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The Casualty Market: A Broker's Perspective of the Market

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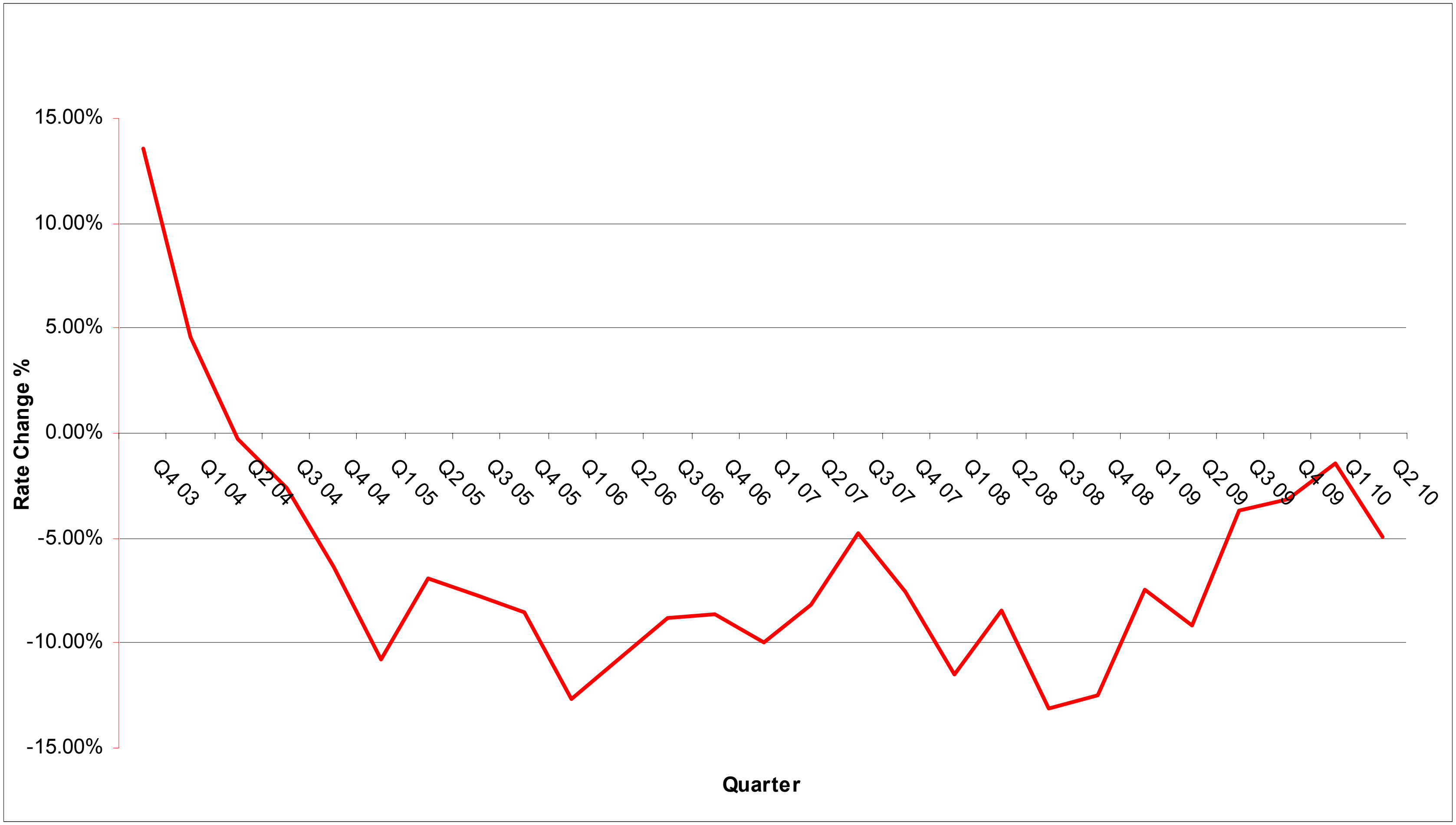
Content

Global P&C Market Overview
Sept 2010

- Competition remains strong for well managed risks with good loss experience
- Reinsurance rates for most lines of business decreased 1/1/2010
- 2009 & 2010(ytd) North Atlantic storm activity was well below forecasts
- Insurer capital positions are higher than pre credit crunch.

