INSURANCE MARKET UPDATE

THIRD QUARTER 2011

NO OVERALL PRICING CHANGE IN THIRD QUARTER

Global insurance markets were cautious but competitive in the third quarter of 2011 as catastrophe losses continued to mount, though at a slower rate than many insurers had feared.

- Despite predictions of a more active than usual U.S. hurricane season, only Hurricane Irene has caused a significant insured loss during the quarter.
- Across lines of business, insurers priced risks competitively. Although rates remained relatively stable, rate reductions were common in many lines.
- Insurance programs affected by losses, or with catastrophe exposures, were more likely to experience rate increases.

CATASTROPHE RATES SHIFT; CASUALTY CAPACITY CONSTANT

Almost every major global market reported less favorable renewal trends for programs with catastrophe exposures. Catastrophe-exposed property programs not affected by losses typically renewed between flat and up 10 percent, while non-catastrophe exposed programs generally renewed flat.

The introduction of the 11th revision of RMS' hurricane model (RMS 11) is beginning to impact insurers' ability to be flexible, and in some cases is requiring them to offer less capacity in certain regions.

Global casualty market capacity remained constant in the third quarter with no reported reductions. The U.S. casualty market remained competitive with renewals predominantly flat. Signs of a transitioning market are emerging in workers' compensation and umbrella/excess liability insurance. On catastrophe-exposed casualty risks, such as Australian bushfire, increases have been seen and, in some cases, reduced capacity.

SUMMARY

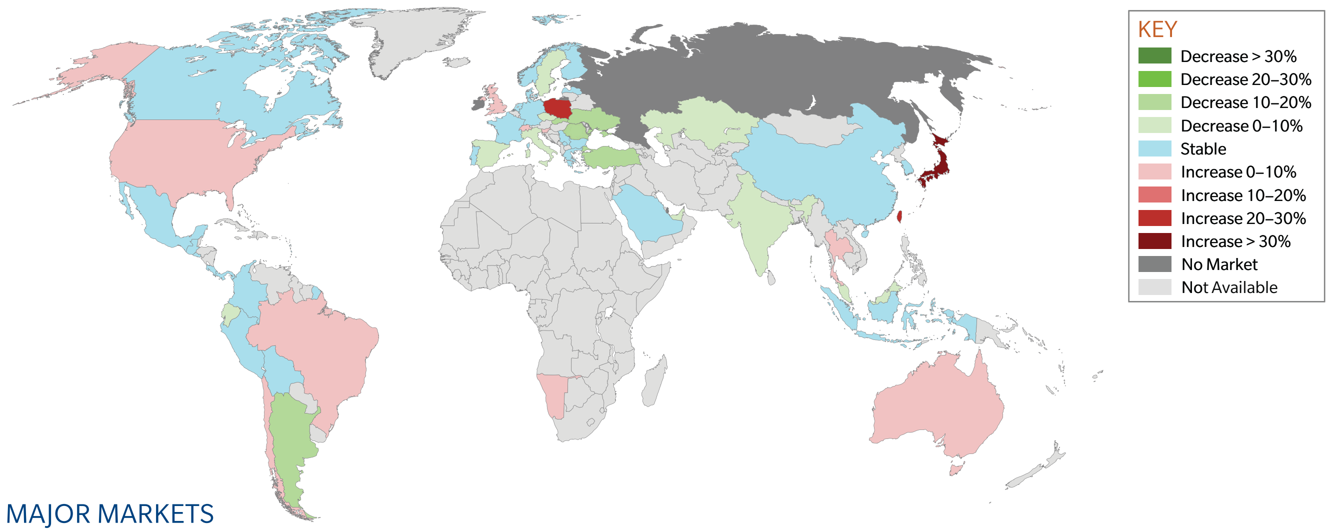
Our view remains as it was at the end of the second quarter—there has not been any overall change in market pricing. Market fundamentals remain strong and, in most classes of business not affected by large losses, rate decreases are common. However, the large level of losses in the first half of 2011 means that there is still the potential for a changing market dynamic this year, especially if there is a further significant market loss.

OVERVIEW

- Insurers showing caution on pricing, but prepared to drop rates on good business.
- Global capacity remains strong for all classes, but challenged in loss-affected regions.
- Catastrophe-exposed property risks attracting less favorable trends those without these exposures.
- No overall change to market pricing.

