |
| INDONESIA | ▲ | US | ▼ |

▲ INCREASE 30%+
▲ INCREASE 10% TO 20%
▲ INCREASE 0% TO 10%
▼ DECREASE 10% TO 20%
▼ DECREASE 0% TO 10%
■ STABLE -5% TO +5%

SPOTLIGHT

US TERRORISM INSURANCE UPDATE

The US Congress appears to be moving closer to reauthorizing the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), which will otherwise expire at year's end. Marsh's most recent annual benchmarking shows that property terrorism insurance was still actively purchased in 2013, with 62% of clients buying the coverage. The take-up rates for companies with the largest TIVs, \$500 million and up, continued to be the highest. The perception remains that larger organizations with large concentrations in central business districts and in major metropolitan areas are more susceptible to an attack. Marsh & McLennan Companies continues to serve as a key thought leader on this issue, sharing its expertise with Washington lawmakers at numerous venues. A bill to reauthorize TRIPRA, with reforms and for an additional seven years, was recently introduced in the Senate.

TERRORISM INSURANCE TAKE-UP RATES BY YEAR

Source: Marsh Terrorism Risk Insurance Report 2014

| TIV RANGE | 2013 | 2012 | 2011 |
|-----------------|------|------|------|
| <\$100M | 60% | 59% | 60% |
| \$100M - \$500M | 61% | 64% | 64% |
| \$500M - \$1B | 68% | 66% | 70% |
| >\$1B | 64% | 64% | 65% |

Members of the House Financial Services Committee from both parties have expressed a desire to quickly pass an extension of the law. For additional information about US terrorism insurance markets, please access the 2014 *Terrorism Risk Insurance Report* on marsh.com.

CASUALTY, FINANCIAL AND PROFESSIONAL RATES STABLE

MAJOR CASUALTY, FINANCIAL AND PROFESSIONAL MARKETS: RATE CHANGES

| | GENERAL LIABILITY RATE CHANGES | DIRECTORS & OFFICERS RATE CHANGES | FINANCIAL INST. RATE CHANGES | PROFESSIONAL LIABILITY RATE CHANGES | MOTOR / AUTOMOBILE |
|-----------|--------------------------------|-----------------------------------|------------------------------|-------------------------------------|--------------------|
| AUSTRALIA | ▼ | ▼ | ▼ | ▼ | ▼ |
| CANADA | ▼ | — | — | — | — |
| CHILE | — | — | — | — | — |
| CHINA | ▼ | ▼ | — | — | — |
| COLOMBIA | — | ▼ | ▲ | — | — |
| FRANCE | — | ▼ | — | ▼ | ▲ |
| GERMANY | ▼ | — | — | ▼ | ▲ |
| HONG KONG | ▼ | — | ▼ | — | — |
| INDIA | ▼ | ▼ | ▼ | ▼ | — |
| INDONESIA | — | ▼ | — | — | ▲ |
| ITALY | ▼ | ▲ | ▲ | — | ▼ |
| JAPAN | ▼ | — | — | — | — |
| KOREA | — | ▼ | ▲ | ▼ | — |
| MEXICO | ▼ | — | ▲ | — | — |
| RUSSIA | — | — | — | — | ▲ |
| SINGAPORE | ▼ | ▼ | ▼ | — | — |
| SPAIN | ▼ | — | ▲ | — | — |
| TURKEY | ▲ | — | ▲ | — | ▲ |
| UK | ▼ | — | — | — | ▲ |
| US | — | — | — | — | ▲ |

▼ DECREASE 20% TO 30% ▲ INCREASE 30%+ — STABLE -5% TO +5%
 ▼ DECREASE 10% TO 20% ▲ INCREASE 20% TO 30%
 ▼ DECREASE 0% TO 10% ▲ INCREASE 10% TO 20%
 ▲ INCREASE 0% TO 10%

Global casualty insurance rates on a composite basis were stable in the first quarter of 2014, despite the positive influence of increased capacity and downward rate pressure in specific classes of business. This was particularly evident in the general liability market, where rate decreases were consistent across most major markets.

Among the major countries in the Eurozone, only Italy and Spain saw rates for financial institutions rise during the quarter. In the UK, financial institution insurers have not yet increased rates, but they are keeping a watchful eye on the regulatory intervention over financial institutions' management liability and misselling loss experience. Insurers are also looking at the potential risks from the rise in popularity of peer-to-peer payment systems such as Bitcoin.

In the US, casualty rates were generally stable, but there was still volatility in pricing depending on individual risk characteristics and contract experience. General liability and workers' compensation rates generally ranged from flat to single-digit increases; automobile liability averaged single-digit rate increases, with more significant increases for insureds with adverse experience and tougher exposures. Excess casualty rates moved from mid-single-digit increases to low-single digits.

The growing awareness of and focus on cyber risk drove some emerging trends in the first quarter. US general liability insurers are beginning to impose cyber exclusions on their policies. Excess insurers are also more closely scrutinizing cyber exposures, asking insureds to provide specific underwriting information. Meanwhile, the number of Marsh clients purchasing standalone cyber insurance in the US increased 21% from 2012 to 2013; in Asia, cyber insurance is also gaining substantial traction as the frequency of hacking attacks and data breaches accelerates.

