

GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

FOURTH QUARTER 2011

THE TWO-SPEED INSURANCE MARKET

Although rates in most loss-affected geographies and classes of business continued to climb during the fourth quarter of 2011, in other classes and regions rates generally fell or remained stable.

Countries affected by catastrophes saw significant rate increases as insurers scrutinized their aggregate catastrophe exposures.

- Non-catastrophe exposed insureds saw property insurance rates either decrease or remain stable in most major geographies.
- The U.S. property market shows signs of firming with renewal results varying significantly from account to account.
- Flooding in Thailand is set to cost insurers in excess of \$10 billion and highlights again this year the vulnerability of global supply chains.

DESPITE A TOUGH YEAR, MARKET REMAINS ROBUST

The flooding in Thailand will push insured natural catastrophe losses over the \$100 billion mark in 2011. This is more than double the 2010 figure and the second worst on record. Despite this, capacity in the global insurance market remains plentiful, and across-the-board rate increases are not being seen.

Insurers have responded to this year's events by attempting to secure rate increases where there have been significant losses. For example, Marsh's benchmarking data shows almost half of all U.S. property insurance clients experienced rate increases at renewal during the second half of 2011, compared to 31 percent in the first half. Most of these were for programs that included catastrophe risks.

By contrast, one-third of clients surveyed secured decreases; this applied mostly to those with little or no catastrophe exposure or losses.

