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## Marsh's 2011 Europe, Middle East and Africa Insurance Market Report

# ...With Clear Direction

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# EMEA Insurance Market Report

## Contents



EMEA Insurance Market Report
2011

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# Estimated rate changes by class of business

***For Europe, the Middle East and Africa, covering July to December 2010.***

*This Europe, Middle East and Africa (EMEA) Insurance Market Report is published by Marsh's Market Relationship Management EMEA (MRM EMEA) team to keep clients, Marsh colleagues and other stakeholders informed of developments in the insurance marketplace across the EMEA region.*

*This year, 12 lines of business have been surveyed across over 40 countries, including Bahrain, Oman and Qatar for the first time. The information has been supplied by Marsh's insurance placement and business segment leaders in each country. The EMEA report also contains feedback on premium rates and a general market update on employee benefits, political risks insurance (PRI) and reinsurance for the first time. Our commentary and the pricing movement tables may be helpful to clients who are consistently monitoring their insurance and risk management strategies.*

| Q3 & Q4 2010 RM & MM | CASUALTY: | | Property |
|---|---|---|---|
| | General | EL/WC | |
| **CENTRAL** | | | |
| Austria | 0-10 | No Market | 0-10 |
| Belgium | 0 | 0 | 10-20 |
| France | 0-10 | No Market | 0-10 |
| Germany | 0-10 | No Market | 0-10 |
| Netherlands | 0-10 | No Market | 0-10 |
| Switzerland | 0-10 | 0-10 | 10-20 |
| **NORTHWESTERN** | | | |
| Ireland | 0 | 0 | 0-10 |
| UK (Middle Market) | 0-10 | 0-10 | 0-10 |
| UK (Risk Management) | 0-10 | 0-10 | 0-10 |
| **SOUTHERN** | | | |
| Greece | 0-10 | 0 | 0-10 |
| India | 10-20 | 0-10 | 0 |
| Israel | 0-10 | 0-10 | 0-10 |
| Italy | 0-10 | 0 | 0 |
| Portugal | 0 | 0 | 0 |
| Spain | 20-30 | 20-30 | 20-30 |
| Turkey | 0 | 0 | 0 |
| **NORDICS** | | | |
| Denmark | 0-10 | 0 | 0-10 |
| Finland | 0 | No Market | 0-10 |
| Norway | 10-20 | 10-20 | 0 |
| Sweden | 0-10 | No Market | 10-20 |
| **CEE & CIS** | | | |
| Azerbaijan | 0 | 0 | 0 |
| Bulgaria | 0 | 0 | 0-10 |
| Croatia | 0-10 | 0 | 0-10 |
| Czech Republic | 0-10 | No Market | 0-10 |
| Estonia | 0-10 | 0 | 0-10 |
| Hungary | 0 | 0 | 0 |
| Kazakhstan | 0 | 0 | 0 |
| Latvia | 0-10 | 0 | 0 |
| Lithuania | 0 | 0 | 0-10 |
| Poland | 0 | 0 | 10-20 |
| Romania | 0-10 | 0-10 | 10-20 |
| Russia | 0 | 0 | 0 |
| Serbia & Montenegro | 0-10 | 0 | 0 |
| Slovakia | 0 | 0-10 | 0-10 |
| Slovenia | 0-10 | 0-10 | 0-10 |
| Ukraine | 0 | 0 | 0 |
| **Middle East** | | | |
| Bahrain | 0-10 | 0 | 0-10 |
| Oman | 0-10 | 0 | 0-10 |
| Qatar | 0-10 | 0 | 0-10 |
| Saudi Arabia | 0 | 0 | 0-10 |
| UAE | 0 | 0 | 0 |
| **Africa** | | | |
| Botswana | 0 | 0 | 0 |
| Namibia | 10-20 | 0-10 | 10-20 |
| Nigeria | 20-30 | 20-30 | 0-10 |
| South Africa | 0 | 0 | 0-10 |
| Zimbabwe | 0 | 0 | 0-10 |
| **KEY** | | | |
| Increases | 5 | 5 | 5 |
| Decreases | 22 | 7 | 26 |
| No Change | 19 | 27 | 15 |
| No Market | 0 | 7 | 0 |
| No info Supplied (-) | 0 | 0 | 0 |
| | 46 | 46 | 46 |

**Key**

**RM** - Risk Management
**NC** - National Corporate
**EL/WC** - Employers' liability/workers' compensation
**D&O** - Directors' and officers' liability insurance
**PI** - Professional indemnity
**FI** - Financial institutions

| Motor | Healthcare | Employee Benefits | Trade Credit | Environmental | FINPRO: D&O | PI | FI | PRI |
|---|---|---|---|---|---|---|---|---|
| 0 | 10-20 | 0 | 0 | 0-10 | 0 | 0 | 20-30 | 0-10 |
| 0-10 | 0 | 0-10 | 0 | 10-20 | 10-20 | 0-10 | 0 | 0 |
| 0-10 | No Market | No Market | 10-20 | 0-10 | 0-10 | 10-20 | 0-10 | 10-20 |
| 0-10 | 0 | 0 | 10-20 | 0-10 | 0-10 | 0-10 | 0-10 | 0-10 |
| 0 | 10-20 | No Market | 10-20 | No Market | 0-10 | 0-10 | 0-10 | No Market |
| 0 | 0-10 | 10-20 | 10-20 | No Market | 10-20 | 0-10 | 0 | No Market |
| | | | | | | | | |
| 0 | 0 | 10-20 | 10-20 | 0 | 0 | 0-10 | 10-20 | No Market |
| 0 | 0-10 | - | 10-20 | 0-10 | 10-20 | 0-10 | 10-20 | 0 |
| 0 | 0-10 | - | 10-20 | 0-10 | 10-20 | 0-10 | 10-20 | 0 |
| | | | | | | | | |
| 0-10 | No Market | 0-10 | 0 | 0 | 0 | 0 | No Market | No Market |
| 10-20 | 0-10 | 10-20 | 0-10 | 0 | 10-20 | 0-10 | 10-20 | 0 |
| - | - | 0-10 | 0 | No Market | 0-10 | 0 | 0 | 0 |
| 20-30 | 20-30 | 20-30 | 0 | 10-20 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 10-20 | 0 | 0 | 0 | 0 | 0 |
| 10-20 | 10-20 | 10-20 | 0 | 0 | 0 | 0-10 | 0 | 0 |
| 10-20 | 0-10 | 20-30 | 0-10 | 0 | 0-10 | 0 | 0 | No Market |
| | | | | | | | | |
| 0 | No Market | 0-10 | 0-10 | 0 | 0-10 | 0-10 | 0 | No Market |
| 0-10 | 0-10 | 0-10 | 0-10 | 0 | 0-10 | 0 | No Market | No Market |
| 0-10 | 20-30 | 10-20 | 0 | 0 | 10-20 | 10-20 | 0 | 0 |
| 10-20 | - | 0-10 | 0-10 | 0-10 | 0-10 | 0-10 | 0-10 | 0-10 |
| | | | | | | | | |
| 0 | 0-10 | 0 | No Market | 0 | 0 | 0 | 0 | No Market |
| 0 | 0-10 | 0 | 0-10 | 0 | 10-20 | 0 | 0 | 0 |
| 0 | No Market | No Market | No Market | No Market | No Market | 0 | No Market | No Market |
| 0-10 | 0 | 0 | 0 | 0 | 20-30 | 0 | 10-20 | No Market |
| 0 | No Market | 0 | 10-20 | 0 | 0 | 0 | 0 | 0 |
| 0-10 | 0 | 20-30 | 0-10 | 0-10 | 0-10 | 0-10 | No Market | No Market |
| 0 | 0 | 0 | No Market | 0 | 0-10 | 0 | 0 | No Market |
| 0-10 | No Market | 0 | No Market | No Market | 50+ | 0 | 0 | No Market |
| 0-10 | 0 | No Market | 10-20 | No Market | No Market | No Market | No Market | No Market |
| 20-30 | 0-10 | 0-10 | 20-30 | 0-10 | 0 | 0 | 0 | 0 |
| 10-20 | 0-10 | 0-10 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | - | - | 0 | 0 | - | - | - | - |
| 0-10 | 0-10 | 0 | No Market | No Market | No Market | No Market | No Market | No Market |
| 0-10 | 0 | 0 | 0 | 0 | 0 | 0 | 0-10 | No Market |
| 0 | 0 | 0 | 0 | 0 | 0-10 | 0-10 | 0 | No Market |
| 0-10 | 0-10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| 0 | 0-10 | 0 | No Market | No Market | 10-20 | 0-10 | No Market | No Market |
| 0 | No Market | 0-10 | No Market | No Market | 0-10 | 0 | No Market | No Market |
| 0 | 0 | 10-20 | 0 | 0 | 10-20 | 10-20 | 0-10 | 0 |
| 0-10 | 10-20 | 0 | No Market | No Market | 0 | 0 | No Market | No Market |
| 0-10 | 0 | 10-20 | 0-10 | No Market | 0-10 | 0 | 0 | No Market |
| | | | | | | | | |
| 0 | 0 | No Market | No Market | No Market | 0 | 0 | 0 | 0 |
| 20-30 | 0-10 | 20-30 | - | 0 | 10-20 | 20-30 | 0 | 0 |
| 20-30 | No Market | 30-40 | No Market | No Market | 20-30 | 20-30 | 20-30 | No Market |
| 0-10 | - | - | 0 | No Market | 0-10 | 10-20 | 0-10 | No Market |
| 20-30 | 0 | 0 | 0 | No Market | 0 | 0 | 0 | No Market |
| | | | | | | | | |
| 15 | 12 | 11 | 4 | 3 | 4 | 3 | 4 | 1 |
| 11 | 8 | 10 | 15 | 7 | 23 | 17 | 10 | 3 |
| 19 | 14 | 16 | 16 | 21 | 15 | 23 | 22 | 17 |
| 0 | 8 | 5 | 10 | 15 | 3 | 2 | 9 | 24 |
| 1 | 4 | 4 | 1 | 0 | 1 | 1 | 1 | 1 |
| 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |

# Overview

## Key trends seen in EMEA in the last six months of 2010

Rate reductions were still possible for clients purchasing property and casualty insurance in EMEA in the second half of 2010. Abundant capacity and competition between insurers are preventing increases in these lines, other than where there has been poor claims experience on individual accounts or within specific industries. It is believed that underwriters will endeavour to push rates forward but market conditions will probably prevail and limit any increases. Motor rates across the region remained generally stable during the review period although statutory indemnity limits have been raised in a number of countries.

The global financial and economic downturn generated increased demand for trade credit and financial institutions insurance but the increased number and size of claims meant insurers were increasingly reluctant to provide cover. The significant rate increases seen during the last 12 to 18 months have now tailed off as economic growth resumes and capacity is returning to the market.

In the wider economy, many Governments are making changes to tax regimes in an attempt to reduce public deficits. Insurance premium tax (IPT) is being increased in the United Kingdom and the Netherlands, and has been introduced for the first time in Bulgaria. It is thought insurers will not be prepared to absorb this cost but will instead adjust their rates accordingly.

It is possible that the soft market trend may be somewhat counteracted by the impact of Solvency II, which is set to be implemented in 2013. Changes to insurers' documentation, transparency and disclosure requirements will be costly and as a result underwriters may attempt to adjust rates in order to make up for the cost of Solvency II compliance.

