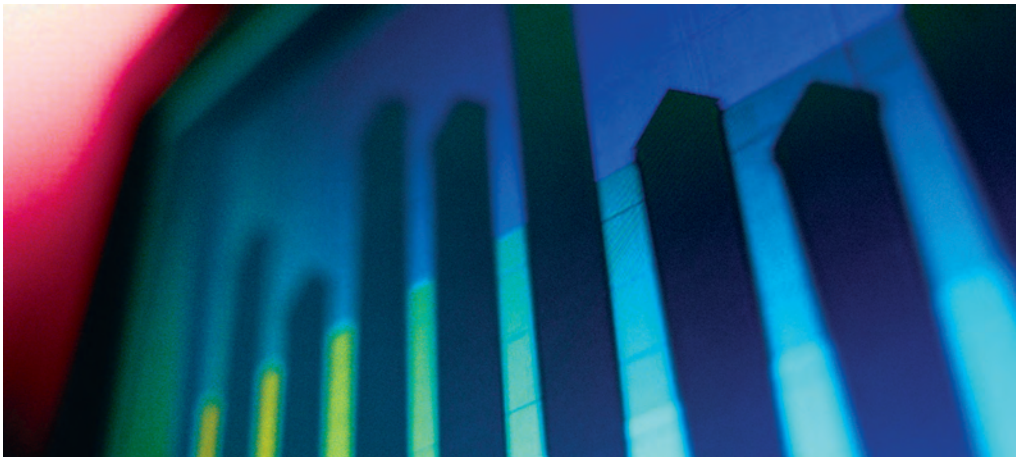
March 2006

MARSH

# Insurance market report

For Europe and the Middle East, covering July to December 2005

The Europe/Middle East (E/ME) Insurance Market Report is published by Marsh's Market Relationship Management (MRM) team to keep all employees and clients informed of developments in the marketplace across the region.



The Europe/Middle East (E/ME) Insurance Market Report is published by Marsh's Market Relationship Management (MRM) team to keep all employees and clients informed of developments in the marketplace across the region.

Eight lines of business have been surveyed across 35 countries, with Azerbaijan now also included in this survey of Marsh's Placement and Segment Leaders. The premium movements reported during Q3 and Q4 represent approximately 52% of the total annual European portfolio.

The following key trends have been noted across E/ME in Q3 and Q4 2005:

- The General Casualty market continued to see premium reductions in Q3 and Q4. The largest reductions of up to 30% were noted in the Czech Republic and Russia. Premium increases only occurred in three countries: Bulgaria, Lithuania and the United Arab Emirates.

  The Employers Liability/Workers Compensation market continued to be mainly stable in Q3 and Q4 although a third of countries reported up to 20% premium reductions. Increases were reported in Bulgaria and Slovenia.

- The E/ME region countries continued to see a softening of the Property market due mainly to heavy competition. Further reductions of up to 30% in the majority of the region were reported for Property in Q3 and Q4.

- The Motor segment continued to be mainly stable with still some countries reporting small premium rates increases and decreases.

- In Financial and Professional (FINPRO), the past 6 months have been in line with what was experienced in the earlier part of the year in most if not all countries.

  On D&O, AIG continue to dominate the Primary market. In some countries, like France and Spain, Allianz are entering the market. In this line of business, Germany has seen the largest decrease with 30-40% rate reductions.

Quanta were a new entrant on the market, but due to the carriers' ratings issues following hurricane Katrina they have not been as aggressive.

More and more markets are not renewing their participation due to too much reduction, but they are – so far – being replaced easily.

- For this latest report, in addition to the Marine rates and comments within the Marine and Energy sector, the Energy lines (Onshore, Offshore and Liability) have now been included.

  The major losses following the Hurricanes have been largely confined to the Non-Marine Property and Business Interruption market but with a very substantial loss also being experienced in the Energy sector, encompassing both onshore and offshore facilities. Higher premiums and movement of capacity from Marine to Non-Marine classes of business are therefore expected.

  Following the hurricanes Katrina, Rita and Wilma ("the Hurricanes") there has been a decisive impact on the Marine and Energy market at the end of 2005. On a single event basis, Katrina is the largest loss on record – 9/11 included. As a result, higher premiums, lower limits, lower capacity and coverage restrictions can be expected for 2006 across all lines of the Marine and Energy sector.