- 2010 natural perils related activity started badly with Chile & Haiti quakes & Windstorm Xynthiia
- Low investment income
- Underwriting results bolstered by reserve releases
- Commentators unclear on likely impact of Solvency II. Likely to result in increased capital demands.

Average Casualty Rate Change – 2003 to 2010

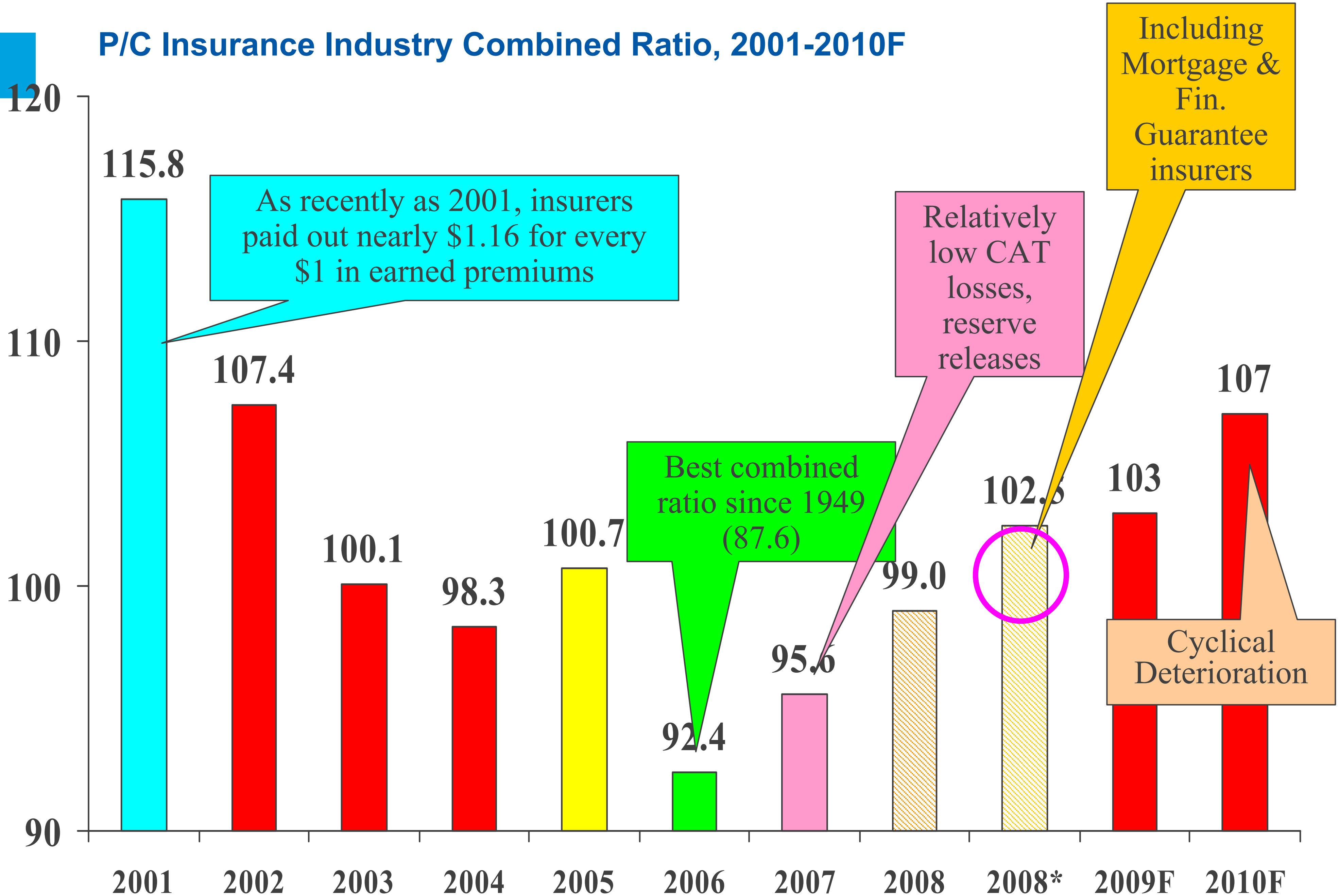


Source: Marsh UK - Risk Management Practice

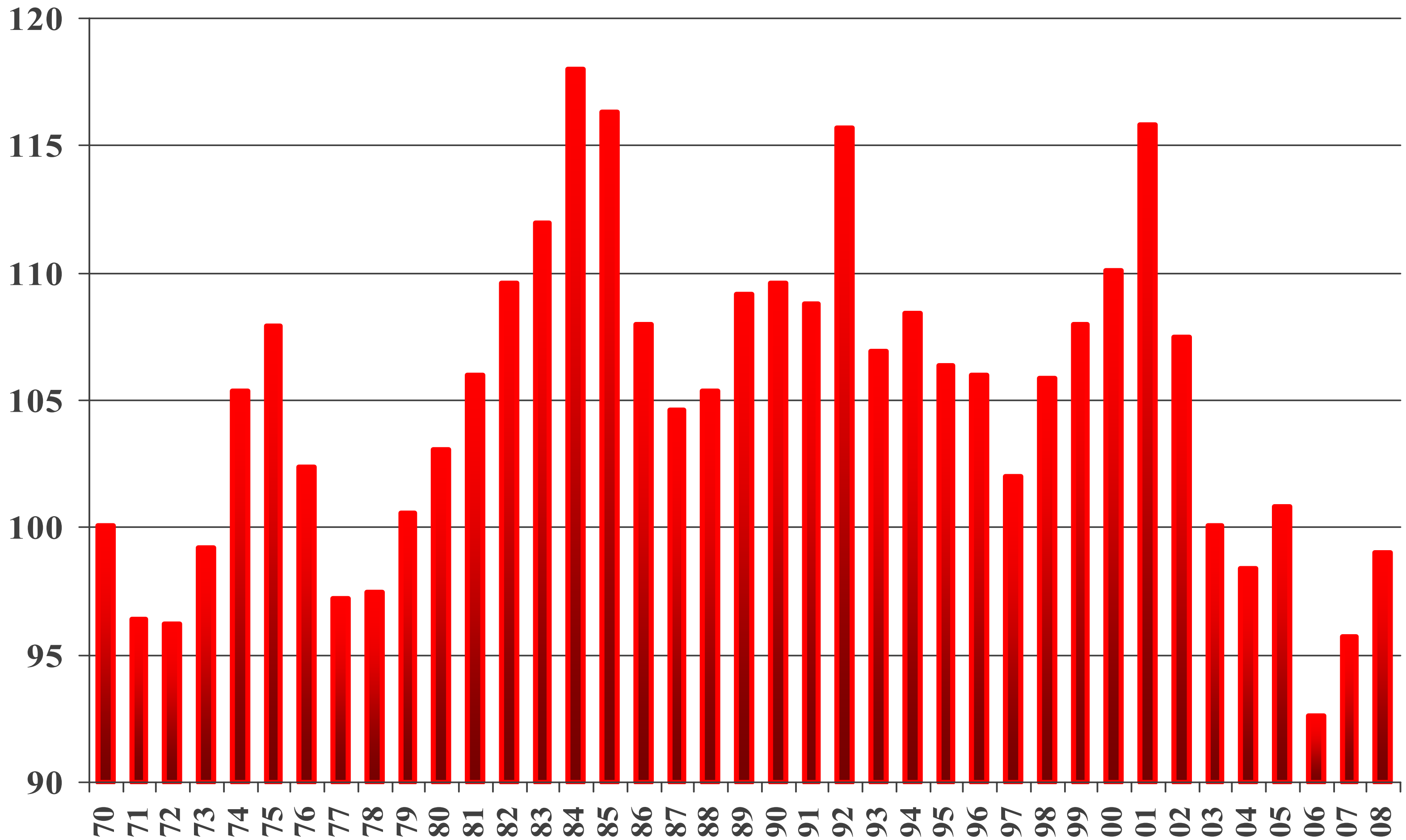
Global P&C Market Overview
Casualty – Sept 2010