Country Focus

# Central Europe

## Austria

**Medical Malpractice:** Legislative changes in Austria have meant physicians, dentists, hospitals and convalescent homes are now obliged to buy specified amounts of medical malpractice cover. The minimum sum insured is EUR 2 million and fixed annual aggregate limits vary by profession. Rates have therefore increased by 10% to 20% on average.

**Environmental:** Environmental liability is part of the general liability coverage in Austria. In June 2009 the Austrian Federal Environmental Liability Act came into force, followed by provincial liability laws. This new risk can be covered under a general and third party liability policy with the new environmental remediation cost insurance (Umweltsanierungskostenversicherung or USKV-coverage). In the year following the establishment of this legislation most insurers offered provisional cover for free but going forward companies with higher environmental exposure will have to pay additional premiums.

**FINPRO – Directors' and Officers' Liability (D&O):** As a result of the global financial and economic downturn, most financial institutions have faced significant rate increases in their D&O insurance. All other risks' premiums have generally been stable.

**FINPRO – Financial Institutions:** Many Austrian financial institutions were involved in high profile losses during the financial crisis. As a result premium rates have increased by 20% to 30% on average. This rate change trend is expected to continue over the next few months.

## Belgium

**General Liability:** There is additional liability capacity available in Belgium as insurers enter the market in an attempt to diversify and redeploy their book of business. As a result some companies have been able to obtain small rate reductions, particularly in the Middle Market[1] segment. Brokers are still able to secure long-term agreements (LTAs) for their clients as underwriters try to create

1 Marsh's Middle Market business typically serves EMEA companies with turnovers under EUR 1 billion and public sector organisations.

some stability in the market. There are some signs that certain insurers are reviewing market trends by being more conservative on rates and/or putting their portfolio under review.

**Property:** Abundant capacity and intense competition between insurers and brokers means clients have been able to obtain small rate reductions in the Middle Market segment as new players offer aggressive quotes in order to win business. For bigger Risk Management[2] accounts, rate reductions of 10% to 20% were possible in the last six months of 2010. Improved terms and conditions were negotiated alongside rate reductions to offer the best solutions for clients. LTAs are common and can be extended after the first year, sometimes with further rate reductions.
Looking ahead, it is likely there will be an ongoing soft market for Middle Market business, especially for well-managed risks. Underwriters are trying to increase rates on Risk Management accounts with natural catastrophe exposures but at present rates remain stable. Insurers are particularly interested in hospitals, green energy, retirement homes and real estate, so these clients may be able to secure further premium reductions.

**Motor:** In general, Belgian motor rates have increased by 5% on average, other than fleet risks which are stable but markets are looking to restore profitability on loss making or under-rated accounts. A number of major fleets changed insurer at year end as a consequence of stricter underwriting rules and wider profit margins applied by one insurer for renewals. These market trends are expected to continue over the forthcoming quarter.

**Trade Credit:** The trade credit market stabilised in Belgium in the second half of 2010. There has been increased demand for excess of loss type cover. The factoring market seems to be developing further which might in turn increase the credit market. The market is expected to soften in 2011, meaning discounts may be available to companies as insurers attempt to increase their market share.

**Environmental:** Environmental Impairment Liability (EIL) rates in the wider market have decreased by 10% to 20% in Belgium although competition between the markets has resulted in 50% discounts in certain cases as well as availability of improved wordings. Rates within Marsh's portfolio are already very low as a result of market surveys in previous years. Legislative changes and good risk management are expected to prompt an increasing number of insurance companies to underwrite EIL. In general, rates from local insurers should be generally stable although more competitive pricing may be available from international markets.

**FINPRO – D&O:** D&O insurance has seen discounts of 10% to 15% on average over the latter half of 2010. There have been no major developments in the local market but there is more competition between insurers. There are no major changes expected to impact rating so it is thought the market will stabilise in the near future.

**FINPRO – Financial Institutions:** There have been no major developments in the financial institutions insurance market and as a result rates have remained generally flat. Any attempt at price increases by underwriters has been counteracted by new markets bringing additional capacity. Looking ahead, FI rates are expected to remain stable.

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2 Marsh's Risk Management Practice serves EMEA's largest and most complex companies, usually with a turnover in excess of EUR 1 billion and with dedicated risk management personnel.

## France

**General Liability:** On large Risk Management accounts the French liability market remains generally soft except for some sensitive risks. LTAs and mid-term renegotiations of LTAs are still possible. A significant new player started providing liability cover in France adding to the overcapacity in the market. For Middle Market accounts insurers tend to renew business at expiring conditions but new business may attract discounts of as much as 40%. There is currently no sign of a hardening market and therefore rates are expected to remain stable or slightly soft as more new players enter the French market in 2011.

**Property:** Rates for property insurance in France were between slightly soft and stable over the last six months. Underwriters' rating of property risks much depends on the size of the risk – large and mid-size international accounts can still attract rebates but some insurers are applying slight increases across their book of business on smaller national accounts. No major change in market trends is expected in the near term due to the ongoing overcapacity in the French and Continental markets.

**Motor:** Rates in the French motor insurance market are now on the rise with 5% to 10% increases on premiums in general, applicable across portfolios or on a case by case basis. Insurance buyers are tending to reduce their coverage, increase their deductibles or establish new loss prevention plans in an attempt to avoid premium increases. The market is expected to remain hard.

**Trade Credit:** Premium rates continue to decrease from 5% to 25% for each trade credit renewal depending on the client's loss history. Claims ratios are very low on average (below 40%) therefore insurers have an increasing appetite for such risks. Looking ahead, all markets are trying to develop new solutions for the most difficult trade credit risks that have not been able to obtain cover until now. Trade credit rates are still high and a lot of clients are not prepared to pay such prices, potentially leaving themselves vulnerable without the required cover in place.

**Environmental:** New markets have entered the French EIL market bringing additional capacity and allowing clients to obtain slight rate reductions, however, clients tend to extend their coverage to biodiversity risks or increase their policy limits. It is thought the market will stabilise going forward.

**FINPRO – D&O:** Current D&O market conditions are still favourable for clients, particularly for commercial institutions, with renewals focused on premium reductions and coverage enhancements. Intense competition between existing D&O insurers and new players entering the market with a strategy to quickly develop a book of business means there is an ongoing abundance of capacity. Insurers are developing new wordings in order to try to differentiate themselves from the competition by offering broader "international" exposures and clearer wordings. There is a growing interest from companies for Side A cover and the market is clearly responding to this need of "personal protection" by developing specific products including "personal" D&O policies. In addition to the improvement in terms and conditions, renewals so far have been marked by new programme structures ("jumbo" excess layers placed with coinsurance instead of excess layers placed 100% with one insurer). These market conditions are expected to continue in the near term as no reduction of capacity is foreseen. New insurers will continue to put pressure on the incumbent insurers and companies should therefore continue to benefit from favorable terms and conditions as well as ongoing product innovation.

**FINPRO – Professional Indemnity (PI):** Premiums in the French PI market continue to decrease by 10% to 20% at each renewal. Some reinsurers appear to be using their direct insurance operations to cut rates and support the soft market. However, accounts with adverse loss experience may still sustain premium and deductible increases. Looking ahead, no major change is expected to this market trend.

**FINPRO – Financial Institutions:** PI and crime cover for large financial institutions remains expensive given that clients are buying a very significant share of the available capacity. However, rates have probably reached a peak and the first signs of a softening market are appearing with new capacity entering the market. Insurers' concerns have been to increase deductibles and switch bankers blanket bond (BBB) wordings from all risks to named perils forms. D&O for financial institutions is benefiting from strong market competition and overcapacity on commercial D&O, resulting in 5% to 10% premium reductions on average. On mid-size accounts, the competition is fierce and double digit premium decreases are achievable for crime, PI and D&O when the programmes are remarketed.

## Germany

**General Liability:** General liability insurance rates in Germany have seen small reductions in the last six months of 2010 and higher reductions are still possible for well-managed risks with good claims ratios. However, as the economy has stabilised, underwriters have become less willing to offer premium discounts. Looking ahead, it is generally expected that the rate changes in the liability market will slow down and stabilise over the course of 2011. Although Solvency II is being discussed at length within the EU markets and insurance press, no impact has yet been seen on the actual market trend.

**Property:** The soft property market continued in Germany with premium reductions in the majority of cases. When premium reductions were not possible, other parameters were improved for the client, such as reducing their deductible. LTAs are still achievable, and agreed for more than 50% of renewals, for a period of two years only. There are signs of a hardening market, for example market appetite for specialised industries, such as recycling, is waning and it can be difficult to secure rate reductions for these types of risks. Going forward, it is doubtful rate reductions will be possible for many property accounts in 2011 but at the same time premium increases are unlikely in the absence of any large claims given the ongoing capacity that is available.

**Motor:** The continued increase in motor claims has caused underwriters to raise premium rates by as much as 10%. There have been no significant market developments in terms of legislative changes or new insurers entering the market but last year's renewals proved that insurers are keen to retain their clients, offering moderate premium and wording modifications, rather than aggressively chasing new business. This trend is expected to continue in 2011.

**Medical Malpractice:** The German medical malpractice market remained generally stable in the second half of 2010 but liability risks are still facing a rather hard market. There are a small number of insurers in this market and no significant competition between them so it is sometimes difficult to obtain rate reductions. Some insurers still offer coverage on a claims-occurring basis which companies usually prefer to claims-made coverage. There may be a marginal premium increase in the market over the forthcoming quarter.

**Trade Credit:** German trade credit insurers had good loss ratios in 2010 and gave positive outlooks on the local market so clients were able to secure rate reductions between 10% and 20% on average. The market was not hit by insolvencies/claims as expected therefore insurers' risk appetite has improved and capacity is on the rise. Client risk information has improved significantly, giving the market more confidence and capability in risk underwriting. Looking ahead, the soft market is expected to continue to the benefit of policyholders. Premium rates will likely remain under pressure as insurers' risk appetite for this business is generally high and there is plenty of capacity available. Product development is limited due to premiums and underwriting requirements but new insurers may bring new market solutions.

**Environmental:** Rate decreases between 0% and 10% were seen in the EIL market in the second half of 2010, although higher reductions were still possible in certain cases. As the market trends generally follow that of the general liability market, there are not expected to be any significant developments in the market in the next six months.

**FINPRO – D&O:** Strong competition between D&O insurers in Germany meant clients usually saw premium discounts or obtained superior coverage at last renewal. New insurers have joined the excess D&O market bringing additional capacity and creating further pressure on rates. Multinational companies are becoming increasingly focused on compliance regarding local policies and tax issues. The soft market conditions are expected to continue into 2011 with broader wordings but generally flat renewals. International programmes with local policies are likely to be sought after by multinational companies.

**FINPRO – PI:** Insurers are willing to provide PI premium discounts on a case-by-case basis in Germany but generally the market is fairly stable in terms of rates and coverage. Underwriters are keen to secure accounts in the emerging PI professions such as consultants and real estate professions where they offer innovative products in order to win business. This trend is expected to continue through the first quarter of 2011.

**FINPRO – Financial Institutions:** As financial institutions recover from the global economic crisis, some have been able to secure premium discounts, depending on the company's sector and segment. The previously hard market has started to soften as insurers are now willing to provide wording improvements and increase capacities, although they are more cautious on PI and crime. Small premium discounts may still be possible for certain companies in 2011. On a case-by-case basis, it is thought that underwriters will require less underwriting information and/or do not require an additional client meeting.