MARSH

PROPERTY RATE CHANGES (CATASTROPHE EXPOSED RISKS)



MAJOR MARKETS

COUNTRY	RATE	COUNTRY	RATE	COUNTRY	RATE	COUNTRY	RATE
Australia	Increase 0–10%	France	Stable	Korea	Stable	Spain	Decrease 0–10%
Brazil	Increase 0–10%	Germany	Stable	Mexico	Stable	Turkey	Decrease 10%–20%
Canada	Stable	India	Decrease 0–10%	Russia	No market	U.A.E.	Decrease 0–10%
Chile	Increase 0–10%	Italy	Decrease 0–10%	Saudi Arabia	Stable	U.K.	Increase 0–10%
China	Stable	Japan	Increase > 30%	South Africa	Not available	U.S.	Increase 0–10%

MAJOR CATASTROPHES THROUGH THIRD QUARTER 2011

(in $Millions)

DATE	EVENT	LOCATION	INSURED LOSSES (1)
Dec.–Jan.	Flood	Australia	$2,550
February	Cyclone	Australia	$1,000
February	Earthquake	New Zealand	> $10,000
March	Earthquake/ Tsunami	Japan	up to $30,000
April	Tornadoes	United States	$5,050
Apr.–Jun.	Floods	United States	NA
May	Tornadoes	United States	$4,900
June	Earthquake	New Zealand	$3,000–5,000
August	Riots	United Kingdom	$325
Aug.–Sept.	Hurricane Irene	United States	$3,000–7,000
Apr.–Sept.	Texas Wildfires	United States	$500
September	Typhoon Roke	Japan	$300–600

(1) Based on property losses including, if applicable, agricultural, offshore, marine, aviation and National Flood Insurance Program losses in the United States and may differ from data shown elsewhere.

NA=Data not available.

Sources: © 2011 Eqecat; Geo Risks Research, NatCatSERVICE; *Business Insurance*; the National Climatic Data Center (NOAA); MunichRe; and the Insurance Council of Texas.

PROPERTY CATASTROPHE MARKET

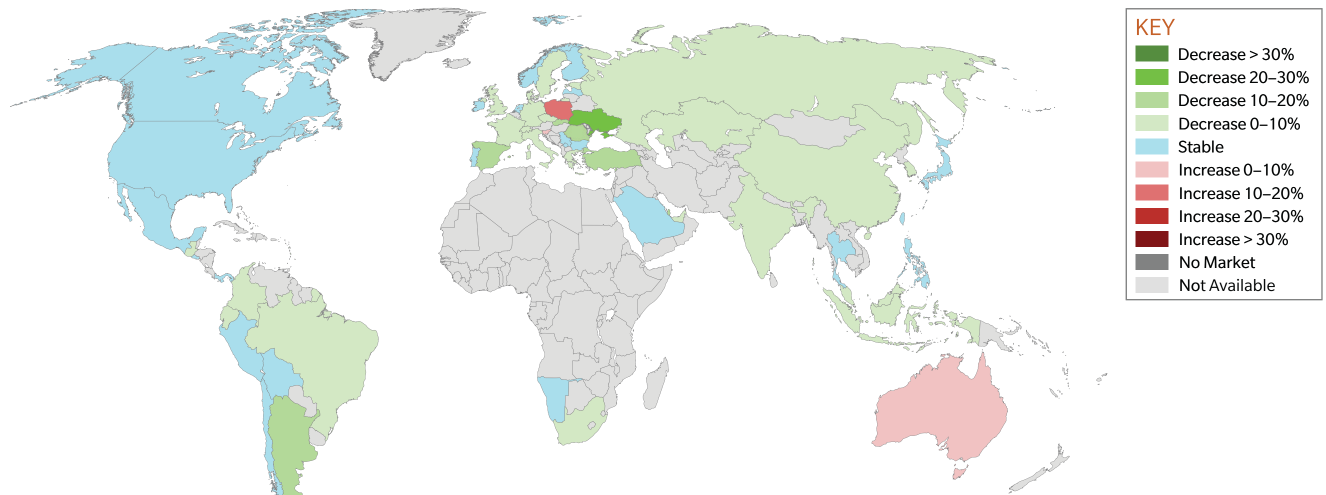
Natural catastrophe rates generally increased by approximately 10 percent during the third quarter. For risks that typically were in high risk earthquake or wind zones, increases were 10 percent and above, depending on the results of risk modeling analysis. In many countries with no recent catastrophe losses, decreases were still possible.

Renewals in countries affected by losses this year generally saw rate rises above the average:

- In Japan, rates continued to rise significantly. Even on accounts without losses, there were typically increases of 20 percent and by as much as 50 percent on programs that have suffered losses.
- For renewals in Australia, which suffered from flooding losses earlier in the year, increases of up to 5 percent were generally seen on programs without losses and not involved in mining.

Capacity for natural catastrophe risks has remained constant, though some syndicates at Lloyd's reduced capacity in order to manage their aggregate exposures.