- The Aviation market in the last six months of 2005 was fairly static with flat to slight reductions in premium in the latest Renewals.

## Average Premium movements in the second half of 2005
### Europe and the Middle East

| | CASUALTY: | | Property |
|---|---|---|---|
| | General | EL/WC | |
| **CENTRAL** | | | |
| Austria | 10-20 | No Market | 10-20 |
| Belgium | 10-20 | 10-20 | 10-20 |
| France | 10-20 | No Market | 10-20 |
| Germany | 10-20 | No Market | 20-30 |
| Netherlands | 0-10 | No Market | 20-30 |
| **NORTH WESTERN** | | | |
| Ireland | 10-20 | 10-20 | 20-30 |
| UK (CCP) | 0-10 | 0-10 | 10-20 |
| UK (RMP) | 0-10 | 10-20 | 10-20 |
| **SOUTHERN** | | | |
| Greece | 0 | 0 | 0-10 |
| Italy | 0-10 | 0-10 | 10-20 |
| Portugal | 0 | 0-10 | 0-10 |
| Spain | 10-20 | 10-20 | 20-30 |
| Turkey | 0 | 0 | 0-10 |
| Israel | 0 | 0 | 0-10 |
| **NORDICS** | | | |
| Denmark | 0-10 | 0 | 10-20 |
| Finland | 0 | 0-10 | 0-10 |
| Norway | 0 | 0 | 0 |
| Sweden | 10-20 | No Market | 10-20 |
| **CEE & CIS** | | | |
| Azerbaijan | 0 | 0 | 0 |
| Bulgaria | 10-20 | 10-20 | 0 |
| Croatia | 0 | 0 | 0 |
| Czech Republic | 20-30 | 10-20 | 20-30 |
| Estonia | 0 | 0 | 0-10 |
| Hungary | 0-10 | 0 | 10-20 |
| Kazakhstan | 0 | 0 | 0 |
| Latvia | 0-10 | - | 20-30 |
| Lithuania | 0-10 | No Market | 0 |
| Poland | 0-10 | 0-10 | 10-20 |
| Romania | 0 | 0 | 0 |
| Russia | 20-30 | 10-20 | 20-30 |
| Serbia & Montenegro | 0 | 0 | 0 |
| Slovakia | 0-10 | 0 | 0-10 |
| Slovenia | 0 | 0-10 | 0 |
| Ukraine | 0 | 0 | 10-20 |
| **Middle East** | | | |
| Saudi Arabia | 0-10 | 0 | 0 |
| UAE | 0-10 | 0 | 0 |

| KEY | Number of occurences | | |
|---|---|---|---|
| Increases | 3 | 2 | 2 |
| Decreases | 19 | 11 | 23 |
| No Change | 14 | 16 | 11 |
| No Market | 0 | 6 | 0 |
| No info Supplied (-) | 0 | 1 | 0 |
| | 36 | 36 | 36 |

***Please note:** The table has been complied by Marsh Ltd from its own internal sources. We do not guarantee its accuracy and it should be understood to be our opinion only. The table is intended to give an overview and is not intended to be taken as advice in respect of any individual situation, and cannot be relied upon as such.*