**FINPRO – Political Risks (PRI):** New political risks insurers have recently entered the local market, looking to grow PRI business from Germany. At the same time, established insurers have a good risk appetite for this business creating a soft market and small rate decreases have been possible. Rates have also been under pressure from the London market. Looking ahead, rates and business volumes are returning to what they were prior to the financial crisis. The upturn of the economy is likely to create additional demand for this type of insurance in 2011 and premium volumes should continue to rise.

## Netherlands

**General Liability:** General liability rates have declined marginally in the Netherlands. Competition is still fierce as a result of the excess capacity for casualty business in both local and international markets. No major changes are anticipated in the market that will have a significant impact on rates.

**Property:** There is still excess capacity in the Dutch property insurance market and small rate reductions have been achieved for some companies with a good risk profile. The market is expected to be stable over the next few months assuming there are no major claims.

**Motor:** The private motor market is becoming more and more internet-based while insurers are looking for new solutions for other risks such as large fleets. Insurance premium tax is increasing by 2.2% to 9.7% from 1 March 2011 and following years of rate reductions the market is expected to stabilise over the coming months.

**Medical Malpractice:** There is no specific medical malpractice insurance in the Netherlands as such but the risk is covered under general and products liability policies. For hospitals, there is still little or no local liability market other than the special purpose mutual insurers. In general, there is more capacity in the local market but less demand for the product as clients attempt to cut costs and become more efficient in their processes. The market is not expected to change this year and further premium decreases should be available.

**Trade Credit:** Premium rates have decreased in the Dutch trade credit market by 10% to 20% on average as a result of increased competition between the major monoline insurers. At the same time several new insurers have entered the market bringing additional capacity and creating downward pressure on rates. As long as underwriters have good risk information from the client they are usually prepared to offer discounts for good quality risks. Given the increasing competition in the market, rates are expected to continue to decline in the first quarter of 2011.

**FINPRO – PI:** Rates in the Dutch PI market are generally stable at the moment. There is more capacity available than ever before but rates are (traditionally) not volatile due to certain product characteristics and market habits. Having said that, overseas insurers are looking to enter the Dutch market and existing insurers are expanding their book of business, creating even more capacity that has potential to generate significant price erosion.

**FINPRO – Financial Institutions:** Market stability seems to have returned for financial institutions. Terms and conditions have stabilised and there have even been some small rate reductions, largely driven by competition in the excess market. While there have only been two or three key primary insurers in the Dutch market, some of the new local insurers are considering underwriting financial institutions, even on a primary basis. Rates could potentially rise over the next few months due to increased number of claims and notifications, and wordings may be restricted, although new capacity in the market might prevent this from happening.

## Switzerland

**General Liability:** Strong competition and high capacity continue to drive liability premiums downwards in Switzerland. Cost pressure on companies means sales volumes are down. This trend is expected to continue for the foreseeable future.

**Workers' Compensation:** Workers' compensation risks have seen small discounts at renewal, although good risks have been able to secure larger discounts, especially for the bigger companies. The global economic downturn impacted Switzerland less than expected and staff reductions were limited. Looking ahead, the view is cautious and more difficult renewals are expected for risks with higher loss ratios.

**Property:** Plenty of capacity and an absence of major losses have driven property insurance rates down by 10% to 20% on average. Incumbent insurers are trying to defend and maintain their portfolio as they cannot rely on investment income to bolster their results. There have been a couple of new entrants to the Swiss market, but it has proved difficult for them to gain business. Insurers' combined ratios are up from what they were in 2009, but are still favourable and without a major catastrophic event, the trend is expected to continue.

**Motor:** In general the Swiss motor market is stable although it is more difficult for clients with high loss ratios to secure favourable rates and some have seen premium increases. Small rate increases are expected over the next few months.

**Medical Malpractice:** The few insurers in the Swiss medical malpractice market have generated slight rate increases for local clients, although flat renewals are still possible. These insurers rely on good risk information and are selective in their underwriting in an attempt to improve profitability.

**Trade Credit:** Discounts of 10% to 20% were generally available for trade credit clients in Switzerland in the last six months of 2010. Underwriters have begun to offer improved terms and conditions such as higher limits and top-up cover. The soft market trend is expected to continue over the coming quarter with some premium decreases available to clients.

**Environmental:** There are local markets that have capacity for EIL insurance but at present there is little demand for this type of cover from companies. Companies' requirement to purchase this type of insurance is expected to increase in the future.

**FINPRO – D&O:** D&O is a competitive market in Switzerland, with insurers competing to retain/win business and new providers looking to grow their book of business. As a result, average rate reductions of 10% to 20% have been obtained over the last six months. However, underwriters are expected to offer flat renewal rates over the next quarter as claims frequency has increased marginally.

**FINPRO – PI:** There are only a few specialist PI insurers in the local market and, given the low claims frequency, rates have been generally stable. This trend is expected to continue for the foreseeable future.

**FINPRO – Financial Institutions:** Any attempt by financial institutions underwriters to push rates up is being quashed by competition from new capacity. However, claims frequency is increasing and therefore rates are expected to remain stable or even increase slightly in the future.

# Country Focus
# Northwest Europe

## Ireland

**General Liability:** Small and medium enterprises (SMEs) have seen quotes with automatic rate increases of 10% to 15%, although these are often withdrawn due to competition from other insurers. New market entrants and increased competition are allowing profitable mid-sized and large accounts to achieve rate reductions of 10% to 20%. Looking ahead, the market is expected to remain relatively stable, although there may be possible rate increases for SMEs.

**Property:** There is ample capacity and therefore competition for business in the Irish property insurance market. Most local markets are aggressively defending their existing business and attacking competitors' business at the same time, meaning some companies can still secure small rate reductions. Indications are that this trend will continue.

**Motor:** While motor rates have stabilised in the last six months, increases of approximately 10% are still being applied on small fleet renewals, but they are often offset by competition. Mid- to large-sized fleets typically renew as per the expiring rates, although profitable fleets can secure reductions of up to 30% when they are tendered to the market.

**Medical Malpractice:** Despite competition between the local medical malpractice insurers, and further pressure on rates from the Lloyd's market, the market remained relatively stable over the latter half of 2010. No significant changes are anticipated for the foreseeable future.

**Trade Credit:** Competition between the key trade credit markets trying to acquire each others' business has resulted in premiums returning to the level they were at before the financial crisis. Higher limits are also available to companies. Premium discounts should still be available over the next few months but rates are expected to level off in the second and third quarters of 2011.

**Environmental:** EIL risks are underwritten on a case-by-case basis and subsequent rates largely depend on the nature of the risk and its loss history. Current market conditions are expected to continue.

**FINPRO – D&O:** Heavy competition amongst D&O insurers is keeping rates low but stable. It is thought rates will remain low over the course of 2011.

**FINPRO – PI:** PI rates decreased marginally over the last six months and competition is maintaining downward pressure on prices. Rates for construction-related risks are expected to remain low for some time. Heavy competition on miscellaneous business will likely keep rates stable.

**FINPRO – Financial Institutions:** Financial institutions in Ireland faced 10% to 20% rate increases on average at last renewal. Client instability and market losses are causing these increases and the insurance market is likely to remain difficult for these clients going forward.

## United Kingdom

**General Liability:** National Corporate Practice:[3] Continuing availability of capacity and competition are preventing increases in the local liability market, other than where there has been poor claims experience. It is believed that underwriters will endeavour to push rates forward but market conditions will probably prevail and limit any increases. The impact of Lord Justice Jackson's report[4] report on the rules and principles governing the cost of civil litigation and Lord Young's report[5] on the perceived ''compensation culture'' and Health and Safety Law should become clearer during 2011. It is currently difficult to predict if the reports will lead to widespread legal reform with potential financial savings for both business and their insurers on legal costs and administration.

**Risk Management Practice:** General liability rates are reaching the minimum rate on line in the UK and further reductions are unlikely unless it is new business or a renewal following a long-term deal.

**Workers' Compensation: National Corporate Practice:** Employers' liability rates are still being driven by available capacity and competition, although poor performing risks are tending to see increases. Looking ahead, it is thought underwriters will seek to increase rates but market conditions will continue to drive rates.

**Risk Management Practice:** Only where the risk has not been remarketed for some time are larger reductions likely, otherwise rates are generally stable. For the excess layers reductions are unlikely as most of the risks have reached the minimum rate for the capacity provided. The market should continue to stabilise over the next six months.

**Property: Middle Market:** There have been some small rate reductions in the UK property market for national accounts, driven by competition, capacity and insurer new business targets. There is no shortage of capacity for most risks although waste and food industries are becoming more difficult as insurers withdraw or reduce their exposure in these areas. There have been a small number of rate increases, driven by claims experience, but there are generally savings to be made for clients with good risk information. Despite recent adverse winter weather conditions we do not anticipate any great change in the foreseeable future as capacity and competition continue.

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3 Marsh's National Corporate business typically serves EMEA companies with turnovers under EUR 1 billion and public sector organisations.

4 Civil Litigation Costs Review, Lord Justice Jackson, 14 January 2010

5 Common Sense, Common Safety, Lord Young, 15 October 2010

**Risk Management:** Rates are also generally stable for larger Risk Management clients although double figure rate reductions are still possible for new business. New entrants into the market have meant there is still a lot of capacity and competition, particularly for risks contained in the UK only. Looking ahead, this level of rate reductions is not expected to continue.

**Motor:** Generally insurers are looking to increase premium rates on motor business as past years' poor results impact on profitability. Well run risks of a reasonable size are still benefiting from reductions as size of premium will still affect an underwriter's decision. Conversely, poorly running risks can expect rate increases. Looking ahead, motor is the class of business in which we expect rates to increase as all underwriters are making noises about profitability. However, there is still competition in the marketplace which will impact the level of rate increases underwriters can secure.

**Medical Malpractice:** Little has changed in this market in terms of participants and underwriting approach whereby half a dozen or so commercial insurers in the company and Lloyd's markets provide cover to private corporate healthcare providers. Otherwise the majority of healthcare professionals obtain cover via the state funded National Health System and any medical malpractice arising out of that care is indemnified through a statutory body. In the last six months, competition for claims-free clients has led to small price reductions. The market is expected to remain unchanged for the foreseeable future.

**Trade Credit:** Clients were able to obtain reductions of 10% to 20% on average on their trade credit insurance in the latter half of 2010. Increased insurer appetite meant additional capacity was available and losses through 2010 were less than originally expected putting insurers in a stronger position. Although the marketplace continues to be cautious rates are coming under pressure as insurers look to rebuild their top-line growth. Two new insurers entered the market in 2010 – the outlook for 2011 is continued caution but growing appetites. 2011 is likely to be a tougher year, with even emerging markets seeing slower growth.

**Environmental:** Increased competition in the EIL insurance market continues to drive reductions in premium pricing. The market is divided into insurers able and willing to write operational environmental risk policies, and those also willing to provide cover for historic liabilities under long-term policies. Growth in the area of business-based environmental insurance, where all operations of the company are covered on one policy form, is also leading to declining premiums. Markets are looking to continue to provide competitive terms for operational risk environmental insurance, with reduced requirements for environmental data leading to a more commercial view of the risks to be underwritten.

**FINPRO – D&O:** D&O rates have reduced by 10% to 20% in the last six months, more so for commercial D&O. The commercial D&O market still has plentiful capacity with new entrants, particularly to the Lloyd's market, in 2010. Low claims severity in 2009 and 2010, and stable claims frequency has contributed to this attraction for new entrants. Capacity is also increasing in the financial institutions D&O market. There have been few paid losses in the last six months and large deductibles have further reduced pressure on rates. Looking ahead, the commercial D&O market is expected to remain soft while the financial institutions D&O market will become increasingly soft.