- Strong competition
- Broadening of appetites, as opposed to new entrants
- Surplus capacity
- Reinsurance rates for 1/1/2010 – flat to -10%
- Large losses?
- Results since 2006 boosted by massive reserve releases
- Large loss costs rising at many multiples of RPI inflation
- Legal defence costs vs claimant's damages

P/C Insurance Industry Combined Ratio, 2001-2010F

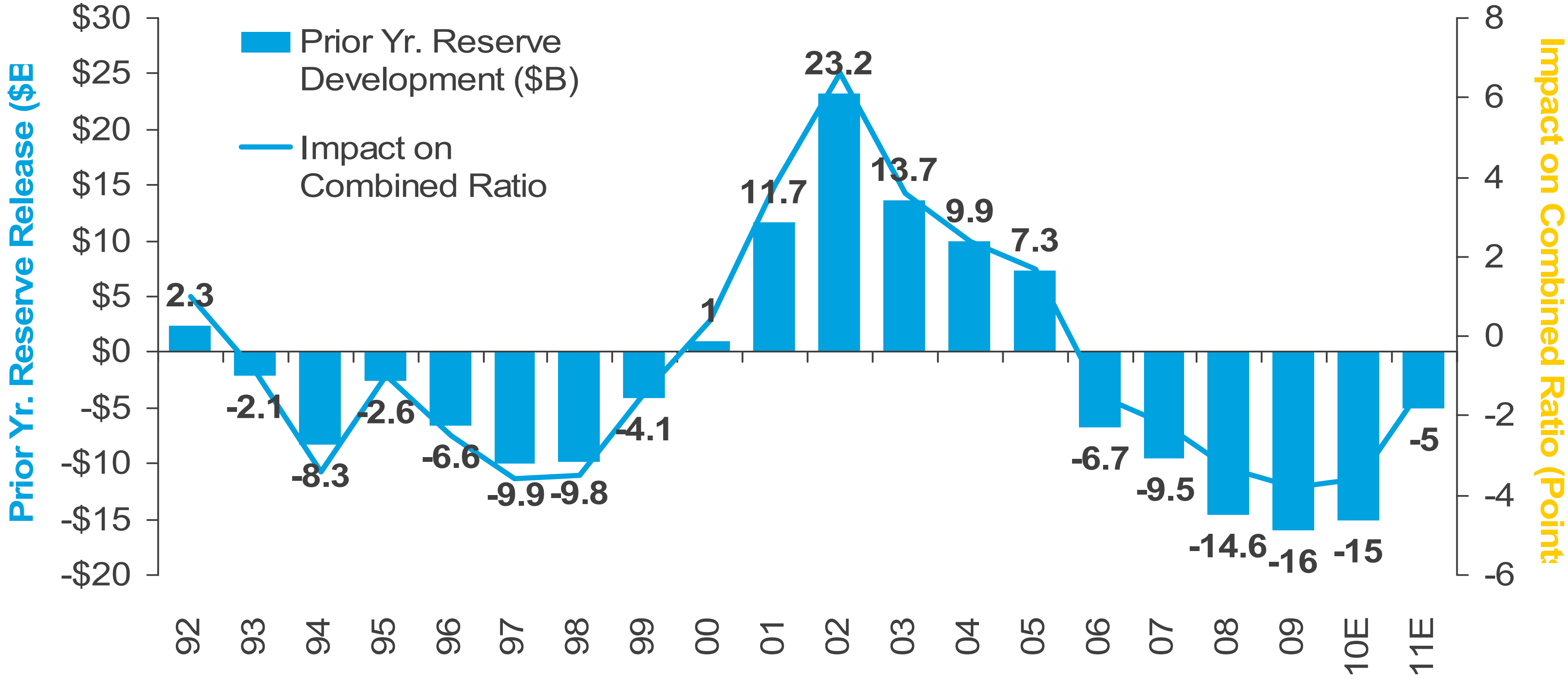


Property/Casualty Insurance Combined Ratio 1970 – 2008



Sources: A.M. Best; ISO, III

P/C Reserve Development, 1992–2011E



Reserve Releases are Expected to Taper Off in 2010 and Drop Significantly in 2011