| Motor | Healthcare | Trade Credit | Environmental | FINPRO: | | |
|---|---|---|---|---|---|---|
| | | | | D&O | PI | FI |
| 0-10 | 0-10 | 0-10 | 0-10 | 0 | 0-10 | 0-10 |
| 10-20 | 0 | 20-30 | 10-20 | 0-10 | 0 | 0-10 |
| 0 | No Market | 10-20 | 0 | 10-20 | 0-10 | 10-20 |
| 10-20 | 10-20 | 10-20 | No Market | 10-20 | 0 | 20-30 |
| 0-10 | 0-10 | 0-10 | No Market | 0-10 | 0-10 | 0-10 |
| | | | | | | |
| 10-20 | 10-20 | 20-30 | No Market | 10-20 | 0-10 | 10-20 |
| 0-10 | - | - | 0-10 | 0-10 | 10-20 | 0-10 |
| 0-10 | - | - | 0-10 | 0-10 | 10-20 | 0-10 |
| | | | | | | |
| 0 | 0-10 | 0 | No Market | 0-10 | 0 | 0-10 |
| 0 | 0-10 | 0 | 0-10 | 0-10 | 0 | 10-20 |
| 0 | 0 | 0-10 | 0-10 | 0-10 | 0-10 | 0-10 |
| 10-20 | 0 | 10-20 | 0-10 | 0-10 | 10-20 | 0-10 |
| 20-30 | - | No Market | No Market | 0-10 | 0 | 0-10 |
| - | - | - | 0 | 20-30 | 20-30 | 0-10 |
| | | | | | | |
| 0 | - | - | - | 0-10 | 0 | 0-10 |
| 0 | 10-20 | 0 | No Market | 0 | 0-10 | 0 |
| 0 | No Market | - | - | 0 | 0 | 0-10 |
| 0 | - | 10-20 | - | 0 | 0 | 0 |
| | | | | | | |
| 0 | 0-10 | No Market | - | - | - | - |
| 0 | 0-10 | 0 | 0 | 0 | 0 | 0-10 |
| 0 | No Market | No Market | No Market | 0 | - | - |
| 0 | No Market | 0 | No Market | 0-10 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0-10 | No Market |
| 0-10 | - | 0-10 | 0 | 10-20 | 0-10 | - |
| 0-10 | 0-10 | - | 0 | 0 | 0 | 0-10 |
| 0-10 | 10-20 | No Market | - | No Market | No Market | No Market |
| 0 | No Market | 10-20 | 0 | No Market | No Market | No Market |
| 0 | No Market | 0-10 | 0 | 0 | 0 | 0 |
| 0 | 0-10 | 0 | 0 | 0 | 0 | 0 |
| - | - | No Market | 10-20 | - | - | - |
| 0 | 0 | 0 | No Market | No Market | No Market | No Market |
| 0 | 0 | 0 | 0 | 10-20 | 0 | 0 |
| 0 | 10-20 | 0 | 0 | - | 0 | No Market |
| 0 | 0 | No Market | No Market | 0 | 0 | 0 |
| | | | | | | |
| 0-10 | 0-10 | No Market | No Market | No Market | No Market | No Market |
| 0 | No Market | No Market | No Market | 0-10 | 0 | 0-10 |
| | | | | | | |
| 3 | 9 | 2 | 3 | 1 | 6 | 2 |
| 10 | 5 | 10 | 5 | 17 | 6 | 14 |
| 21 | 7 | 10 | 11 | 11 | 17 | 8 |
| 0 | 7 | 8 | 12 | 4 | 4 | 7 |
| 2 | 8 | 6 | 5 | 3 | 3 | 5 |
| 36 | 36 | 36 | 36 | 36 | 36 | 36 |

*It should also be stressed that the ranges shown in the chart are averages and that there were significant variations both within and outside of the ranges for individual accounts.*

# European Market Survey

## Casualty

### General

The majority of the General Casualty market continued to see small premium reductions of up to 20% in Q3 and Q4 2005. The Czech Republic and Russia saw the largest premium reductions of up to 30%, due to low loss rates and expanded demand.

The German casualty market also showed decreasing premiums in general, however this did not apply to product-recall coverages and chemical and pharmaceutical risks.

UKRP RMP reported that reinsurers are threatening price increases. Whilst the 'treaty season' is likely to show rate increases, it is likely that the majority will be absorbed – at least initially – by insurers. General Casualty is likely to remain volatile (with overall price reductions) due to competitive pressures between insurers as a result of aggressive new business targets. Also, reinsurance implications (higher prices) are likely to lead to a number of markets taking higher net lines.

Ireland reported that the 10-20% decrease was due to Insurers looking to attract and retain business before what is believed to be a hard market approaching. Also there has been an increased appetite from a number of markets which traditionally would not have been interested or competitive in this line of business. The same comments apply to Employer's Liability.

In Italy, there is still scarce capacity in Medical Malpractice. This is due to an increase of litigation in this area.

Bulgaria and Lithuania were the only countries to report premium increases of 10-20% and 0-10% respectively.

In Bulgaria, there were an increased number of individuals who claimed against institutions and received considerable indemnifications, causing the rate increases. Mainly companies with foreign partnership require General Liability coverage.

In Lithuania, there is no capacity for Errors and Omissions, D&O or Product Recall.