**FINPRO – PI:** The UK PI market is still competitive and premium and rate reductions are still being achieved. This market has seen increased claims activity especially stemming from the technology industry and the architects and engineers industry. This has meant that some insurers are reluctant to offer a rate decrease, however, the level of capacity available means that the market in general remains competitive. The UK PI market should continue to be competitive over the first quarter of 2011.

**FINPRO – Political Risks:** There is huge awareness amongst corporates and banks of political risks and credit risk. Demand for the product is very high, therefore more capacity has entered the market which has, in turn, put pressure on rates. Individual countries and obligors may command a premium but across the market significant losses have been paid and the market remains robust.

The world remains uncertain with the eurozone crisis and quantitative easing, and there are daily examples of companies failing and countries enacting legislative changes legal or otherwise to protect their national interests. We expect rates to remain stable, unless there is a significant macro-economic event, in which case rates will rise but capacity will be more difficult to access. Many buyers lock in cover for non-cancellable multi-year programmes and therefore avoid short-term fluctuations.

# Country Focus
# Southern Europe

## Greece

**General Liability:** The Greek casualty market is still dominated by one major insurer and as a result remained stable in the second semester of 2010. There are no signs of rates hardening as the loss ratio is still low. Factors such as excess market capacity, low loss ratios and the current economic environment are likely to lead to stable premiums or slight decreases. Local clients' contractual agreements are leading them to seek bigger limits.

**Workers' Compensation**: Rates for employers' liability insurance were relatively stable over the third and fourth quarters; very few accounts renewed with reductions of more than 10%. The client's loss ratio remains the most critical factor in determining the underwriter's risk appetite and therefore the price for any given account. The market is expected to remain stable in terms of rate changes, although small premium reductions may still be possible.

**Property:** In the latter half of 2010, good quality property risks renewed with rate reductions of 5% to 10% on average, while poor quality risks or those with loss history were usually able to renew their policies at the expiring rate. In a small number of cases, premium reductions of 20% were possible as clients look to cut costs in the economic downturn that has severely affected Greece. The broking environment is also very competitive and renewals are being defended in order to retain clients. Looking ahead, premium rates are likely to decline further as clients seek to cut costs in the ongoing economic downturn. The implementation of Solvency II over the next two years is forcing insurers to be very strict with Premium Payment Warranties (PPW), ensuring clients make their premium payments in a timely manner.

**Motor:** New legislation imposing higher indemnity limits from 1 January 2011 (for both bodily injury and property damage EUR 750,000 up from EUR 500,000) has led several insurers to increase their rates by between 5% and 8%. However, other insurers renewed policies for 2011 without establishing a new rating strategy, so the overall increase in premium rates is not expected to exceed 6%.

**Trade Credit:** The second half of 2010 saw rate increases slow down and some discounts were even available for Greek clients purchasing trade credit insurance. One of the three insurers temporarily stopped writing new business due to the high loss ratios in the market. There is still increased demand and enquires for credit insurance but underwriters are still not providing cover for retail, construction and automobile clients. Generally, the credit limits provided have improved but are still not meeting companies' needs as policy conditions remain restrictive. Multinational companies with operations in Greece need this insurance and are looking to secure such cover as soon as possible.

**Environmental:** Environmental liability rates have remained mostly flat in Greece and there have been no significant market developments as only two insurers offer this product. EIL has been compulsory in Greece since May 2010 but the Government is still in the process of finalising the terms and conditions of the insurance requirements.

**FINPRO – D&O:** The D&O market has been generally stable in Greece although some clients with recent claims have faced rate increases. The unstable economic environment has caused underwriters to treat Greek businesses with increased scepticism and the premium discounts that were previously seen are no longer possible. On the whole, rates are expected to remain stable although premium volumes may decline as clients seek out cost reductions.

**FINPRO – PI:** Demand for PI insurance has been limited to those clients who are required to purchase it under regulatory or contractual obligation. Local capacity is limited and therefore rates remain high. As PI insurance is not obligatory for most professions (other than insurance intermediaries, travel agents and auditors for example) the demand for this type of insurance is expected to remain low.

## India

**General Liability:** General liability rates in India have declined by as much as 20% over the last six months, particularly for companies which have had no claims. More capacity and intense competition have further increased pricing pressure. Rates are expected to remain soft as new capacity arrives from Singaporean insurers with an aggressive appetite for Indian risks.

**Workers' Compensation**: Changes to the Workmen's Compensation Act 1923 have removed the cap on medical expenses indemnity in India so premium rates have increased although many companies are not actually providing this cover yet. Looking ahead, more insurers are expected to offer medical cover which may increase the cost of workers' compensation insurance.

**Property:** While the market is generally stable, large property risks, over USD 45 million, are able to secure significantly better rates than the smaller risks (approx 18% less). Small discounts were also achieved at the key renewal dates of 1 January and 1 April. It is thought the market will be stable going forward.

**Motor:** The Indian motor market remained competitive in the latter part of 2010 and discounts of 10% to 20% were possible for a lot of clients. Web-based and newer low-cost acquisition models are driving rates down. The soft market is expected to continue.

**Trade Credit:** The Indian market for trade credit insurance has been fairly stable over the last six months although some clients faced small rate increases. The local regulator has introduced restrictions on this type of cover – it cannot be given to banks, financiers and lenders. The market is expected to remain stable over the next six months.

**FINPRO – D&O:** D&O risks with no claims history have secured rate reductions of 10% to 20% at last renewal as additional market capacity has created intense competition for business. Rates are expected to remain soft as new capacity arrives from Singapore-based insurers with an aggressive appetite for Indian risks.

**FINPRO – PI:** The technology industry had few claims for errors and omissions (E&O) insurance during, and after, the economic downturn and therefore rates have renewed flat or even with small reductions. Additional capacity has created severe competition between local insurers putting further downward pressure on rates.

**FINPRO – Financial Institutions:** Financial institutions with no claims have obtained discounts of 10% to 20% at renewal. Rates are expected to remain soft as new capacity arrives from Singaporean insurers with an aggressive appetite for Indian risks.

## Israel

**General Liability:** Liability rates, including workers' compensation, declined marginally over the third and fourth quarters of 2010. Clients with good claims history have been able to obtain premium discounts. As long as reinsurance capacity is available to the primary markets and there are no significant claims, rates are expected to remain stable with some small reductions possible.

**Property:** Small property rate reductions were secured in the second half of 2010. Depending on client risk details and market conditions, rates are expected to be stable.

## Italy

**General Liability:** Italian liability rates declined by up to 10% in the latter part of 2010. New players entered the excess liability markets bringing additional capacity and further downward pressure on rates. Otherwise the market has been generally static; there have been no new products brought to the market. The outlook for 2011 continues in the same vein – small rate reductions are likely although there are some signs of a hardening market from some key insurers. Competition between brokers remains intense, causing prices to remain lower than technically feasible.

**Property:** All things being equal, property risks have seen generally stable renewal rates in Italy over the last six months. There have been no relevant market developments in terms of capacity, wordings and large claims to impact the market. The market is expected to remain relatively stable over the first half of 2011.

**Motor:** Motor insurers have become more selective in their underwriting as they try to improve profitability and reduce loss frequency. Rates have therefore increased by 20% to 30% on average. Some sectors – in particular rental fleets, buses and trucks – are especially difficult to find appropriate cover for; even more so in the south of Italy.

**Medical Malpractice:** Poor loss ratios of Italian medical malpractice insurers have led to reduced insurance capacity in this line of business. Rates have increased by as much as 30%. Looking ahead the market is expected to remain much the same with further rate increases likely due to the lack of capacity in the market.

**Trade Credit:** Rates in the Italian trade credit market have generally been flat over the last six months of 2010, meaning most clients renewed their policies at the expiring rate. New markets are opening across the region and are expected to bring further capacity and competition for good quality new business.

**Environmental:** The Italian EIL market is competitive and rate reductions of 10% to 20% are common. There is plenty of capacity in the market – each insurer has between EUR 40 and EUR 50 million of capacity available. Looking ahead, the market is expected to remain soft. Yet another insurer has entered the market, bringing additional capacity and offering very attractive rates to clients.

**FINPRO – D&O:** D&O rates were mostly stable for Italian clients over the second half of 2010. An established property and casualty insurer is beginning to write D&O and PI for SMEs bringing additional capacity to the market. A few Italian brokers are trying to set up D&O facilities to create synergies and capitalise on efficiency savings, resulting in rate reductions to varying degrees. Rate reductions generated from additional capacity and facilities are generally being offset by growing claims for bankruptcy risk.

**FINPRO – PI:** The last six months have seen PI risks remain generally stable in Italy. An established property and casualty insurer is beginning to write D&O and PI for SMEs bringing additional capacity to the market. Marsh has seen a lot of requests for proposals (RFPs) for single projects including architects and engineers, construction companies and IT-technology risks. New insurers entering this market are causing downward pressure on rates, particularly for single projects.

**FINPRO – Financial Institutions:** Commercial D&O rates continue to decline for small financial institutions while D&O for mid-size and larger banks is becoming increasingly expensive since demand is outweighing supply of this type of cover. On the whole, financial institutions’ PI and BBB rates are increasing, although competition between underwriters for small banks’ risks has led to rate reductions for these clients. There is a new player entering the Italian FI market in 2011, bringing additional capacity and possible rate reductions for some clients.

## Portugal

**Workers’ Compensation:** Recent changes in Portuguese legislation have increased the indemnity limits for workers’ compensation insurance and local insurers are therefore being forced to adjust premiums accordingly. That said, aggressive competition and insurance facilities are pushing pricing down in some markets so overall rates have been generally flat. Looking ahead, rates are expected to increase marginally.

**Property:** There have been no significant developments in the Portuguese property market and as a result rates have been stable. The insured is now required by law to purchase additional cover, putting underwriters under pressure to adjust the pricing to the risk exposure. However, this is counteracted by aggressive competition and improved product offering through facilities so premiums are expected to remain generally stable.

**Motor:** Aggressive competition from direct insurance markets offering new products and additional cover has not had an impact on rates and clients can expect their premiums to remain flat.

**Trade Credit:** Portuguese clients faced ongoing rate increases of 10% to 20% for trade credit insurance in the second half of 2010. The difficult economic situation has resulted in non-payment of bills and the resulting claims have brought about a cohesive market response in demanding higher rates. The hard market trend is expected to continue, although with less severe rate increases than those seen in 2010.

**Environmental:** Environmental insurance was introduced in Portugal at the beginning of 2010 when legislation made it obligatory for certain parties. Rates very much depend on the insured's industry, size of operations and past environmental losses. As there were no significant claims in 2010 the market is expected to remain stable.

**FINPRO:** Rates in all FINPRO lines of business (D&O, PI and financial institutions) were stable on the whole over the semester. Underwriting decisions are usually made on the clients' industry and claims history. Portuguese insurers have limited capacity for these lines of business so larger risks and financial institutions are often placed into overseas markets. Rates are expected to remain stable.