PROPERTY RATE CHANGES (NON-CATASTROPHE EXPOSED RISKS)



MAJOR MARKETS

COUNTRY	RATE	COUNTRY	RATE	COUNTRY	RATE	COUNTRY	RATE
Australia	Increase 0–10%	France	Decrease 0–10%	Korea	Decrease 0–10%	Spain	Decrease 10%–20%
Brazil	Decrease 0–10%	Germany	Decrease 0–10%	Mexico	Stable	Turkey	Decrease 10%–20%
Canada	Stable	India	Decrease 0–10%	Russia	Decrease 0–10%	U.A.E.	Decrease 0–10%
Chile	Stable	Italy	Decrease 0–10%	Saudi Arabia	Stable	U.K.	Decrease 0–10%
China	Decrease 0–10%	Japan	Stable	South Africa	Decrease 0–10%	U.S.	Stable

EUROPEAN TRADE CREDIT MARKET

Although the trade credit market has been under intensive downward pressure on pricing during the third quarter, insurers have become more cautious on specific risks—especially in the euro zone.

Trade credit insurers retain an appetite for new business, and claims levels are currently low. As the year progresses it is likely rates will stabilize, but not increase.

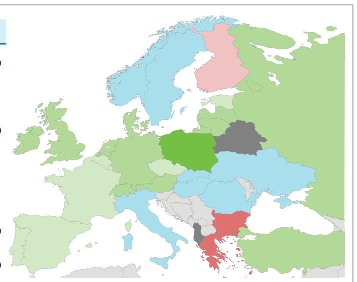
REINSURANCE MARKET TRENDS

Highlights from the Monte Carlo Rendez-Vous

- Catastrophe losses have contributed to rate firming for property catastrophe reinsurance mid-year.
- With the hurricane season ending, barring additional large reinsured losses, property catastrophe reinsurance rates could drift at the January 1 renewals.
- The European sovereign debt crisis is another risk for re/insurers. Exposure could come through holdings in sovereign securities; corporate bond or equity holdings in exposed companies; or, cash holdings.

EUROPEAN TRADE CREDIT RATE CHANGES

COUNTRY	RATE	COUNTRY	RATE	COUNTRY	RATE
Austria	Decrease 10%–20%	Germany	Decrease 10%–20%	Poland	Decrease 20%–30%
Belgium	Decrease 0–10%	Greece	Increase 10%–20%	Portugal	Decrease 0–10%
Bulgaria	Increase 10%–20%	Ireland	Decrease 10%–20%	Russia	Decrease 10%–20%
Czech Rep.	Decrease 0–10%	Italy	Stable	Spain	Decrease 0–10%
Denmark	Decrease 10%–20%	Latvia	Decrease 10%–20%	Sweden	Stable
Estonia	Decrease 0–10%	Lithuania	Decrease 10%–20%	Switzerland	Decrease 10%–20%
Finland	Increase 0–10%	Netherlands	Decrease 10%–20%	Turkey	Decrease 10%–20%
France	Decrease 0–10%	Norway	Stable	U.K.	Decrease 10%–20%



MARSH

MAJOR MARKETS LIABILITY RATE CHANGES (GL, E&O, FI, D&O)

LIABILITY MARKETS

With the exception of China (see below) **and Australia,** major markets all reported declining rates for directors and officers (D&O) liability insurance in general. Likewise, rates for professional indemnity insurance and for liability cover for financial institutions reduced in almost all major geographies.

The soft market remains for U.S. D&O insurance for publicly traded companies with rates for most insureds continuing to decline. This competitive market is likely to continue as capacity is abundant and competition robust.

Some new capacity became available for French financial institutions during the quarter, but this trend will be challenged by the potential for losses from recent events.

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

OTHER MAJOR TRENDS

- Chinese companies listed on U.S. stock exchanges are generally experiencing significant deductible increases and premium rises of up to 300 percent for D&O insurance on all U.S.-exposed risks. This is due to the growth in the number of class actions against Chinese companies listed in U.S.
- Renewals of mining accounts are typically proving challenging given the large increases in values and recent losses coupled with insurers seeking rate increases.
- Despite the impact of both sector losses and wider market catastrophe events in the first half of 2011, rates in most energy classes of business have generally remained stable. Appetite for new business remains very strong, but with a greater focus on underwriting discipline.
- Insurers have become more cautious in how they write political violence risks as a result of losses this year, while the market for terrorism and sabotage risks, which has been free of catastrophic losses, remains competitive. Capacity remains plentiful in the market for standard terrorism and sabotage risks in non-aggregate sensitive geographies.