In Turkey, a couple of new products are being designed in conjunction with EU regulations, i.e. compulsory liability insurance for certificate service providers and compulsory third party Liability for Private Security firms.

### EL/WC

The Employers Liability/Workers Compensation (EL/WC) market continued to be mainly stable in Q3 and Q4 2005 across the majority of Europe and the Middle East.

The rest of the region has seen slight reductions of up to 20%, apart from Bulgaria and Slovenia which reported slight premium increases of up to 20%. This was mainly due to a high loss ratio.

A few countries do not have EL/WC coverage as such as it is either part of governmental social security schemes or included in General Liability.

UKRP RMP reported that competition between the main markets, most notably AIG, Zurich and QBE, remains the strongest cost driver. Also, uncertainty surrounding the impact of Court's Act and NHS claw backs will cause concern although competition still remains for "quality" risks where the insured is able to demonstrate good risk management and Health and Safety.

An average of stable premium rates was experienced by Denmark. However, it is the first time in many years that some reductions in WC premiums were seen, even if by only two insurers.

As reported in our previous E/ME Insurance Market Report in July 2005, there was a significant change in Kazakh EL regulations as of 1 July 2005: EL coverage was made compulsory for all employees except for state entities. This has increased the number of clients and the scale of premiums in the market.

In Italy, insurers are reluctant to grant retro-date period for Professional Illness coverage.

The premium reductions in Belgium were due to the competitiveness of the market and to the increase in medical expenses being higher than the total cost per claim.

The local capacity in Greece is very low and cost escalates. There have been incidents leading to significant claims and as a result underwriters seem to be reluctant to offer high limits. Also, the average settlement per claim tends to increase significantly.

In Portugal, there is a new legislation which excludes coverage for accidents where gross negligence is found on the part of the employer and/or employee.

## Property

The majority of the E/ME region continued to see the Property market softening in the last 6 months of 2005. This is mainly due to heavy competition across the region. Turkey, Finland and Estonia only saw slight reductions.

Most countries saw premium reductions of up to 30%. There were, of course, exceptions for those accounts that are heavily exposed to catastrophe perils. Another mitigating factor in this marketplace is that there are a number of insurers that are not heavily exposed to the US, and thus did not suffer losses in the Hurricanes. These insurers expected to take advantage of their financial strength to win business, and this creates a competitive market environment.

In the UK, increases in the food sector are expected following large losses.

There are inconsistent views from the market that Lloyd's are looking for increases, whereas the company markets are looking at flat rates to 10% reductions. The results of the Treaty renewals will confirm one way or the other.

The premium decreases of 20-30% in Russia were caused by a broader competitiveness with the expansion of new companies trying to get a share of the market.

In the Czech Republic, there is more competition due to the outflow of international clients under pan-European policies on a freedom of services basis. It was also reported that there are broader covers and lower self-retention available.

## Motor

The vast majority of the region saw stable premium rates. Less than a third of the countries reported slight premium reductions, while Austria, Saudi Arabia and Turkey only saw premium increases of up to 30%. The increases in Turkey were mainly due to the loss history.

Germany – who saw 10-20% premium rate reductions – reported an increase of the Motor indemnity limit from 50m Euro to 100m Euro.

In Italy some insurers offer flat premiums instead of tariff prices to handle the administrative process better.

The loss ratios are very poor under the compulsory Motor cover in Kazakhstan, causing slight premium reductions. However, many insurers are withdrawing from this fixed price tariff market.

Belgium reported 10-20% reductions due to very good results on the Fleet market and fierce competition between carriers. However, there is a limited market for large Fleets and self-insurance programmes.

UK had spare capacity in the UK in the last 6 months of 2005. The underwriters' loss ratios in the main are good therefore they are still looking to grow. There are still some very keen carriers although the rates have now been on the decrease for the past 2-3 years. We should therefore be approaching the bottom of the soft market.

## Healthcare

The Healthcare market is small in Europe, and a few countries are still dependent on international capacity to place this line of business.

A hardening market was seen in the majority of the E/ME region in the last 6 months of 2005.

The premium increases of 10-20% in Latvia were due to increased medical costs.

In Kazakhstan, the trend of premium has altered in the past year because of aggressive competition in pricing resulting in many insurers loosing money on this line of business.

Healthcare is not a very developed market in Bulgaria but an increased interest is expected in the future.

