GLOBAL INSURANCE MARKET QUARTERLY BRIEFING

NOVEMBER 2013

GLOBAL RATES TREND DOWN; US RATES INCREASE OVERALL

Global insurance rates fell marginally in the third quarter of 2013, driven by decreases in pricing within several regions and across various lines of business. As a result, the Marsh Risk Management Global Insurance Index showed a modest decline. The indices for the Asia-Pacific, Continental Europe, and Latin America regions all showed decreases. US insurance markets proved the exception, with overall rates showing a slight increase. The index represents a composite or weighted average of global rate change activity over the preceding four quarters (see **FIGURE 1**).

The Asia-Pacific region led the third-quarter drop in the index, with a decline of 4.9% in composite renewal rates, which underpin the global and regional indices. Property rates in the Asia-Pacific region fell 8.6% due to an abundance of capacity, a relatively low level of losses, and competition among insurers for most classes of business.

In Continental Europe, the composite rate on renewal dropped 2.2%, again driven by a decline in property rates. In the UK, the fall was 1.6%, and in Latin America it was 3%.

In the US, the composite rate rose 1.9%, led by increases in casualty and financial and professional lines. US casualty insurance rates rose at a faster pace in the quarter, driven by increases in workers' compensation, particularly on guaranteed cost business and those risks with large employee concentrations.

Global property rates fell for the fifth quarter in a row, as indicated by a 2% decline in the composite premium-weighted average in the third quarter, the largest drop since 2011 (see **FIGURE 2**). Casualty rates rose 0.7% globally, primarily a result of increases in the US. However, there was also a small increase in Asia while the level of decrease slowed in both the UK and Latin America.

The index was begun seven quarters ago with a starting point of 100.0. Since then, the Latin America region index has declined to 96.0, while the US has risen steadily in every quarter and now stands at 102.9.

FIGURE 1 | **MARSH RISK MANAGEMENT GLOBAL INSURANCE INDEX AND REGIONAL INDICES**
Source: Marsh Global Analytics

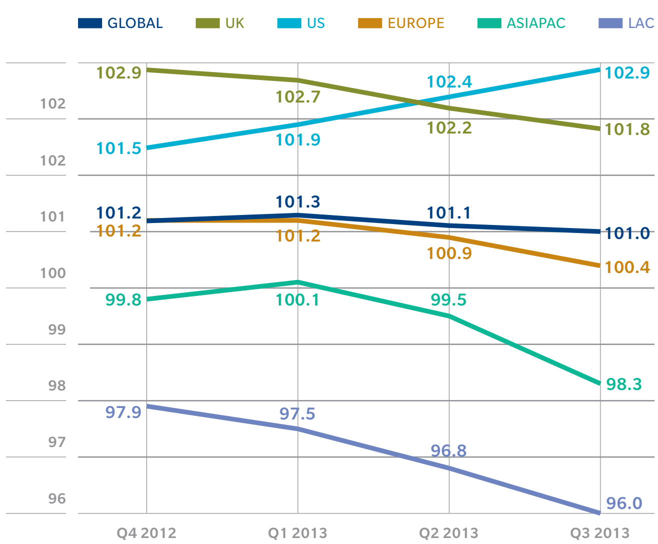
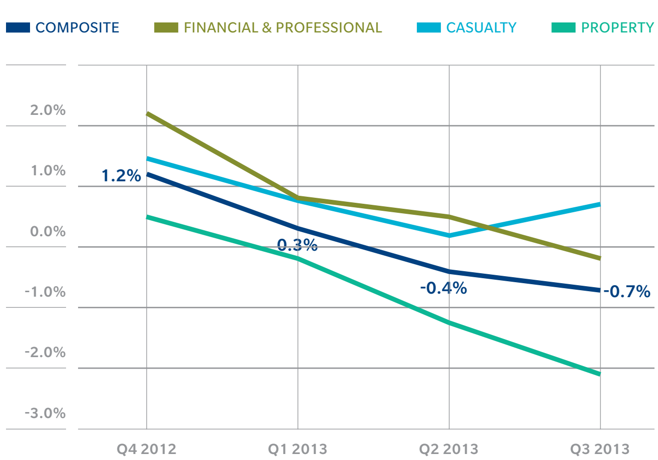


FIGURE 2 | **RENEWAL RATE CHANGES BY LINE OF BUSINESS**
Source: Marsh Global Analytics



GLOBAL PROPERTY UPDATE: FOCUS ON ASIA

A low level of insured losses globally combined with an insurance industry that has plentiful capacity, strong capital positions, and ample competition to keep property insurance rates generally stable or declining in the third quarter for risks with catastrophe exposures. Only a handful of major markets reported increases.