## Spain

**General Liability:** There is a significant number of insurers in the Spanish liability insurance market, each with capacities between EUR 10 million and EUR 100 million; in the aggregate this is significantly more than is required. Every insurer is striving to increase their market share, cutting rates in order to secure business. The significant rate reductions in the Spanish market have only been viable because claims ratios have been reasonable to date. The economic crisis, which has had a heavy impact in Spain, has resulted in companies striving for premium reductions wherever possible in an effort to cut costs. It is thought that rate reductions will continue to be achievable in 2011. New insurers are expected to join the market, and existing insurers will expand their risk appetite by industry sector/activity to diversify their book of business and increase premium volume in order to achieve budgets.

**Property:** As with the liability market, a significant number of Spanish property insurers, each with capacities between EUR 25 million and EUR 150 million, have created an excess of capacity in the local market. Every insurer is striving to increase their market share, cutting rates in order to secure business and achieve budgets. At the same time, clients are striving for premium reductions year-on-year in an effort to cut costs. 2011 is expected to be similar to 2010 in terms of rates and market conditions as insurers have even more aggressive growth targets this year.

**Motor:** There are a large number of insurers in the Spanish motor market (other than for buses where there is reduced capacity) causing intense competition between insurers and therefore rate reductions of 10% to 20% were possible in the third and fourth quarters. As commented in the previous EMEA Insurance Market Report, Mutua Madrileña (Globalis) has entered the fleet market offering prospects excellent terms in order to win business. Some of the larger insurers are starting to provide more conservative terms at renewal and therefore most clients should expect rates to stabilise in 2011.

**Medical Malpractice:** Medical malpractice rates usually follow the same trend as general liability rates although without such large discounts as the market is smaller. Medical malpractice for the public healthcare system (approximately EUR 35 million premium) is almost exclusively underwritten by one insurer; other insurers are attempting to break into the market but aren't prepared to offer the discounts, terms and conditions required to do so given the risk exposure and claims record. There are not expected to be any significant developments over the next quarter.

**Trade Credit:** The insurers and available capacity in the Spanish trade credit market have not changed in the last six months but the economic downturn has caused underwriters to be more conservative in their premium rates and policy conditions. Looking ahead, the market is expected to remain stable.

**Environmental:** New legislation has introduced legal liability for environmental risks in Spain and as a result a liable party is obliged to buy such cover (either through an insurance policy or a bank bond). Marsh Spain has had a large volume of enquiries for environmental insurance but the introductory date for compulsory cover has been postponed. Until then, few clients are expected to purchase it voluntarily unless they have significant exposure to environmental risks. The market dynamics are not expected to develop significantly over the course of 2011, other than the possibility of new insurers entering the market.

**FINPRO – D&O:** Rates for D&O cover in the Spanish market were generally stable in the second half of 2010, although small premium decreases were possible. There is intense competition for business between local D&O insurers but it has become very difficult to achieve further premium reductions, particularly for Middle Market business. Due to recent legislative changes regarding crime law, insurers are adapting coverage and developing new wordings. Slight rate reductions may still be possible over the next few months.

**FINPRO – PI:** PI rates have reduced by 10% on average in Spain. Intense competition between local insurers and high market capacity make it possible for companies to achieve rate reductions and cut costs as required during the ongoing economic downturn. Looking ahead, it is thought small rate reductions will still be possible over the next few months.

**FINPRO – Financial institutions:** The financial institutions market in Spain is generally stable although some small premium reductions have been achieved. Insurer competition and excess capacity are putting downward pressure on rates, counteracting any attempt by underwriters to increase rates and leading to mostly flat renewals.

## Turkey

**General Liability:** Rates in both general liability and employers' liability insurance stabilised over the second half of 2010. The market is competitive and there have been no major losses to date but discounts across the board are unlikely.

**Property:** The Turkish property market is very competitive; insurers are still trying to improve their portfolio and will offer up to 20% discount for well-managed risks. Looking ahead, underwriters are expected to review accounts on a case-by-case basis, reviewing the profitability of any given account.

**Motor:** Local clients have faced motor rate increases of 10% to 20% on average but the exact rate very much depends on the client's loss ratio. The priority of local motor insurers will almost certainly be to improve their profitability and therefore rates should continue to increase over the coming months.

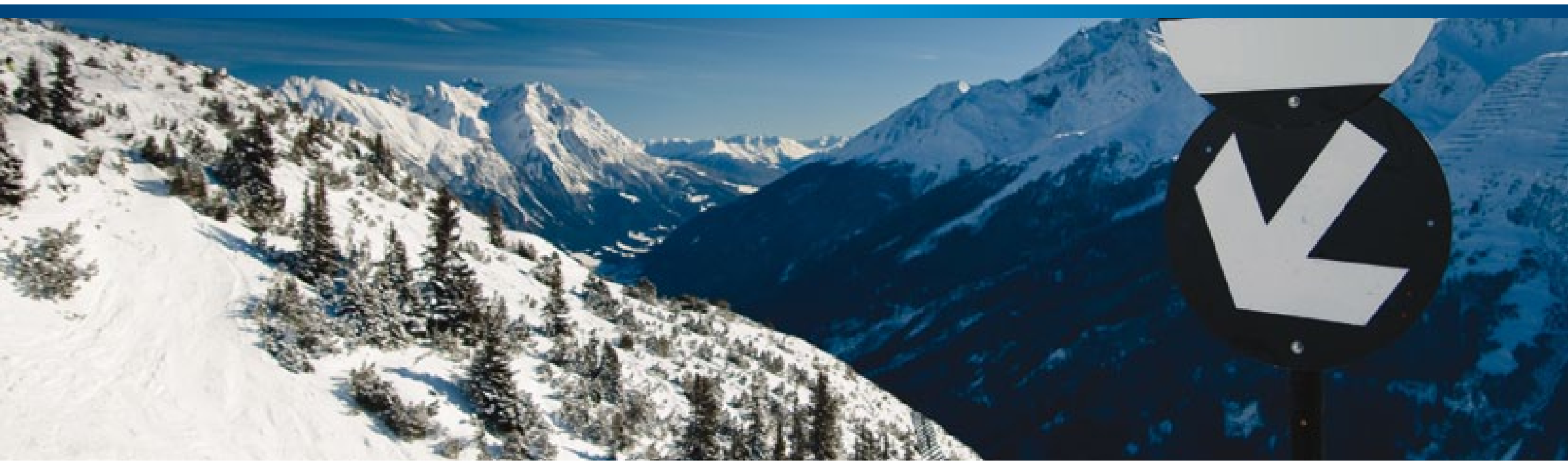
**Medical Malpractice**: Poor loss history in this line of business has not deterred insurers who have continued to offer some small rate reductions over the last few months. Having said that, the market is expected to harden, rates may increase and clients could have to raise their deductibles.

**Trade Credit:** There are signs of the local trade credit insurance market softening as underwriters are starting to offer improved credit limits and small rate reductions. This trend is expected to continue as local insurers try to increase their market share.

**FINPRO – D&O:** D&O rates are declining slightly and better terms and conditions are often available to companies at renewal. Most insurers' loss ratios have not increased by any real margin, therefore rates are very low and coverage is wide.

**FINPRO – Financial Institutions:** Claims frequency and volume declined in 2010 versus 2009 and consequently rates stabilised or even reduced slightly. New financial institutions generally obtained good rates but there are still uninsured small to mid-sized banks in Turkey. PI is not widely purchased among the banks although this represents an opportunity to insurers who are beginning to introduce new and more complex security products.

# Country Focus
# Nordic Region



## Denmark

**Workers' Compensation:** In general, clients have not had an increase in their workers' compensation insurance, other than individual clients with poor claims statistics. Due to a recent High Court ruling there may be a change in the way premiums are calculated but otherwise the above trend is expected to continue.

**Property:** The property market remains soft in Denmark. A small number of insurers have been able to increase premiums within the SME segment but overall it has been difficult for insurers to execute rate increases in the soft market. This trend is expected to continue over the next six months.

**Trade Credit:** The trade credit market leader in Denmark has begun to focus on top line premium growth and is offering small rate reductions in order to execute this strategy. It is thought that most companies will be able to secure small premium discounts at renewal.

**FINPRO – D&O:** Increased competition, particularly from US-domiciled insurers, has meant small rate reductions have been obtained for local D&O clients. Further reductions may be possible over the coming months leading eventually to market stability.

**FINPRO – PI:** There were usually minor rate increases for PI clients in the latter half of 2010, although it was still possible to obtain small decreases occasionally due to new insurers in the market. Looking ahead, it is thought that lawyers, accountants and patent agents will face premium increases.

**FINPRO – Financial Institutions:** Financial institutions were hit with large increases in their insurance premiums in 2008 and 2009, but now rates are getting softer as more insurers return to the market, bringing capacity and a desire to rebuild their portfolio. The market is expected to be stable.

## Finland

**General Liability:** Insurers are attempting to raise liability rates in the Finnish market but usually clients have been able to obtain renewal rates as per their expiring policy. Underwriting is conducted on a case-by-case basis where the client's loss history determines the premium level.

**Property:** New insurers entered the local property market, bringing increased capacity and therefore competition for business so small rate reductions have been possible in the last six months. Insurers generally have good loss ratios on their property portfolios so the market is expected to remain soft.

**Motor:** Competition between motor insurers has caused small rate reductions in the local market, despite a fairly poor loss ratio on this business. New portfolio solutions are also available to clients. Rates are expected to stabilise over the coming months.

**Trade Credit:** The Finnish market has become more competitive and small rate reductions could be obtained over the last six months. It is still difficult to secure the required credit limits for certain areas such as the Baltic States. Looking ahead, this market trend is expected to be ongoing.

**Environmental:** There is increased demand for environmental insurance. Good prices, terms and conditions are available to clients and this is expected to continue for the foreseeable future.

**FINPRO – D&O:** Competition and new portfolio solutions are creating small discounts for Finnish D&O clients. Some reductions may still be available to clients at next renewal.

## Norway

**General Liability:** Liability rates, including workers' compensation, declined by 10% to 20% on average in the last six months of 2010. Looking ahead, the market remains soft and small discounts may still be available for the more profitable accounts but overall liability rates should be stable.

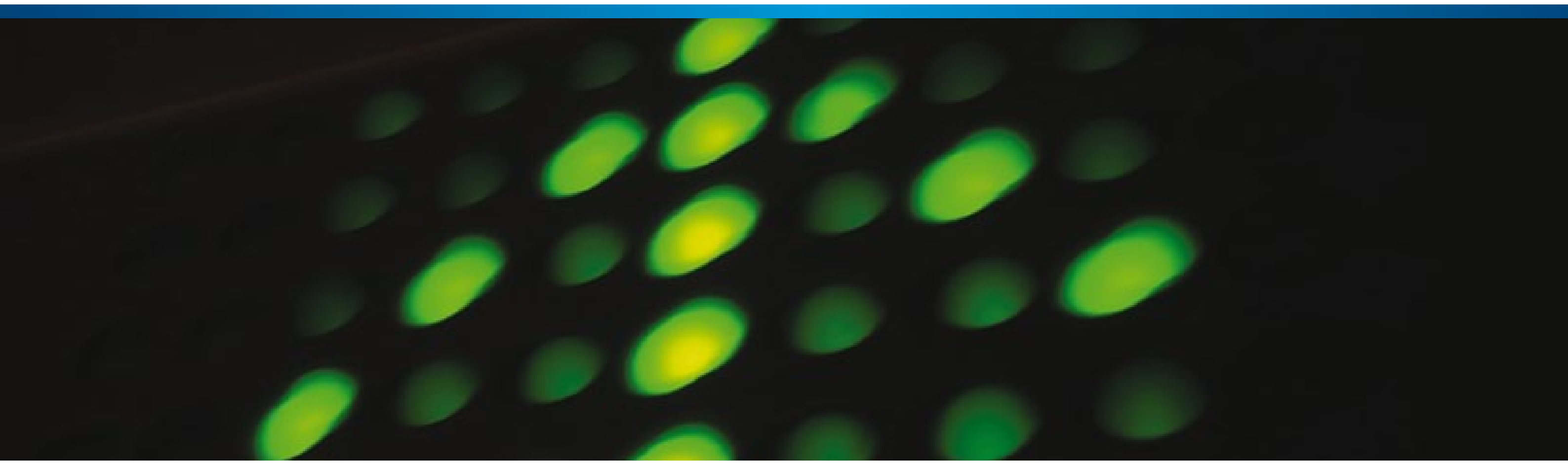
**Medical Malpractice:** New insurers entering the local medical malpractice market have increased competition for business as they try to build their portfolio. As a result 20% to 30% rate reductions were achieved on average at last renewal.