SPOTLIGHT

TRANSACTIONAL RISK INTEREST CONTINUES TO ACCELERATE

Despite tepid global merger and acquisition volume, private equity firms and corporate clients continued to fuel demand for transactional risk products in the first quarter of 2014, a trend that began in 2010. Dealmakers in the US, Europe, and Australia sought transactional risk solutions, including representations and warranties insurance (reps and warranties), to facilitate the closing of their transactions. A number of factors have driven this increased demand, including broader coverage (fewer exclusions), lower pricing, a more streamlined

underwriting process, and the increased awareness amongst the global law firms behind the value of transactional risk insurance.

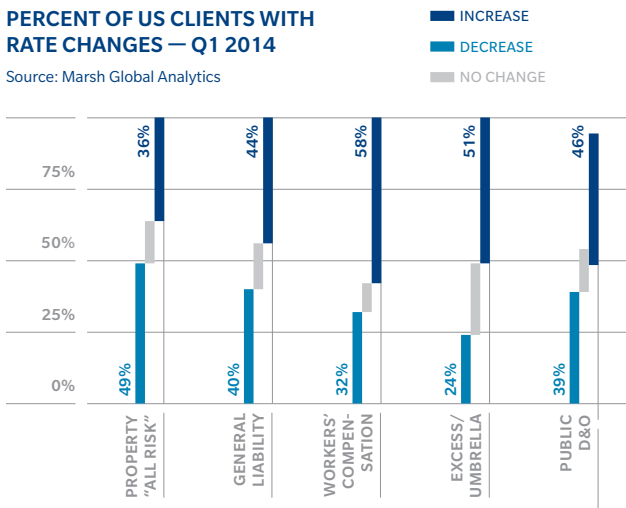
Both buyers and sellers were interested in the products, looking to provide smoother and faster deal closings, reducing extended negotiations over indemnification terms. While those making the acquisition typically represent 75% or more of the insureds of reps and warranties policies, the sellers (particularly private equity firms) are in fact introducing the concept to the transaction, and in some cases, are paying the premiums. Limits of transactional risk insurance placed by Marsh globally rose to \$5.1 billion, representing a 26% increase from 2012 to 2013, and a 155% increase since 2010.

US MARKETS UPDATE: RATE CHANGES FOR US COMPANIES

- ▶ With limited catastrophe losses in the first quarter — and no market-moving catastrophe losses since Superstorm Sandy in 2012 — property insurance capacity remained abundant and conditions were generally favorable to buyers. Average property rates were down 5% to 10%, with some buyers securing larger rate decreases.
- ▶ Underwriters of professional liability insurance continued to press for modest rate increases in the first quarter of 2014. These efforts were largely thwarted by strong capacity and rates generally remained stable across most professional liability lines.
- ▶ Market capacity continues to expand across aspects of commercial D&O programs. While insurers push more innovation into lead Side-A policies, including limit reinstatements and improved international offerings, coverage terms for ABC programs remain negotiable. Average commercial renewal rate increases continue to decline, approaching second quarter 2012 lows.

PERCENT OF US CLIENTS WITH RATE CHANGES — Q1 2014

Source: Marsh Global Analytics



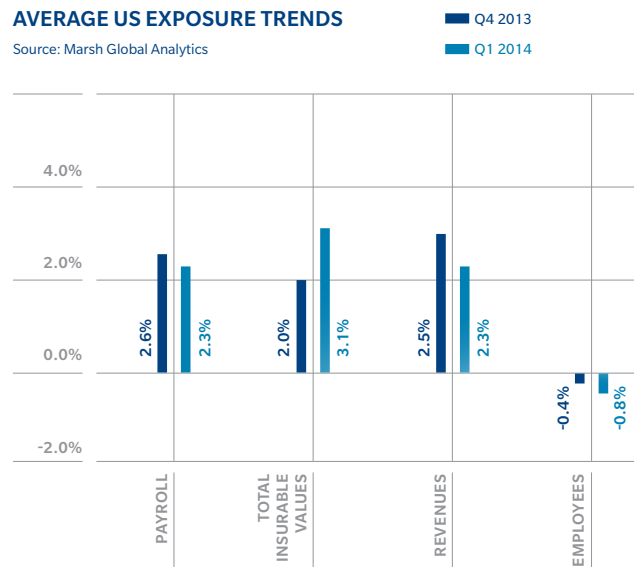
INSURANCE VALUES INCREASE MODESTLY

Exposures, as measured by payroll, total insurable value, and revenues, continued to edge up in the first quarter of 2014.

- ▶ Total insurable values continue to increase modestly as the economy slowly recovers. Property insurers continue to focus on catastrophe modeling, which has prompted insureds to closely scrutinize their insured values, to better capture accurate geo-coding of their locations, and to update the COPE information for their key locations. Buyers that provide property underwriters with complete and accurate data are best positioned for more favorable terms at renewal.
- ▶ The modest increases in payroll and revenues helped stabilize the casualty insurance market, while a competitive market helped negate carriers' push for higher rates.

AVERAGE US EXPOSURE TRENDS

Source: Marsh Global Analytics



Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

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