In Romania – one of the few countries to report slight premium reductions – an increased diversity of coverage and products was noticed, as well as some commercial discounts.

There is a limited Healthcare market in Spain where several local carriers are below the Marsh Market Security standards.

In the past, premiums deferred a lot between young and elderly people in Slovenia, and all policies were issued for 10 to 15 years. In September 2005, a new Healthcare Act was implemented to change these. The Act imposed adjustment schemes between policies for the young and the elderly; premiums for the young or the elderly have to be equal; all long term policies could be cancelled until 1 January 2006 without being penalised. This new Act caused premiums to go up to 20%, especially for young people.

## Trade Credit

Trade Credit is a fairly small market in Europe. As in Q1 and Q2 of 2005, the premium rates were still decreasing slightly across all regions or remaining stable. Fierce competition was the main reason for the premium reductions.

In Spain there were some new entrants in the market: Euler, Coface, Atradius and Zurich, who were very aggressive in order to obtain a share of the market.

QBE and Tokio Marine (Millea Group) were new entrants on the French market.

Belgium reported that there was also added pressure from competition between specialised brokers and smaller brokers (mostly employees of Trade Credit insurers).

The general trend in the Netherlands is that insurers are becoming more selective in offering premium reductions.

Hungary – where the loss ratio has started to increase – and Lithuania were the only countries to report slight premium increases.

## Environmental

The Environmental market is limited in Europe; in some instances it is included in General Liability policies. As in Q1 and Q2 2005, the market is mainly stable with still some countries seeing small premium reductions. Also, the UK and Portugal saw small increases.

In Spain, premium reductions of up to 10% were available. There are few carriers in the Environmental sector and a high level of underwriting information is required.

Even though Sudden and Accidental Environmental is covered under General Liability policies in the Netherlands, it was reported that AIG and XL offer special gradual cover; there were no sales as yet but there is a growing interest in these products.

In Kazakhstan, all clients on hazardous facilities register are now forced to buy cover under a tariff driven scheme.

UK saw a slight premium increase of up to 10%. ACE are new on the Environmental market and they are providing very competitive prices. Insurers appear to be picking particular segments and will decline if they perceive they will be uncompetitive.

There are 5 markets which are made up of 4 composite markets (AIG, Chubb, XL and ACE). Quanta were put on credit watch in Q4 and this created a little uncertainty. The other markets responded with new policy wordings and products.

There is a lack of market in Portugal which is forcing placement abroad.

There is a low awareness of Environmental risks in Slovakia but this is expected to change with the implementation of new European Union legislation

AIG and Chubb are new entrants on the Italian Environmental market; and ACE and XL are new players in France.

## FINPRO

### D&O

We have seen 15% premium decrease on major accounts across Europe due to market competition. The market is starting to be stable on big programmes where the top layers are reaching a minimum premium level. The recent claims settlements might change the markets attitude but broader coverage was still negotiated.

The largest premium reductions were seen in Germany (up to 20%) where there is sufficient capacity, broader coverage available, and further competition with the entry of Dual (Arch) in the market.

New players entered the market in various countries including Hungary and the Netherlands, as well as in Slovakia where Allianz, Gerling and Kooperativa are new players.

Competition has also increased in the Czech Republic on a European Union Freedom of Services basis.

In Belgium, Zurich have become very competitive and are the best alternative to AIG's dominant position on the Primary market. AIG are indeed the main players across Europe and the Middle East, if not the only ones in some instances (i.e. Turkey).

### Professional Indemnity

Reductions were seen across most of the PI industry groups over the last two quarters ranging from 10% to 15%. These rate reductions have slowed since Q1 and Q2. In respect of Miscellaneous UK PI, we are seeing more markets decline a risk as opposed to offer deep discounts on rate. This is due to markets not wanting to reduce rates further than they feel are warranted or just following a rate that they feel are too low.

Specifically for European Technology, Media and Telecom (TMT) business placed in to London, the rate reduction is approximately of 5 to 10% depending upon how many markets are competing for the business. The TMT PI markets have tended to be stable over the past year and have not been impacted by the rate reductions seen on other lines. In terms of competition, the same markets continue to take lead primary positions; however, there is now more competition for the excess layers.