**FINPRO – D&O:** Claims frequency and claims volumes have been very low on D&O business in Norway. As a result, insurers' portfolios are profitable and they have been able to offer 10% to 20% rate reductions in order to retain business.

**FINPRO – PI:** Heavy competition between local PI underwriters means clients were able to secure discounts of 10% to 20% in the latter part of 2010.

## Country Focus

# Central & Eastern Europe (CEE) and Commonwealth of Independent States (CIS)



## Bulgaria

**General Liability:** As of 1 January 2011, 2% insurance premium tax (IPT) was introduced on all non-life insurance lines of business other than goods in transit. Whilst rates were mostly stable in the second half of 2010, they are now expected to increase marginally.

**Property:** Small premium discounts were available to clients purchasing property insurance in quarters three and four. The market remains soft but, given the introduction of the IPT, further rate reductions are unlikely. There may even be small increases for some clients.

**Medical Malpractice:** As medical malpractice is a small market in Bulgaria, the average rate is easily influenced by the largest accounts. Insurers who are conservative in their underwriting approach applied small rate increases in the second half of 2010. Regulatory changes are expected in 2011 but it is not yet clear how this will impact the market.

**Trade Credit:** Underwriters applied small rate increases for trade credit clients in 2010. Since then, more markets have developed a willingness to write this business but it is not clear if this will result in premium discounts, given the introduction of 2% IPT.

**FINPRO – D&O:** There is little demand for D&O cover amongst Bulgarian clients so premium reductions of 10% to 20% were possible for the small number of existing accounts.

## Czech Republic

**General Liability:** Most clients saw small rate reductions on their property insurance in the second semester of 2010. The market is generally stable but marginal discounts are still possible when accounts are tendered.

**Motor:** Motor third party liability insurance rates in the Czech Republic increased by up to 10% in the second half of 2010. Fully comprehensive (Casco) insurance rates are generally stable due to the competitive rating environment in the Czech market. Further growth of rates is expected, especially in fleet business.

**Medical Malpractice:** Local medical malpractice insurers are very conservative in the scope of cover and indemnity limits that they are willing to provide. As a result of limited capacity, coinsurance is common. Any upward pressure on rates from increased claims frequency has been counteracted by competition between local insurers so the market has remained generally stable. Looking ahead, it is thought rates may increase marginally.

**Trade Credit:** The global financial downturn generated increased demand for trade credit insurance but the increased number and size of claims meant insurers were increasingly reluctant to provide cover and it became very expensive for companies, depending on their industry and structure. The forthcoming months are expected to bring about a correction to the market rates seen during the last 12 to 18 months as economic growth resumes. The future of this segment very much depends on the rate of economic recovery.

**FINPRO – D&O:** Intense competition between the three main local D&O markets has contributed to rate reductions of 20% to 30% over the last six months. However, premium rates have now started to stabilise.

**FINPRO – PI:** PI cover is available for those professions who are obliged to purchase it under Czech law and rates have usually renewed as per the expiring policy. Local insurers have an appetite to provide PI cover for other professions but demand is low.

**FINPRO – FI:** Most financial institutions in the Czech Republic are domiciled in other countries and therefore have insurance arrangements under a global programme. It remains difficult to secure cover locally for special products like PI and BBB for Czech financial institutions.

## Latvia

**Workers' Compensation:** Workers' compensation premium levels are already low in Latvia and there have been no significant claims, so rates are fairly stable. There have been a small number of cases where the State has exercised its subrogation right to recover medical expenses costs from a liable employer and therefore it is possible that rates may begin to increase.

**Property:** Premiums are thought to have reached the lowest possible level and although rates have been generally stable, no further discounts are anticipated.

**Motor:** Small rate reductions were still possible for a few clients in the second half of 2010 but some insurers have already communicated their intention to increase rates in 2011 due to poor loss ratios on their portfolios.

**FINPRO – D&O:** Some well-managed accounts with no loss history have sometimes been able to renew their policies at the expiring rate, however, there have been a few very large D&O claims in Latvia which has led insurers to increase premiums by as much as 50% in an effort to remain profitable.

## Poland

**Workers' Compensation:** Rates remained mostly stable over the last six months of 2010 although clients in the construction industry faced some premium increases. Construction clients also have to manage with lower sums insured.

**Property:** Property premiums increased by 10% to 20% on average at last renewal. Clients with high exposure to flood risk and certain industries (energy, oil, petrol, power, mining, etc.) faced larger rate increases. Some operations are also difficult to secure cover for (paper, wood, wax, plastic, meat processing, chemical plants). Looking ahead, premium rates are expected to continue to rise.

**Motor:** Increases in the costs of repair and rehabilitation have led to rate increases of 20% to 30% in the Polish motor market. The limits of liability for third party risks have also been increased. In addition, flood risks have contributed to claims inflation, pushing up insurers' loss ratios. As a result of these pressures and VAT increases, rates are likely to continue to rise.

**Medical Malpractice:** There were marginal rate increases for medical malpractice clients in Poland last year. Reform for the public healthcare system is expected to place increased importance on insurance solutions.

**Trade Credit:** Like other countries, Poland's trade credit insurers have offered rate reductions of as much as 30% over the last six months as the market becomes more profitable for them and they compete to win new business. Looking ahead, further premium discounts are likely and insurers are expected to offer increasingly better limits on cover.

**FINPRO – D&O:** There is strong competition between D&O insurers in Poland but rates are perceived to be at an extremely low level so it would be difficult to obtain further decreases. Having said, that there are no market factors pushing rates up so they should remain generally stable.

**FINPRO – PI:** The PI market in Poland remains stable as there is limited appetite for PI insurance. There are not expected to be any major changes to the current market trend in the near future.

**FINPRO – Financial institutions:** There is still some uncertainty in respect of the economic environment and as a result there is a limited market for financial institutions risks in Poland. It can be difficult to find an alternative to expiring terms for these risks.

## Romania

**General Liability:** The commercial discounts offered in the first half of 2010 have continued over the second half of the year. One insurer in particular has been increasingly aggressive in trying to win business and is offering slightly better terms and conditions. No significant market developments are foreseen for the beginning of 2011.

**Property:** Despite the fact that most insurers are claiming that market rates are already too low, discounts of 10% to 20% are still being obtained. Clients are more price-driven than ever which creates even more competition between insurers and brokers. Given the immense pressure on clients to cut costs, it is very likely that the rates will continue to fall.

**Motor:** Following constant pressure from clients to cut costs, third party liability rates have declined by an average of 15% to 20%, depending on the vehicle category. One of the key insurers has even reduced premiums by 25% to 35% as their rates were previously higher than most. At the same time, indemnity limits have continually improved. For motor own damage premium rates have decreased by approximately 10% on average. It is likely that fierce market competition will lead to further discounts over the next quarter.

**Medical Malpractice:** Rates in the medical malpractice market increased slightly in the last six months of 2010, largely as a result of one particular insurer increasing rates significantly. Most clients' premiums are already quite low, so it is possible that insurers will try to push rates up at next renewal.

**FINPRO – D&O:** Rates in the wider D&O market have remained stable over the last six months. Marsh is implementing a D&O facility with effect from February 2011, so small rate reductions will be possible for these clients.

Country Focus

# Middle East

## Oman

**General Liability:** There have been few claims in the local liability market and therefore there is an ongoing soft market. New markets have not been overly aggressive in trying to win liability business and given the low premium base, it is unlikely that further reductions will be achievable.

**Workers' Compensation:** This is already a very competitive market in Oman and rates are generally stable. Claims on individual accounts almost always generate premium adjustments for that client.

**Property:** Oman has recently seen a string of natural disasters which has halted any trend of rate reductions across the board, but property insurers are still prepared to offer discounts on well-managed, profitable risks. With 21 insurers in this small market, there is intense competition between underwriters, driving rates down further. Beachside properties are particularly difficult to obtain the required cover for with the desired rates and deductibles. The above trend is expected to continue over the next quarter.

**Motor:** The motor market stabilised over the second half of 2010 following poor results for many previously aggressive insurers. Looking ahead, it is thought that the stable market will continue.

**FINPRO – D&O:** The benign D&O market in Oman has led to small rate reductions for these clients. Underwriters are expected to offer further rate reductions for some clients.

## Qatar

**General Liability:** Small liability rate reductions were possible in Qatar in the last six months of 2010. New insurers and brokers in the liability market are making the rating environment more competitive as they try to retain and grow the business.

**Workers' Compensation:** Claims frequency and volume have generated a stable market for workers' compensation insurance in Qatar.

**Property:** New market entrants, both insurers and brokers, have created a competitive rating environment as they try to build their market share. It is likely that small premium reductions will continue to be achievable over the next few months.

**Motor:** Motor rates tend to be fairly stable as insurers follow specific underwriting guidelines. Looking ahead, there are not expected to be any significant market developments and premiums should remain fairly stable.

**FINPRO – D&O:** D&O is becoming a more sought after class of insurance in the Middle East region and the market remains very competitive. Average rate reductions of 10% to 20% were obtained for clients in the second half of 2010. The market is expected to continue to be competitive as more companies request this cover.

**FINPRO – PI:** Competition between regional insurers has led to PI insurance discounts of 10% to 20% on average. Large outsourced projects are obliged to purchase PI insurance and demand for this product will continue to rise as Qatar develops its infrastructure going forward.

**FINPRO – Financial institutions:** In Qatar there is a growing demand for BBB products and risk advisory services. The market remains competitive as a result of this growth and therefore small premium reductions can often be secured for clients.

## United Arab Emirates (UAE)

**Motor:** Reduced activity in the economic downturn has led to a reduction in claims and improved loss ratios for local insurers. Stiff competition in the local motor insurance market is contributing to small rate reductions for most clients. Looking ahead, this trend is expected to continue.

**Trade Credit:** On average, 5% to 10% rate reductions were possible for trade credit insurance in the UAE. One insurer that previous stopped writing this business has now re-entered the market, competing for business to rebuild its market share. No significant developments are expected in the local market over the next quarter.

**FINPRO – D&O:** Rates declined by approximately 10% in the latter part of 2010, but insurers sometimes offered higher premium reductions for the larger clients.

**FINPRO – PI:** The PI market has been generally stable in the UAE, despite new claims. There have been a few enquiries for this type of cover but these requests rarely materialise, despite the capacity that is available.