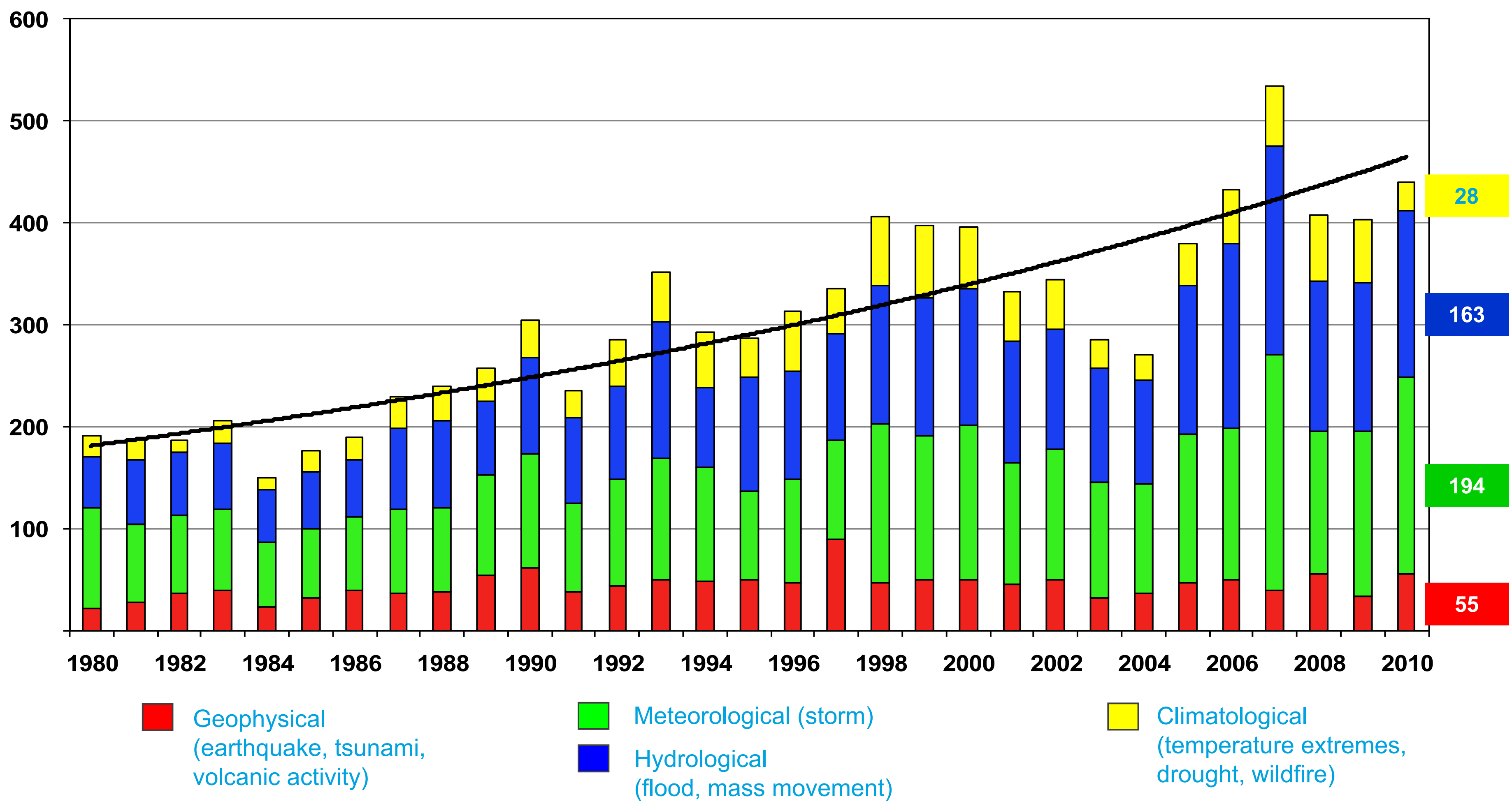
Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

CATASTROPHE LOSSES

- Whether Natural or Man Made, the long term trend for Cat Losses is rising – so why is the marketplace so competitive and why do rates continue to fall?