The PI market is remaining mainly stable across Europe and a few countries are still seeing small premium reductions. However, more countries are now seeing rate increases; the largest being in Israel with up to 30%.

The rates are stable in the Czech Republic but a growing demand for PI coverage was noticed following the increased risk awareness since joining the EU in 2004.

Local market capacities are limited in a few countries such as Hungary, Italy and Turkey.

### Financial Institutions

The Financial Institutions market is still seeing small reductions in a third of E/ME countries.

Germany reported the largest rate reductions of up to 30%. There is enough local capacity, and Zurich and Liberty have entered the market creating further competition.

The Netherlands are still seeing small premium reductions of up to 10% because of growing competition amongst insurers.

The main FI market in Turkey is AIG. When not placing business with them, Turkey resort to the London market. A new international market is putting downward pressure on premiums in the UAE and AIG are also the main players there; most local markets can not write this line of business.

Bulgaria are expecting developments in this line of business.

We are witnessing discounts on both Bankers Blanket Bond and Liability renewals in most territories but there is still a far more restrained approach to Liability lines. Continued deterioration of back year liability results and looming Enron liability settlements cast doubt over the sustainability of this softening throughout 2006. A correction is forecast by many, especially in light of the 2005 events of Hurricanes Katrina and Rita, the effects of which are now becoming apparent.

Capacity remains stable. The London Market's appetite remains for Bankers Blanket Bond and E&O/D&O business.

## Marine and Energy

The Marine and Energy market is not widely present in Europe.

### Marine Hull

Prior to the Hurricanes, we had seen a very gradual softening of the world wide Marine Hull insurance market. However, it is certainly no understatement to comment that this type of activity has come to an abrupt and sudden close following the hurricane season. After the mainly stable rates of Q3 and Q4, the general trend appears that we should expect the Marine market to attempt to impose increases across the board. It is with these potential increases in mind that capital providers may well choose to move their capacity from Marine Hull to other sectors thereby benefiting from much higher premiums and a potentially swifter pay back of the overall losses incurred.

In the past year, the Czech Republic saw the largest premium reductions of up to 40% due to very competitive offers from western reinsurance markets after the non-admitted restrictions came to an end.

Israel reported up to 20% rate reductions in the first half of the year, but the market hardened in the second half with increased rates up to 30%. We can see a similar pattern in Saudi Arabia on a lower scale: up to 10% reductions in Q1 and Q2, as opposed to increases of up to 20% in Q3 and Q4.

Rates were stable in Bulgaria but changes are expected with the development of this line of business.

# Average Premium movements in the second half of 2005

## Europe and the Middle East

| | MARINE AND ENERGY: | | | | | |
|---|---|---|---|---|---|---|
| | Marine Hull | Marine Liability | Marine Cargo | Onshore Energy | Offshore Energy | Energy Liability |
| **CENTRAL** | | | | | | |
| Austria | 0-10 | 0-10 | 0-10 | 0-10 | 0-10 | 0-10 |
| Belgium | 0 | 0 | 10-20 | 10-20 | No Market | 10-20 |
| France | 0-10 | 0 | 20-30 | 0-10 | 40-50 | 0 |
| Germany | No Market | No Market | 10-20 | No Market | No Market | No Market |
| Netherlands | 0 | 0-10 | 0-10 | No Market | No Market | No Market |
| **NORTH WESTERN** | | | | | | |
| Ireland | 10-20 | 10-20 | 10-20 | No Market | No Market | No Market |
| UK (CCP) | 0-10 | 0-10 | 0-10 | 0-10 | 20-30 | 0 |
| UK (RMP) | 0-10 | 0-10 | 0-10 | 0-10 | 20-30 | 0 |
| **SOUTHERN** | | | | | | |
| Greece | - | - | 10-20 | No Market | No Market | No Market |
| Italy | 0 | 0-10 | 10-20 | 0 | 0 | 0 |
| Portugal | 0 | 0 | 0-10 | 0-10 | 0 | 0 |
| Spain | 0 | 0-10 | 10-20 | 0 | 50-60 | 0 |
| Turkey | - | - | - | - | - | - |
| Israel | 20-30 | - | 10-20 | - | - | - |
| **NORDICS** | | | | | | |
| Denmark | - | - | 10-20 | 0-10 | - | - |
| Finland | No Market | No Market | 0-10 | No Market | No Market | 0 |
| Norway | 0 | 0-10 | 0 | 20-30 | 20-30 | 0 |
| Sweden | 0-10 | - | 0 | - | - | - |
| **CEE & CIS** | | | | | | |
| Azerbaijan | - | - | - | - | - | - |
| Bulgaria | 0 | 0 | 0-10 | No Market | No Market | 0 |
| Croatia | 0 | - | 0 | No Market | No Market | No Market |
| Czech Republic | 30-40 | No Market | No Market | 30-40 | No Market | No Market |
| Estonia | 0 | 0-10 | 0 | 0 | No Market | 0 |
| Hungary | No Market | No Market | 0-10 | No Market | No Market | No Market |
| Kazakhstan | 0 | 0 | 0 | 20-30 | 20-30 | 0 |
| Latvia | - | - | 0-10 | - | - | - |
| Lithuania | - | - | 0 | 20-30 | No Market | 0 |
| Poland | - | - | 0-10 | - | - | - |
| Romania | 0 | No Market | 0-10 | No Market | No Market | No Market |
| Russia | - | - | 10-20 | 10-20 | - | 0-10 |
| Serbia & Montenegro | - | - | 0 | No Market | No Market | No Market |
| Slovakia | 0 | 0 | 0 | 0-10 | 0 | 0-10 |
| Slovenia | - | - | - | - | - | - |
| Ukraine | 0 | 0 | 0 | 0 | No Market | 0 |
| **Middle East** | | | | | | |
| Saudi Arabia | 10-20 | 0 | 0 | 10-20 | 0 | 0 |
| UAE | 0 | 0 | 0 | 0-10 | 0-10 | 0 |