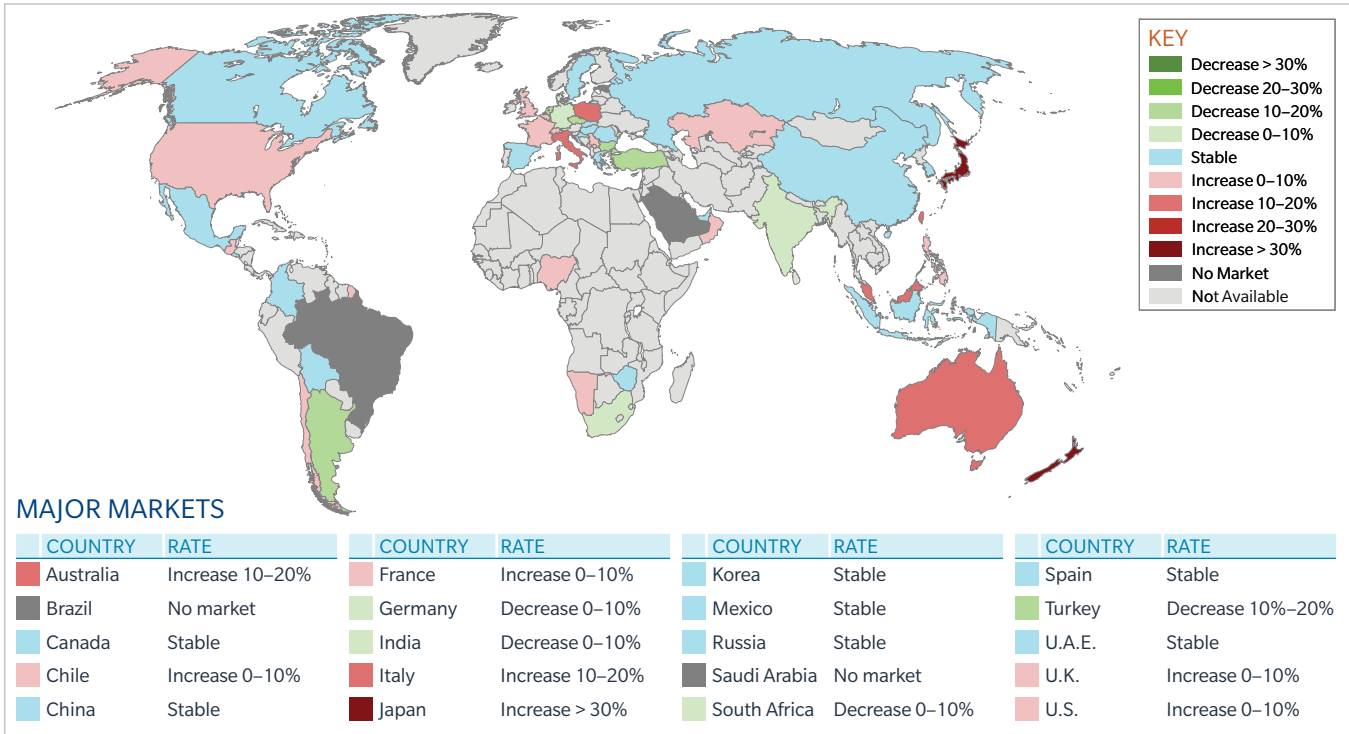
SUMMARY

Since the second quarter there has not been any overall change in market pricing, and market fundamentals remain strong. Although insurers are more mindful of aggregate exposure and reduced capacity in some loss-affected lines, there has not been any marked general movement. Thus rate decreases are common in classes of business that have not experienced large losses.

OVERVIEW

- Catastrophe-exposed and loss making lines see rising rates; other lines mostly stable or decreasing.
 - Global capacity remains strong, but has been reduced in some loss-affected or catastrophe-exposed regions.
 - Risk model RMS 11 has added to catastrophe rate increases; a trend expected to continue in 2012.
 - No overall change to market pricing.
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PROPERTY (CATASTROPHE EXPOSED RISKS): TYPICAL RATE CHANGES*



INSURED LOSSES FROM SIGNIFICANT CATASTROPHES

(in \$Millions)

QUARTER	2010	2011
Q1	\$14,235	\$54,000
Q2	\$6,280	\$20,000
Q3	\$5,675	\$6,000
Q4	\$3,000	\$15,000

Sources: Guy Carpenter, PCS, Insurance Council of Australia

PROPERTY CATASTROPHE MARKET

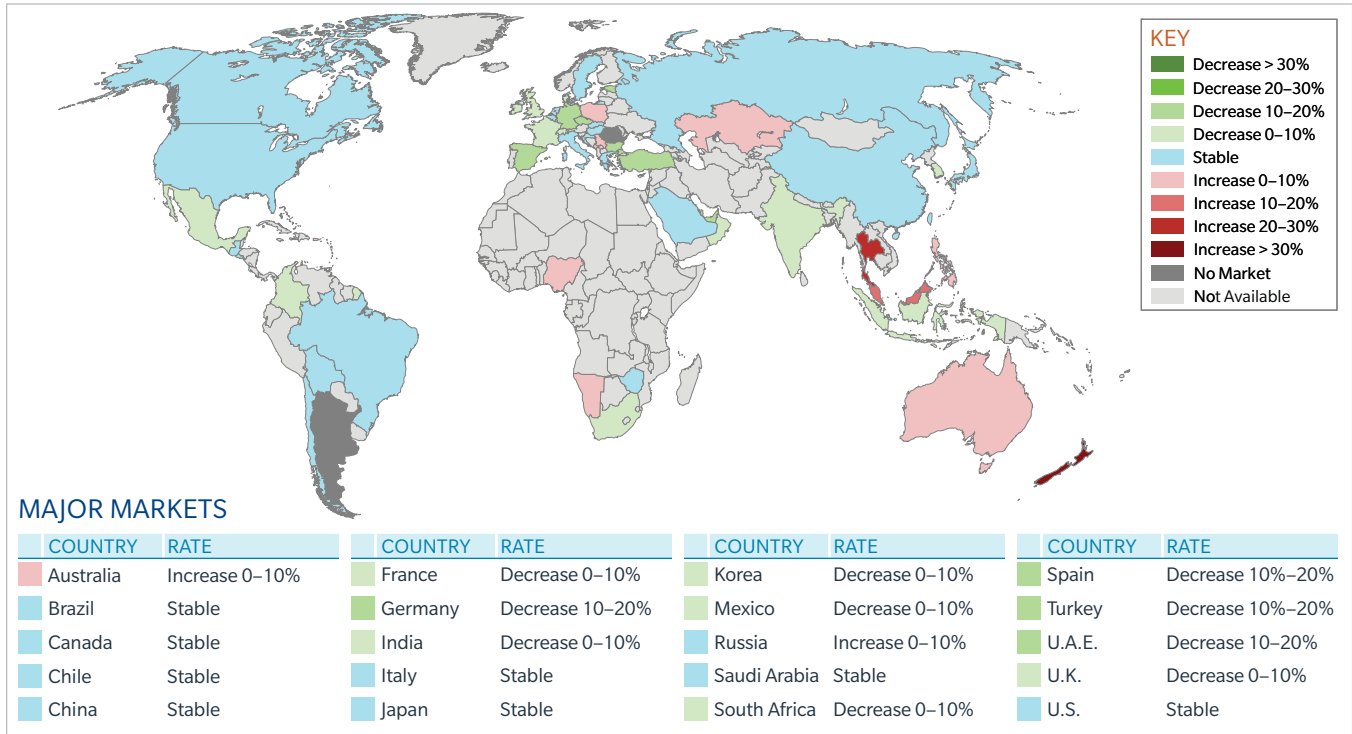
Property catastrophe insurance rates increased in the fourth quarter, with countries affected by major events during the year seeing the largest rises. Capacity in the market generally has remained strong, though some insurers, both international and domestic, are cutting back on Japanese earthquake risk. Others, such as those at Lloyd’s insurance market, are looking to reduce their aggregate exposure to critical catastrophe risk.