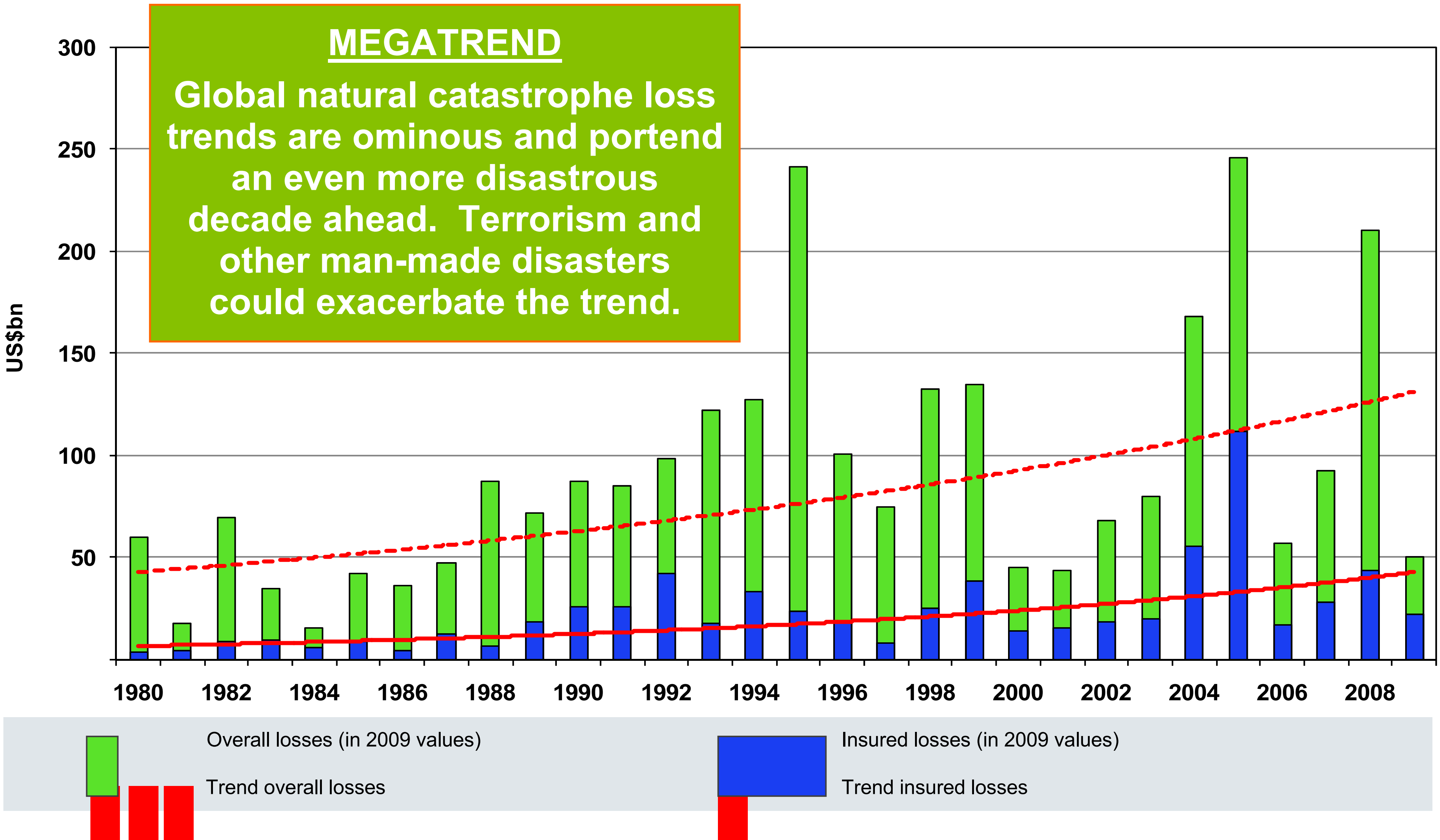
Worldwide Natural Disasters 1980 – 2010
Number of Events (January – June only)