| KEY | | | | | | |
|---|---|---|---|---|---|---|
| Increases | 4 | 5 | 3 | 5 | 7 | 0 |
| Decreases | 5 | 4 | 18 | 10 | 1 | 4 |
| No Change | 14 | 9 | 11 | 4 | 4 | 15 |
| No Market | 3 | 5 | 1 | 10 | 15 | 9 |
| No info Supplied (-) | 10 | 13 | 3 | 7 | 9 | 8 |
| | 36 | 36 | 36 | 36 | 36 | 36 |

### Marine Liability

The last two quarters of 2005 continued in much the same way as the previous two (token reductions for the most sought after business) in the London market. However, the Hurricanes had a massive effect on the Lloyd's Marine and Energy syndicates and as such ensured reductions were not obtainable in the final quarter of 2005. The market therefore hardened overnight and sought (and won) 5-15% rises.

The UK, Spain, Norway and Estonia reported increases of up to 10%, while Austria, the Netherlands, Ireland and Italy saw small premium reductions. The rest of the region with an M&E market reported stable rates.

### Marine Cargo

We are still seeing a softening market in the Marine Cargo area. Rates have been decreasing since 2004.

However, it is believed that a very significant loss to the Cargo market will be inevitable in the UK following the Hurricanes.

The London insurance market appetite is differing depending on the effect of the Hurricanes on the Marine and Energy portfolio of each syndicate/ company. Some insurers will offer "as before" ("as expiring") or even reductions where there have been no hurricane losses, while others insist on increases across the board. This is resulting in a substantial remarketing where an increase is felt to be unreasonable and where capacity is not an issue.

There is a fierce competition in Germany but Gerling remain the leaders in Cargo coverage. Tough competition is also being experience in Bulgaria and Ireland causing rate reductions.

In the Netherlands the rates are decreasing because of an increasing eagerness to write new business.

Belgium is experiencing a lack of leaders in certain sectors of Marine Cargo. There are premium reductions for programmes with good records. Also, the market is increasing its capacity to write Cargo business. For some clients, especially in the Energy and Commodity sector, reductions of up to 30% are expected.

Bulgaria was the only country to report premium increases of up to 10%. It appears to be a continuing trend caused by an increasing awareness of the risks and because of emerging clients engaged with import/export business.

### Onshore Energy – Downstream

While appetite seems to have been curtailed, insurers will be faced with increased overhead (increased Treaty premium or retention) without increased revenues (reduced capacity) so will be looking to built high rates. As a result of a renewed natural-catastrophe focus, we could see increased competition in the middle-market arena where business is not natural-catastrophe driven.