**FINPRO – Financial Institutions:** Despite the financial institution losses reported by some of the global insurers, they continue to offer competitive capacity while indigenous insurers tend to reinsure through Lloyd's and other London/German markets keeping rates stable. The above trend is expected to continue over the next quarter.

# Country Focus
# Africa

## Nigeria

**General Liability:** Increased stability in the Niger Delta is being reinforced by the introduction of the amnesty programme and therefore new businesses are establishing themselves in the region, increasing the size of the liability market. As a result premiums have increased by 20% to 30%.

**Workers' Compensation:** There is an increasing awareness amongst employees and employers of the benefits of employers' liability and workers' compensation insurance. Increased demand has generated premium increases of 20% to 30%. The Government and National Insurance Commission (NAICOM) are enforcing this class of insurance, introducing a penalty for not having the required cover. The market is expected to continue to grow.

**Property:** Property insurance requirements are now being enforced by NAICOM and as a result premiums have increased slightly. It is thought the market will continue to grow.

**Motor:** Required third party motor insurance is being enforced by NAICOM. Increasing awareness of the benefits of motor insurance, particularly given the influx of vintage cars, has created premium increases of 20% to 30%.

**FINPRO – PI:** Local businesses have an improved awareness of professionals' exposures in providing information and advice to clients and its potential impact on the client's business. Consumers are also very aware of their rights so insurance penetration has increased significantly.

**FINPRO – Financial Institutions:** Banks are now protecting themselves against cyber fraud and loss of money in transit in Nigeria. The difficult economic environment has driven internet bank fraud, causing further demand for cover.

## South Africa

**General Liability**: Under prevailing economic conditions, rates and premiums for liability insurance have remained stable. It remains to be seen whether the implementation of the Consumer Protection Act in April 2011 will have any impact on liability premiums and cover. It is anticipated that, given the keen competition in the market, insurers will not increase premiums or restrict cover until the effect on claims is known.

**Workers' Compensation:** In South Africa, employees are precluded by law from suing their employer for work-related injury or disease. In lieu of this, employees are entitled to claim from the state run Compensation for Occupational Injuries and Diseases fund. There are not expected to be any significant market developments in the near future.

**Property:** There has been downward pressure on property rates due to healthy underwriting margins and additional capacity entering the market. Following poor underwriting results in 2009 all insurers have focused on carrying out surveys of all premises and following up on risk control recommendations and this appears to have borne fruit in terms of improving the loss ratio. Given the excellent underwriting result in 2010, and additional reinsurance capacity at reduced terms for 2011, it is anticipated that the market will remain soft. The floods in Queensland have, however, been given prominence in the media and will focus insurers' minds on the natural catastrophe exposures they face. As a result of the anticipated accumulation of losses it is thought there will be a review of the wording for contingent business interruption extensions in 2011.

**Motor:** Motor rates continue to spiral upwards, mainly as result of accidents rather than deterioration in theft losses. The construction phase of the Gauteng Freeway Improvement Project, badly potholed roads due to heavy rains and faulty traffic lights are the main contributors. The completion of the Gauteng Freeway Improvement Project, a soon to be announced private public partnership between a major insurance company and the Government to repair potholed roads, and the implementation of a drivers licence points demerit system will hopefully put a halt to the deteriorating trend in the medium term.

**Trade Credit:** Competition has returned to the trade credit market which has led to rates stabilising rather than increasing as before. The extent of cover that clients can obtain has improved although demand for the cover has not strengthened as expected. Looking ahead, it is thought rate reductions will be achievable.

**FINPRO – D&O:** Competition between D&O insurers is at an all time high resulting in at least one established insurer in this class declining to quote on financial institutions D&O until the market recovers. It is anticipated that, with the implementation of the new Companies Act in April 2011, demand for D&O insurance will intensify. The signs are that the market is almost at the bottom of the cycle and rates are likely to stabilise in 2011.

**FINPRO – PI:** The PI market is extremely soft due to intense competition backed by aggressive reinsurer support as well as new entrants endeavouring to generate market share. Few large claims have been reported; those that have are related to misappropriation of fund assets. The current declining trend is expected to continue in the absence of large losses.

**FINPRO – Financial Institutions:** The local market remains soft since South African financial institutions were not directly affected by the global credit crisis of 2008-2009. The larger profitable risks have seen rate reductions of 10% as a result of strong competition. Insurers are offering more capacity at the same terms in order to maintain premium levels. The first half of 2011 is not expected to be any different to the last six months of 2010.

# Employee Benefits


## Trends and Developments

The employee benefits industry has experienced an increase in shared responsibility for benefits between the employer and employee. Healthcare issues are high on companies' agendas as costs continue to increase. While medical trend factors used to price healthcare vary by country, the trend is advancing everywhere, and the global recession has heightened the focus on cost control measures.

- The economic downturn has intensified employers' focus on maximising their employee benefits spend and minimising expenses. Employers are searching for a strategy to help better manage costs and control plan design. Employers increasingly rely on their insurance brokers to administer employee benefits plans thereby reducing their human resources and administrative expenses.
- Regulatory changes are dramatically altering the healthcare marketplace. Mandatory healthcare plans are being implemented in several countries in the Middle East; an unexpected result from this mandatory medical coverage is increasing demand for other healthcare benefits. Employer-sponsored benefits plans are increasingly filling the gaps in national social security programmes.
- Wellness and prevention programmes are increasingly popular. Solutions are tailored for local customs and cultural differences. Wellness programmes motivate employees to take responsibility for their own health, resulting in increased productivity and reduced healthcare costs in the long run.

## Trends and Developments

As companies come out of the recession, employers will need to again be concerned about talent retention and employee loyalty. Product-based solutions can assist companies to reduce the strain on their human resources administration, improve employee satisfaction and productivity, and rebuild employee loyalty.

- Expense control will remain a key focus for employers, increasing demand for even more techniques to improve benefits plan options while enriching workforce loyalty.

- Heightened focus on benefit communication strategies is likely. Benefits plans with effective and relevant communications strategies will become a larger focus for employers.
- Increased demand for web enabled IT applications to allow employers better access to their employee benefits data and to expedite connectivity to insurers, providers and consultants.

Employers are searching for more control over plan design and compliance and have a heightened focus on cost control options. Innovative employee benefits solutions that are more flexible and responsive are more likely in the future to meet the needs of employers and their employees.

# Aviation

### Airlines

With 31 major renewals in July, the second busiest month of the year, it was going to set the trend for the rest of the year. Underwriters continued to seek to maintain premium levels, although overcapacity created competition and meant that this was not always achieved. August and September saw little renewal activity and market conditions remained static. It became clear during October that airlines renewing following a loss were being targeted for significant rate and premium increases, while the rest were still enjoying a competitive marketplace.

November and December have traditionally seen the greatest number of renewals take place. This remained true for 2010 with over 90 renewals taking place. The break-up of the Gulf Cooperation Council placement into 14 separate programmes resulted in increased competition between underwriters looking to participate on the more “desirable” risks. December with over USD 900 million of premium income renewing saw rates fall where underwriters could offset this against exposure growth to maintain premium levels.

So while the market is by no means a “soft” market, premium levels for 2010 remained static as a whole, with underwriters targeting airlines with losses for big premium increases, but struggling to maintain premium levels due to the overcapacity prevalent in the marketplace.

### Airline Losses

The third and fourth quarters saw a spate of expensive hull losses including a UPS B747-400 and the Qantas A380 incident, which without the excellence of the crew could have been a major disaster. There were also three losses that involved significant loss of life. As a result of these losses and the reserve for the hangar fire in Riyadh being set, over USD 1 billion of losses were added to the annual total.

### Manufacturers

The market continued in the same vein as the previous six months during the third and fourth quarters of 2010. Modest premium reductions were available for clean “benign” renewals. The level of reduction increased as the limits of liability reduced and available capacity increased. Renewals presenting new losses or deterioration in losses on old years were subject to premium increases.

### Airports and Air Traffic Control (ATC)

Competition intensified in this class with premium reductions growing especially on clean renewals with smaller limits. The ATC portion of the book saw new entities buying insurance for the first time, either due to privatisation or the decision by governments that pricing levels were right to buy.

### Ground Service Providers

This book continued to be priced according to each client's burning cost. Clients with good loss records saw increased competition and enjoyed small premium reductions; others saw their premium increase as a reflection of their loss record.

### Refuellers

Competition seemed to increase for this book with most renewals achieving sizeable premium reductions. The use of self-insured retentions is common within this book, especially on the more exposed risks, meaning that losses are few and underwriters increasingly find this book an attractive source of premium income.

### Conclusion

Overcapacity is driving the entire aviation portfolio, and while the airline portfolio will more than likely produce a loss in 2010, other areas remain profitable, although losses on the aerospace book develop much later. So while premium levels remain fairly high, capacity will continue to be attracted to this class of insurance and "soft" market conditions will remain unless a major market loss or two occurs in 2011.

# Energy

## Trends and Developments

The key trends include:

- Continued increase in downstream capacity
- Stable capacity, but at an all time high, in other segments
- Concerns over liability capacity and pricing in the future
- Expectation of a return to strong investments in the sector and thus many more construction projects flowing through to provide some growth to the energy insurance sectors

Overall, the insurance capital committed to the energy industry remains strong and in over supply. This simple fact is expected to drive trends in the coming months and year.

The insurance markets for energy are extremely global in nature. For a comprehensive global view of the energy insurance industry, please refer to Marsh's quarterly *Energy Market Monitor*, which can be accessed by visiting http://global.marsh.com/industry/energy/energyMarket or by emailing energypractice@marsh.com

# Marine

## Trends and Developments

Abundant capacity for all but the least attractive marine risks has created a buyers' market where insurers are tempted to trade underwriting profit for market share. Despite the difficult operating environment, there was no shortage of new capacity attracted to the sector in 2010. The slowdown in world trade affected all sectors of marine insurance, but brought with it a general reduction in claims numbers.

**Piracy:** Piracy of ships, cargoes and crews continued throughout 2010, with Somali pirates widening their reach deep into the Indian Ocean. Average duration of hijack by Somali pirates is now four months before ships are released, and average ransoms paid is understood to have reached USD 4 million, about double the amount of 12 months previously. Increasingly, where flag state regulations allow, ship owners are employing armed security firms to accompany their ships. Despite fears of escalated violence, this has proved an effective deterrent.

**Iran Sanctions:** The Comprehensive Iran Sanctions, Accountability and Divestment Act was enabled in the United States in July 2010. Together with similar legislation in the European Union and elsewhere, the Act imposes restrictive economic barriers against trading with some parties in Iran and heavy penalties against those continuing to trade with them. Understandably, the insurance industry has scrambled to distance itself from involvement in such activity.

## Market Conditions

### Blue Water Hull and Machinery

The market climate has been driven by new underwriting capacity and by a relatively benign claims environment throughout 2010. This is attributable to the downturn in shipping activity and the fall in the price of steel helping to reduce claims costs. Well-managed fleets with good claims records are benefiting from market softness, and there is aggressive competition for attractive new business. Underwriters are prepared to take a long-term view if they believe their relationship with the client is sufficiently strong. Barring a surge of large losses in early 2011, we expect the current soft market conditions to continue well into 2011.