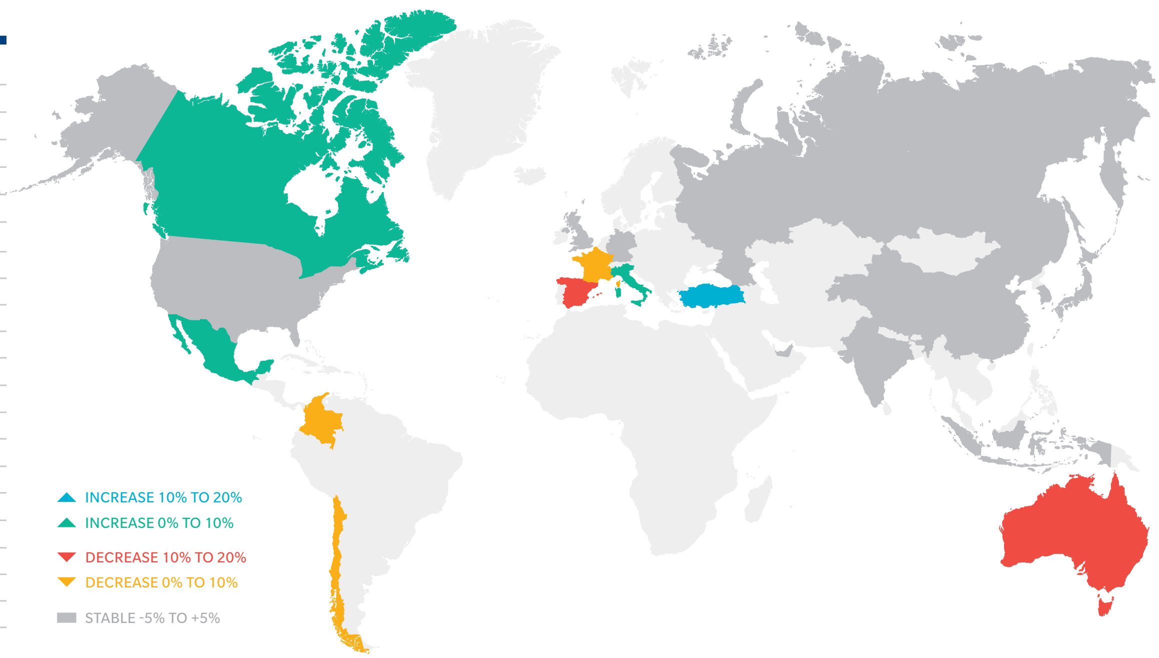
In Asia, severe storms in the third quarter in the Philippines, Vietnam, China, Taiwan, and Japan had little to no impact on property insurance pricing. Most of the damage occurred either in low population density or less-industrialized areas. It is unclear at this time what impact Typhoon Haiyan will have on property insurance capacity, terms, and conditions in the fourth quarter in the Philippines or elsewhere.

In Japan, rates for earthquake-exposed risks have stabilized in the wake of the 30% to 50% rate increases that followed the Great East Japan earthquake of 2011. However, Japanese insurers have become increasingly unwilling to provide flood cover for Japanese companies with risks in Thailand due to extreme flooding there two years ago. Even when provided, coverage tends to have low limits for flood coverage.

New entrants into the property insurance arena and interest from the Asian marketplace toward US property insurance have increased capacity in an already expanding market. The flow of capital and capacity into the Asian markets is set to continue, as governments across the region implement strategies to create a global insurance market based in key hubs such as Singapore. According to the Monetary Authority of Singapore, Asia will likely account for 40% of the global insurance market in 2020.

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

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



SPOTLIGHT

US TERRORISM RISK INSURANCE UPDATE

The US Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) — the federal terrorism insurance backstop program — is scheduled to expire on December 31, 2014, unless reauthorized by Congress. Failure to renew the backstop could result in increased pricing and capacity shrinkage, especially for risks in the central business districts of major US cities — commercial property lines are especially sensitive.