Rates continue to rise above average in loss-affected regions:

- In Japan, programs with earthquake risk typically renewed with rate increases of up to 50 percent.
- In Thailand, where insured losses from flooding around Bangkok are estimated to be above \$10 billion, programs are renewing with rate increases of up to 30 percent.
- Renewals in New Zealand are generally up by over 30 percent. Australia, Taiwan, and Malaysia have seen rises of up to 20 percent.
- Rates are also increasing in the U.S., with rises of around 10 percent not unusual.

In combination with loss levels, changes to risk models—particularly the introduction of the RMS 11 hurricane model—have helped to drive rate increases for catastrophe-exposed risks; we expect this effect to continue throughout 2012.

PROPERTY (NON-CATASTROPHE EXPOSED RISKS): TYPICAL RATE CHANGES*



GLOBAL EMPLOYEE BENEFITS MARKET

Globally, employee benefits insurance rates came under pressure significantly during the quarter, largely due to the rising price of medical costs and the consequent higher health care premium increases at annual renewals. Although the market in each country varies, the current trend in increasing medical costs is running at approximately 10 percent globally. In a relatively high inflation country, such as Venezuela, this rate of increase is running at around 40 percent. However, increases are being seen in both developed and developing economies.

Frequently used counter-measures to help control the rise of health care costs include plan design changes and shifting

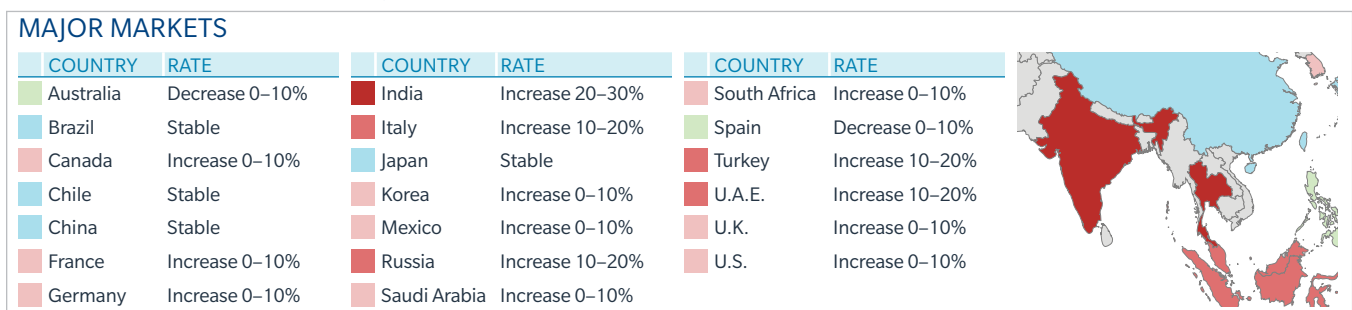
more of the financial burden to employees as well as health management programs to address poor health and promote wellness and productivity.