Total Number of Events January - June 2010: **440**



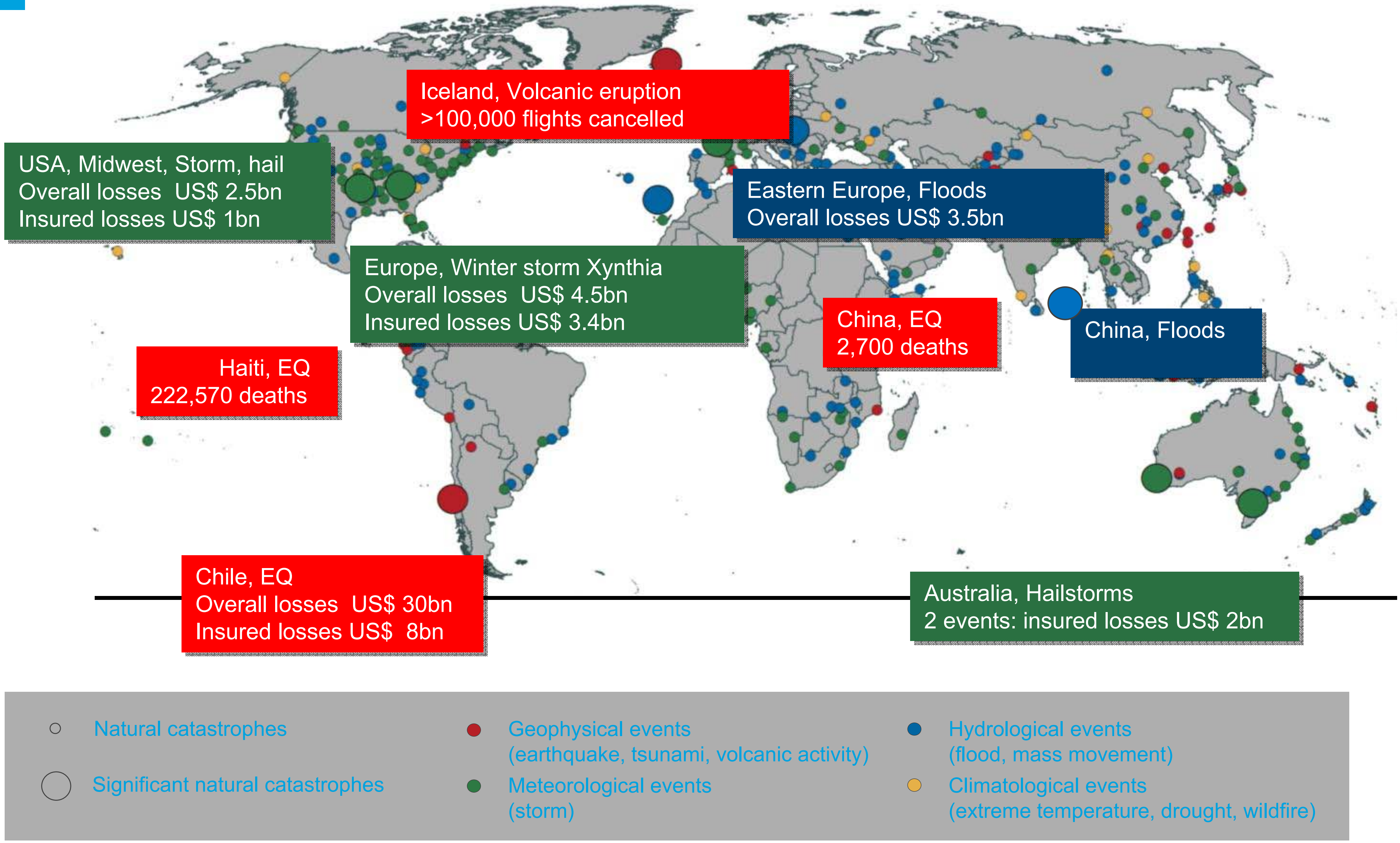
Global Natural Catastrophes 1980–2009

Overall and insured losses with trend



Worldwide Natural Disasters 2010

World map January – June



World Insured Catastrophe Losses, 2000-2009 (1) (2009 $ millions)