Marsh & McLennan Companies (MMC) continues to serve as a key thought leader on this issue, sharing its expertise with Washington lawmakers. In September, MMC General Counsel Peter Beshar addressed the US House of Representatives Financial Services Committee, while Marsh's Christopher Flatt presented recommendations to the Federal Advisory Committee on Insurance (FACI).

Organizations that rely on TRIPRA are already beginning to explore alternative risk transfer approaches if the law is changed or not extended. Many insureds also face other issues regarding alternatives to TRIPRA coverage in areas such as captives, workers' compensation, risk modeling, and the use of data and analytics.

LIABILITY RATES STABLE OR DECLINING IN MOST GEOGRAPHIES

Financial institutions (FIs) in the Eurozone began to see liability rates stabilize in the third quarter of 2013, with prices in most major markets generally remaining stable. Italy was the exception, as rates there typically rose by between 10% and 20%.

Still, financial institutions in many countries experienced more difficult conditions for non-FI directors and officers (D&O) insurance. France and Germany were notable exceptions, as both FI and D&O rates there generally remained stable during the quarter. In the US, D&O liability rates continued to increase year-over-year. During the last several quarters, however, price firming has lost momentum as competition remained robust and capacity continued to expand. In the third quarter of 2013, average rates for primary D&O layers increased an average of 2.9%, while total programs experienced an average increase of 1.5%, pointing to continued robust competition among excess insurers.

The London D&O market remained active, with capacity continuing at the same high level. There was a noticeable increase in the movement of senior personnel at insurers to set up new underwriting teams or to bolster existing offerings. In addition, sustained competition among a substantial number of markets has seen many insurers issuing updated policy wordings that generally broaden the terms of available coverage.

Among emerging exposures in the US D&O arena, regulatory agency enforcement actions against organizations and their executives are at the forefront. For example, the quarter saw real traction in the Securities and Exchange Commission's (SEC) rewarding of whistleblowers who helped the agency collect on sanctions resulting from tips, particularly around corporate disclosure, offering-related fraud, manipulation, and insider trading. Similarly, the Department of Justice continues its efforts to expand enforcement activities around global compliance and investigations of alleged violations of the Foreign Corrupt Practices Act and similar laws.

With continued high capacity and strong competition in US errors and omissions (E&O) insurance, renewal rates were typically flat to up 5% for most insureds, a trend that is expected to continue through the end of 2013. Individual results, however, could differ based on specific risk profiles or industry trends. For example, higher E&O and cyber losses for media companies have driven rates up in that segment.

MAJOR LIABILITY MARKETS: RATE CHANGES

	GENERAL LIABILITY RATE CHANGES	DIRECTORS & OFFICERS RATE CHANGES	FINANCIAL INST. RATE CHANGES	PROFESSIONAL LIABILITY RATE CHANGES
AUSTRALIA	▼ Decrease 0% to 10%	▬ Stable	▲ Increase 0% to 10%	▼ Decrease 0% to 10%
BRAZIL	▼ Decrease 10% to 20%	▼ Decrease 0% to 10%	▲ Increase 0% to 10%	▬ Stable
CANADA	▬ Stable	▲ Increase 0% to 10%	▬ Stable	▬ Stable
CHILE	▬ Stable	▼ Decrease 0% to 10%	▬ Stable	▲ Increase 0% to 10%
CHINA	▬ Stable	▼ Decrease 0% to 10%	▬ Stable	▬ Stable
COLOMBIA	▬ Stable	▼ Decrease 0% to 10%	▲ Increase 10% to 20%	▲ Increase 0% to 10%
FRANCE	▼ Decrease 0% to 10%	▬ Stable	▬ Stable	▬ Stable
GERMANY	▼ Decrease 0% to 10%	▬ Stable	▬ Stable	▼ Decrease 0% to 10%
HONG KONG	▬ Stable	▲ Increase 0% to 10%	▲ Increase 0% to 10%	▲ Increase 0% to 10%
INDIA	▬ Stable	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%
INDONESIA	▬ Stable	▼ Decrease 0% to 10%	▬ Stable	▬ Stable
ITALY	▬ Stable	▬ Stable	▲ Increase 10% to 20%	▬ Stable
JAPAN	▬ Stable	▬ Stable	▬ Stable	▬ Stable
KOREA	▬ Stable	▼ Decrease 0% to 10%	▲ Increase 0% to 10%	▬ Stable
MEXICO	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▬ Stable	▬ Stable
RUSSIA	▬ Stable	▼ Decrease 10% to 20%	▲ Increase 20% to 30%	▼ Decrease 0% to 10%
SINGAPORE	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%
SOUTH AFRICA	▬ Stable	▬ Stable	▬ Stable	▬ Stable
SPAIN	▼ Decrease 10% to 20%	▼ Decrease 0% to 10%	▬ Stable	▼ Decrease 0% to 10%
TURKEY	▲ Increase 10% to 20%	▲ Increase 0% to 10%	▬ Stable	▬ Stable
UAE	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%
UK	▼ Decrease 0% to 10%	▼ Decrease 0% to 10%	▬ Stable	▬ Stable
US	▬ Stable	▲ Increase 0% to 10%	▲ Increase 0% to 10%	▲ Increase 0% to 10%