CASE STUDY: INDIA

In India, companies that provide medical insurance benefits are reporting cost increases in the range of 20 percent, forcing them to change the way they offer those benefits. In a recent Marsh survey, claims ratios for medical insurance exceeded 100 percent in just over half of firms.

Employees in Indian companies are increasingly being asked to become more active in their own health management by sharing costs and enrolling in wellness programs.

EMPLOYEE BENEFITS/MEDICAL COSTS TYPICAL RATE CHANGES*



MAJOR MARKETS LIABILITY: TYPICAL RATE CHANGES*

LIABILITY MARKETS

Underwriters of U.S. liability business are requiring more data in order to justify underwriting a given program.

This information could include asking for additional details about loss trends, large losses, data on safety controls, and risk management standards. This has led to an increase in the time it takes to renew a typical program.

As U.S. workers' compensation medical costs continue to accelerate, underlying claims costs are rising, premiums are increasing, and capacity becoming constricted.

As reported last quarter, rates for directors' and officers' (D&O) insurance in China continue to escalate dramatically. In other emerging markets, such as India, rates are also rising though more moderately. In all other major markets, D&O rates are either stable or, mostly, declining.

In the US, D&O rates continue to decline for insureds with favorable risk profiles. However, the pace of decline is decelerating with underwriters beginning to take firmer positions on larger insureds and those with less favorable risk profiles.

COUNTRY	GENERAL LIABILITY	PROFESSIONAL LIABILITY	FINANCIAL INSTITUTIONS	D&O
Australia	Stable	Stable	Stable	Stable
Brazil	Decrease 20–30%	Decrease 0–10%	Decrease 20–30%	Decrease 20–30%
Canada	Stable	Not available	Decrease 0–10%	Decrease 10–20%
Chile	Increase 0–10%	Increase 0–10%	Stable	Stable
China	Stable	Stable	Stable	Increase > 30%
France	Stable	Decrease 0–10%	Stable	Stable
Germany	Decrease 0–10%	Decrease 0–10%	Increase 0–10%	Decrease 0–10%
India	Decrease 0–10%	Increase 0–10%	No market	Increase 20–30%
Italy	Increase 0–10%	Stable	Stable	Decrease 0–10%
Japan	Stable	Decrease 0–10%	Decrease 0–10%	Decrease 0–10%
Korea	Stable	Stable	Increase 0–10%	Decrease 0–10%
Mexico	Decrease 0–10%	Stable	Stable	Decrease 0–10%
Russia	Stable	Stable	Stable	Stable
Saudi Arabia	Stable	No market	No market	Stable
South Africa	Decrease 0–10%	Decrease 0–10%	Stable	Stable
Spain	Decrease 10–20%	Decrease 0–10%	Increase 0–10%	Decrease 0–10%
Turkey	Stable	Stable	Increase 0–10%	Stable
U.A.E.	Decrease 10–20%	Decrease 0–10%	Decrease 10–20%	Decrease 10–20%
United Kingdom	Decrease 0–10%	Not available	Decrease 0–10%	Decrease 0–10%
United States	Increase 0–10%	Decrease 0–10%	Decrease 0–10%	Decrease 0–10%

OTHER MAJOR TRENDS

- Companies in the energy and chemical sectors have been impacted as insurers show increased concerns over hydraulic fracturing (fracking) and products used in the process. Over the last quarter, stories have emerged in several countries about fracking allegedly causing noticeable earth tremors and water contamination.
- Many Japanese insurers had large losses from the flooding in Thailand, but it is not known how this will impact pricing for catastrophe risks in Japan by local insurers. Currently in Japan there is no locally available capacity for earthquake contingent business interruption cover or service disruption risks.
- In the US, the Department of Justice and the Securities and Exchange Commission are aggressively pursuing companies that violate the Foreign Corrupt Practices Act (FCPA). Often, private plaintiffs will file an action against directors and officers when there are disclosures of FCPA violations.

* Ranges selected are best fit for typical rate changes at renewal experienced by clients in that country.

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