Hull and Machinery – Typical rate changes at renewal based on 'excellent', 'good' or 'poor' loss ratio (2010)

| Marketplace | Excellent | Good | Poor |
|---|---|---|---|
| London | 5% decrease to 10% decrease | Flat to 5% decrease | 10% + increase |
| Scandinavia | Flat to 5% decrease | Flat | 15% + increase |
| Continental Europe | Flat to 7.5% decrease | Flat to 2.5% decrease | 10% + increase |
| Asia | Flat to 5% decrease | Flat | 10% + increase |
| North America | 5% decrease to 10% decrease | Flat to 5% decrease | 10% + increase |

*Rate changes indicated are only a guide. Actual performance depends on the merits of each submission*

### Marine Builders Risk

The decline in new building contracts has meant little activity in the builders risk market. The first new orders are being placed with shipyards, particularly in the Far East, and will translate into new business, but not until late 2011. Rating levels have stabilised and only yards with poor loss records have experienced stiffer rates and restrictive insuring conditions. Although many underwriters consider the risk underpriced, there is a growing trend for rates to drift downward where yards demonstrate best management practices and produce profitable underwriting results.

### Protection and Indemnity (P&I)

Lower claims costs from the highs of 2006 and 2007 and improved investment returns since the economic slump started in 2008 have enabled all the P&I clubs to rebuild reserves, with A-rated clubs generally recovering quickest. The clubs continue to compete aggressively for new tonnage, both new buildings and modern second-hand acquisitions. In contrast, premium for ships already entered in a club is largely determined by the practice of imposing a general increase at renewal and by the obstacles that prevent immediate cost savings by moving to a new club.

### Marine Liabilities

In general terms marine liability claims experience throughout 2010 was relatively good with an absence of major losses. However, many insurers combine marine and offshore energy liability in the same underwriting portfolio and the Deepwater Horizon loss in the Gulf of Mexico in April 2010 will have had a serious adverse affect on many insurers' results. The casualty has highlighted the risk of an insurer facing the same claim from a variety of sources. This has led to underwriters becoming increasingly diligent about the possibility of aggregation and reducing their participation where the exposure appears unacceptable. Nevertheless, marine liability continues to be a well-regarded class of business and a number of new entrants have been attracted to the sector in 2010.

### Cargo

Cargo volumes, which had fallen following the global economic crisis, continued at a low level during the first half of 2010, but had begun to recover by year end. During the period there was further expansion of capacity for cargo and stock throughput insurance programmes with new capacity emerging in London, the United States and Asia, and with some more recent market entrants becoming more comfortable extending increased capacity as their books of business matured. The combination of plentiful capacity and focus on market share fuelled the continuation of the soft market conditions experienced over recent years. Many marine insurers were willing to write larger lines, while generally quoting reduced rates, leading to a buyers' market for cargo and stock throughput insurance.

Marine Cargo – Typical rate change at renewal (average/good risk profile), (2010)

| Coverage | Segment | Rate Change Q4 2010 | Rate Change Q4 2009 |
|---|---|---|---|
| Marine Cargo | Midsize Organisations | 5% decrease to 15% decrease | 5% decrease to 25% decrease |
| | Large Organisations | 5% decrease to 20% decrease | 5% decrease to 20% decrease |
| Cargo Stock Throughput | Midsize Organisations | 5% decrease to 20% decrease | 5% decrease to 25% decrease |
| | Large Organisations | Flat to 15% decrease | Flat to 20% decrease |

*Rate changes indicated are only a guide. Actual performance depends on the merits of each submission*

## Looking Ahead

Without a market-changing event, it is likely that buyers of marine insurance will benefit from continued softness throughout 2011. By virtue of their ability to impose a general increase, the P&I clubs will increase premium at the traditional 20 February renewal date. But even here none of the general increases exceed 5% (except for the Japan Club at 10%). Indeed, four clubs have advised they will not apply a general increase in 2011 and one, Skuld, has announced it has dispensed with the practice. Instead it will price future renewals on claims record and risk factors alone.

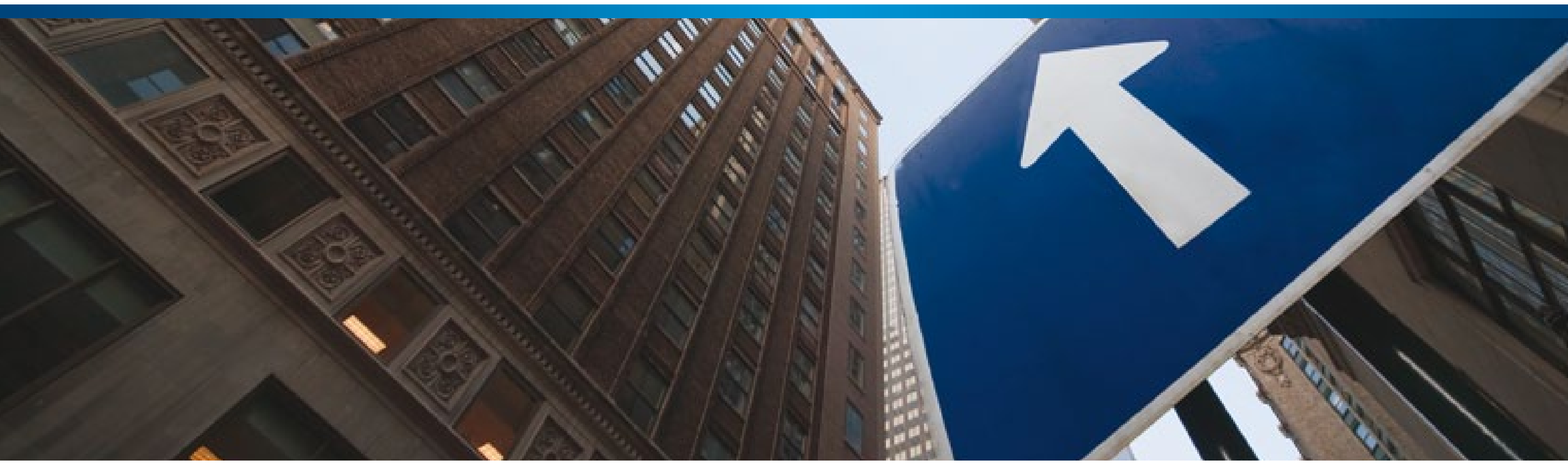
One medium-term area of concern for hull underwriters is the number of ships currently not trading. Any upturn in world trade in 2011 will see ships that are currently laid up returning to service. Experience indicates that claims increase when ships return to employment after an extended period lying idle.

Shipping volumes and commodity prices, and consequently the insurable exposures of many cargo companies began to increase in 2010. This is expected to continue to build in 2011. While it is anticipated that companies can look forward to reductions in cargo rates in 2011, it is unlikely to be of the same magnitude as experienced in 2010 and 2009.

In an attempt to maximise the probability of achieving underwriting profit, insurers are increasingly attempting to identify the business that is least likely to attract claims. Clients that are able to demonstrate to prospective underwriters that they are following best management practices typically will be rewarded with wider coverage conditions, lower cost, and the greatest choice of quality insurer security.

The global marketplace for most forms of marine insurance generally will continue to facilitate competition in 2011, bringing opportunities that can be used to a buyer's advantage.

# Reinsurance Provided by Marsh's sister company, Guy Carpenter



## Trends and Developments

Early predictions that 1 January 2011 reinsurance renewal rates were likely to fall have been proven correct. The Guy Carpenter Global Property Catastrophe Rate on Line (ROL) Index lost 7.5% – the second consecutive annual decline. Contributing to this move has been a combination of factors, including moderate loss activity and abundant levels of industry surplus. The decline in rates takes place following a year that began with significant catastrophe activity. Losses in the first half of the year were well above average and included Windstorm Xynthia, the Deepwater Horizon oil rig loss and the Chile earthquake. However, despite the New Zealand earthquake in the second half, the year finished with relatively low insured catastrophe losses – owing in large part to an unexpectedly low-loss hurricane season. Subdued losses, combined with unrealised investment gains, led to record levels of capital, which in turn drove reinsurance pricing lower at the renewal. Structures have not changed significantly; cedents are buying similar amounts of cover to last year, with purchasing appetite helped by attractive pricing.
The macroeconomic and reinsurance pricing environments remain stubborn, but there may be early signs of catalysts for a firming market.

Guy Carpenter estimates dedicated reinsurance sector capital to be USD 19 billion (11%) in excess of historical levels, given risks currently assumed. Cash flow and reserve trends bear watching, as they historically have served as precursors to hardening markets. Our Global Business Intelligence analysis points to marginally negative underwriting cash flow for the US property and casualty sector while reserve releases continue unabated. We question how much longer favourable development can be expected to prop up calendar year results.

The Lloyd's market started 2010 with record high capacity, driven partly by new entrants and by the impact of foreign exchange, principally between the US dollar and the British pound. With capacity at over GBP23 billion and the market gradually softening, the challenge was to maintain underwriting discipline and focus on risk management. Throughout 2010, the market has also endured depressed investment returns, and despite major loss activity, softening primary and reinsurance pricing across the majority of business lines, a situation which continues into 2011. Nevertheless, Guy Carpenter expects that the full year 2010 results for the Lloyd's market will remain positive, with a combined ratio of 95% or better.

Since 2005, a notable shift in reinsurers' domiciles has taken place. Europe's transition towards risk-based capital requirements has prompted global regulators to call for some level of equivalence in key markets. This has, in turn, prompted insurers to reassess corporate structures, with a particular eye to the location of group balance sheets. Bermuda was long the preferred location for fresh capital entering the reinsurance industry due to its speedy regulatory approval process combined with its favourable tax system and geographical proximity to the United States. But the industry has seen an increasing number of insurers and reinsurers moving back to Europe, attracted by the relative ease of obtaining work permits, accommodation and education in the region.

Ireland is especially attractive because of its low corporate tax rate (of 12.5%) combined with EU membership, which provides cheaper access to all EU countries under the EU reinsurance directive. Switzerland is also in close proximity to the EU and has been confirmed by CEIOPS[6] as a candidate for first-wave assessment to obtain Solvency II equivalence approval.

## Looking Ahead

While the direction of the reinsurance industry in 2011 is uncertain, it is very clear that regulatory issues will be high on the agenda of virtually every participant. At the top of the list is Solvency II, which is set to be implemented in 2013. We note that Solvency II is not only a change in risk management practices but also in management information systems – with a substantial burden resulting from documentation, transparency and disclosure requirements. As a result, the resource costs associated with Solvency II's implementation are putting significant pressure on companies at a time when market conditions and underwriting results are less than optimal.

Other issues we expect to loom large among reinsurers and the insurance industry in the year ahead include a potentially busy hurricane season and a continued focus on developing and obtaining terrorism risk transfer mechanisms. With regard to hurricane risk, Colorado State University is calling for an above-average hurricane season for the sixth year in a row with 17 named storms, nine hurricanes and five major hurricanes predicted.

Lloyd's market capacity for 2011 is expected to be broadly flat compared to 2010, as some syndicates lower capacity and others increase or enter the market. Operating margins will be squeezed in 2011, although the overall market profitability will remain driven by the catastrophe losses which may or may not be incurred.

In all, we expect 2011 to be a challenging year both in terms of the underwriting environment and underlying macroeconomic issues. However, it is also likely to be a year of opportunity, particularly if we see catalysts emerge that begin to change market fundamentals. In any case, firms armed with the best insight, tools and analysis will be those most prepared to position themselves for the inevitable changes to come.

To request the full Guy Carpenter Reinsurance Outlook publication, *Points of Inflection: Positioning for Change in a Challenging Market*, December 2010, contact Guy Carpenter.

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6 Committee of European Insurance and Occupational Pensions Supervisors

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