In the London market, Insurers have increased their 2005 capacity, but with natural-catastrophe restrictions. In particular some insurance markets at Lloyd's and Munich Re/ Swiss Re have reduced or are seeking to reduce their working catastrophe lines and particularly their Golf of Mexico coastal exposures.

Across Europe and the Middle East, the majority of countries are still experiencing a softening of the market. However, the UK, Norway and Kazakhstan saw premium increases of up to 30% due to Hurricanes exposure.

### Offshore Energy – Upstream

The year 2005 will go into the record books as the worst year of losses for offshore insurers, with the Hurricanes producing total estimated claims in excess of US$ 8 billion to the commercial insurance market. It is anticipated that capacity for Gulf of Mexico exposures will be significantly restricted as insurers try to make the necessary adjustments to bring their books of business back to profitability. Insurers are requiring much more detailed underwriting information, focusing particularly on the age of platforms. Rates are expected to continue rising across the entire offshore property insurance book of business, not just in the Gulf of Mexico, as insurance markets try to recover and pay for significant increases in reinsurance costs.

An emerging trend is that insurers are not willing to quote offshore physical damage excluding windstorm coverage.

Rates are expected to increase in the not too distant future when the insurance market has to readjust the Gulf of Mexico windstorm aggregate post-renewal of reinsurance programmes. Higher aggregate limits and higher deductibles for names windstorm coverage are also expected, as well as decreasing capacity and less insurance-market continuity.

Only a third of the countries in the region have Offshore Energy business. Premiums increased substantially in the majority of these countries following the Hurricanes catastrophe: up to 30% in the UK, Norway and Kazakhstan; up to 50% in France and up to 60% in Spain.

### Energy Liability

The Energy Liability market remained stable in Q3 and Q4 in the majority of the region. A few countries saw slight premium reductions mainly because of competition and sufficient local capacity.

In the London marketplace, with respect to year-end premiums, most policies were renewed with premiums as expiring if the insured was loss-free. In the renewal period, there were extremely active account tendering and many clients taking time to present in road show format direct to underwriters in London and Europe.

### Renewable Energy

An increasing volume of onshore wind risks and the associated premium is attracting more markets to the Renewable Energy industry. Rates are often affected by the scale of projects; larger risks can benefit from healthy discounts. As the industry develops, anomies such as certain cheap domestic-only markets seem to be moving away from their previous positions and towards a European-wide market norm.

One small factor which is slowing the maturity of the insurance market is the extension of the Production Tax Credit subsidy in the USA which has aided development outside Europe. The tight market for turbine supply is also a factor – as demonstrated by the major manufacturer's full order books for the next 24 months.

Offshore risks continue to be led by traditional oil and gas markets in Lloyd's. Several large claims – relative to the overall pool of premium – together with massive non-Renewable Energy losses in the Gulf of Mexico and elsewhere have driven the market upwards. It remains to be seen whether European and other UK insurers are able to compete at these premium levels and challenge the large market share currently enjoyed by Lloyd's. Insurers are also beginning to appreciate and price the differences between projects and contractors in the industry; effective risk management is the key to an efficient insurance placement.

### Aviation

London is one of the leading markets for Aviation business in Europe and the commentary was provided by the UK.

Rates and premium continued to fall during 2005, supported by new capacity and the lack of financially significant losses. During the final quarter, several of the large underwriting units set minimum requirements for participation, believing that rates had reached unacceptable levels.

Furthermore, the following markets who participate on vertical terms, i.e.: a given percentage below the leading underwriters' rating base, pushed to reduce the differential between themselves and the leader. This led to overall composite premium not falling by as much as the leader's terms.

Underwriters continued to apply premium increases across all sectors of the Manufacturers' book, with the average increase ranging between 5% and 10%. Exposure levels continue to grow with an estimated increase turnover of $23.6bn compared to 2004, of which nearly $9bn is military exposure.

To counteract the premium increases by underwriters, several accounts have opted for a self insured retention to minimise their premium spent. This explains why there is only an increase of $1m for 2005 in respect of the major accounts.

Whilst underwriters continued to make a gross profit on the Airport and ATC book of business, many are wary of the potential for large losses associated with airports and especially ATC providers. Therefore, 2005 saw a continuation of the steady increase in premium income, with ATC providers suffering more due to the lack of capacity available for the class.

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