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

SPOTLIGHT

SOCIAL MEDIA'S IMPACT ON POLITICAL RISK

As the influence of social media on political unrest grows — particularly in emerging economies — businesses are increasingly considering the potential impact on their operations and global political risk management strategies. For businesses, unrest can translate into a variety of political risks, ranging from expropriation actions to trade disruption.

Broadly, political risks can be exacerbated when social media are used to accelerate the formation of political protests and resistance; spread local civil unrest into a regional event; target individuals and organizations; or deflect popular discontent as authoritarian governments shift focus toward foreign entities or companies.

Social media's ability to increase the speed at which unrest develops means that the "rear-view mirror" approach — forecasting risk by examining past events — that has so frequently been used by multinationals will no longer suffice. Instead of targeted and "just-in-time" political risk management, companies are now considering a broader, multi-country and multi-hazard approach to managing political risk. This includes the purchase of broad, multi-country political risk insurance policies, and detailed planning to ensure business continuity and the safety of employees and key assets.

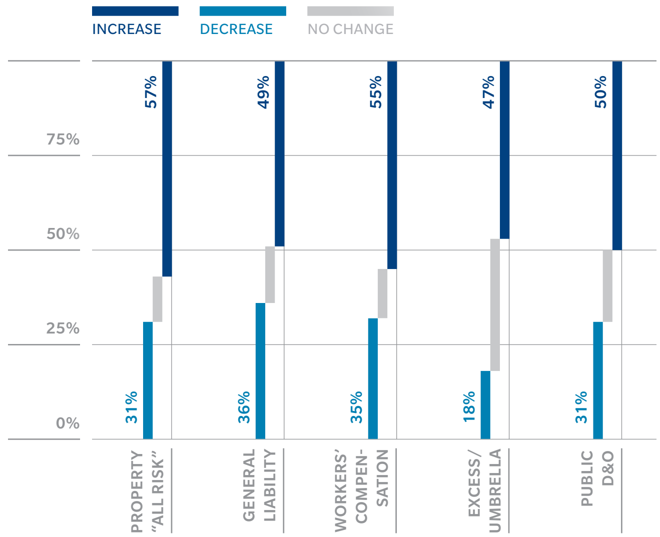
US MARKETS: MAJORITY OF INSUREDS SEE RATE INCREASES

Roughly half of US insureds across major insurance lines saw rate increases at renewal in the third quarter.

- Workers' compensation remains a key concern for employers. Many are focusing on ways to control the medical costs associated with claims as a way to control pricing.
- Hurricane season in the North Atlantic, which ends on November 30, has to date produced a low level of insured losses.
- Flooding in Colorado in the third quarter caused economic losses, including property and infrastructure damage, estimated at more than $2 billion.
- The pace of increase in rates for directors and officers (D&O) liability insurance slowed in the third quarter. The percentage of public company clients seeing increases fell from 62% in the second quarter to 50%.

PERCENT OF US CLIENTS WITH RATE CHANGES — Q3 2013

Source: Marsh Global Analytics



INSURABLE VALUES INCH UP IN THE US

After climbing a full percentage point between the first and second quarters, total insurable values (TIV) in the US barely changed in the third quarter.

- TIV continued to increase in the third quarter, but rose by only 0.2 of a percentage point to 2.9% compared to 2.7% in the second quarter. (The second quarter number has been adjusted slightly since our last report.)
- The minimal exposure change has not had a material impact on overall third-quarter casualty rates.

AVERAGE US EXPOSURE TRENDS

Source: Marsh Global Analytics