Year	Weather-related natural catastrophes	Earthquake/ tsunami	Man-made disasters	Total
2000	$10,414	$25	$5,384	$15,823
2001	12,675	782	30,742	44,200
2002	14,677	0	3,561	18,238
2003	18,833	508	3,174	22,515
2004	47,829	3,020	3,937	54,786
2005	110,882	257	6,039	117,178
2006	12,870	86	5,665	18,621
2007	23,687	504	5,889	30,081
2008	43,365	420	7,897	51,682
2009	21,746	609	3,915	26,270

(1) In order to maintain comparability of the data over the course of time, the minimum threshold for losses was adjusted annually to compensate for inflation in the United States. Adjusted to 2009 dollars by Swiss Re.

Source: Swiss Re, *sigma*, No. 1/2010.

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Deepwater Horizon

- This is the first Casualty related event since WTC in 2001 that has really got the attention of CEO/CFO's especially from a Products and Pollution perspective – why is this?

Deepwater Horizon Oil Rig Loss: Types of Coverage That Might Apply

- Business Interruption/Loss of Production Income
- Comprehensive General Liability
- Environmental/Pollution Liability
- Operators' Extra Expense (Control of Well)
- Physical Damage
- Workers compensation/employers liability

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Deepwater Horizon Loss: The Key Players and Insurance Coverage in Place

- **BP:** With a 65% interest in the Deepwater Horizon joint venture, BP says it is self-insured. BP's captive (Jupiter Insurance Ltd) has $6 billion in capital, but does not purchase outside reinsurance protection.

  BP Shipping purchases $1 billion of marine liability pollution insurance through mutual insurance associations (P&I clubs), but it is unclear if this coverage will respond.
- **Andarko Petroleum:** With a 25% interest in the Deepwater Horizon joint venture, Andarko Petroleum is believed to have a $100 million owner's extra expense policy (covers re-drilling, re-gaining control of well, etc).
- **Mitsui Oil Exploration:** With a 10% interest in the Deepwater Horizon joint venture, Mitsui is believed to have a $45 million owner's extra expense policy.
- **Transocean:** The drilling contractor is believed to have $560 million of physical damage insurance, which is highly syndicated. Insurers have already paid out over $400 million to-date under this coverage. In addition, Transocean carries some $950 million in third party liability insurance, of which $700 million excess of $50 million is thought to cover offshore risks.
- **Cameron:** The manufacturer of the blowout preventer that failed on the rig has a $500 million liability insurance policy.
- **Halliburton:** Service provider to Deepwater Horizon has liability insurance in excess of $1 billion.

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Insured Losses Significant, But Manageable

- **Insured Loss:**

- Companies with exposure to the Deepwater Horizon oil rig are insured for losses totaling $1.4 billion to $3.5 billion, according to initial reports.
- Litigation, D&O liability and workers comp losses may bring total insured loss to $4 billion to $6 billion, according to Towers Watson.
- The risks are well-syndicated, with the insured loss spread across a broad range of insurers and reinsurers on a global scale
- Since BP, which owns 65% of the Deepwater Horizon consortium self insures, a large portion of the losses ***will not*** hit the insurance industry.
- Lawsuits against equipment manufacturers, suppliers and sub-contractors, and business interruption claims, will likely increase total insured losses.

Source: Insurance Information Institute (I.I.I.); Towers Watson, 08/02/10; Bank of America Merrill Lynch research note 08/20/10; Barclays Capital research note 05/10/10; Credit Suisse research note 05/11/10

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Broker's Challenges

- Delivering for our clients
- Managing the market
- Process
- Growth
- Global regulatory compliance and tax
- Technical

Question to the audience

"Should we have a market standard UK Employers' Liability wording?"

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