

MARSH

5th September 2006

Market Drivers Casualty Risk Landscape Changing the Future

A Customer perspective

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Casualty Placement



Marsh & McLennan Companies

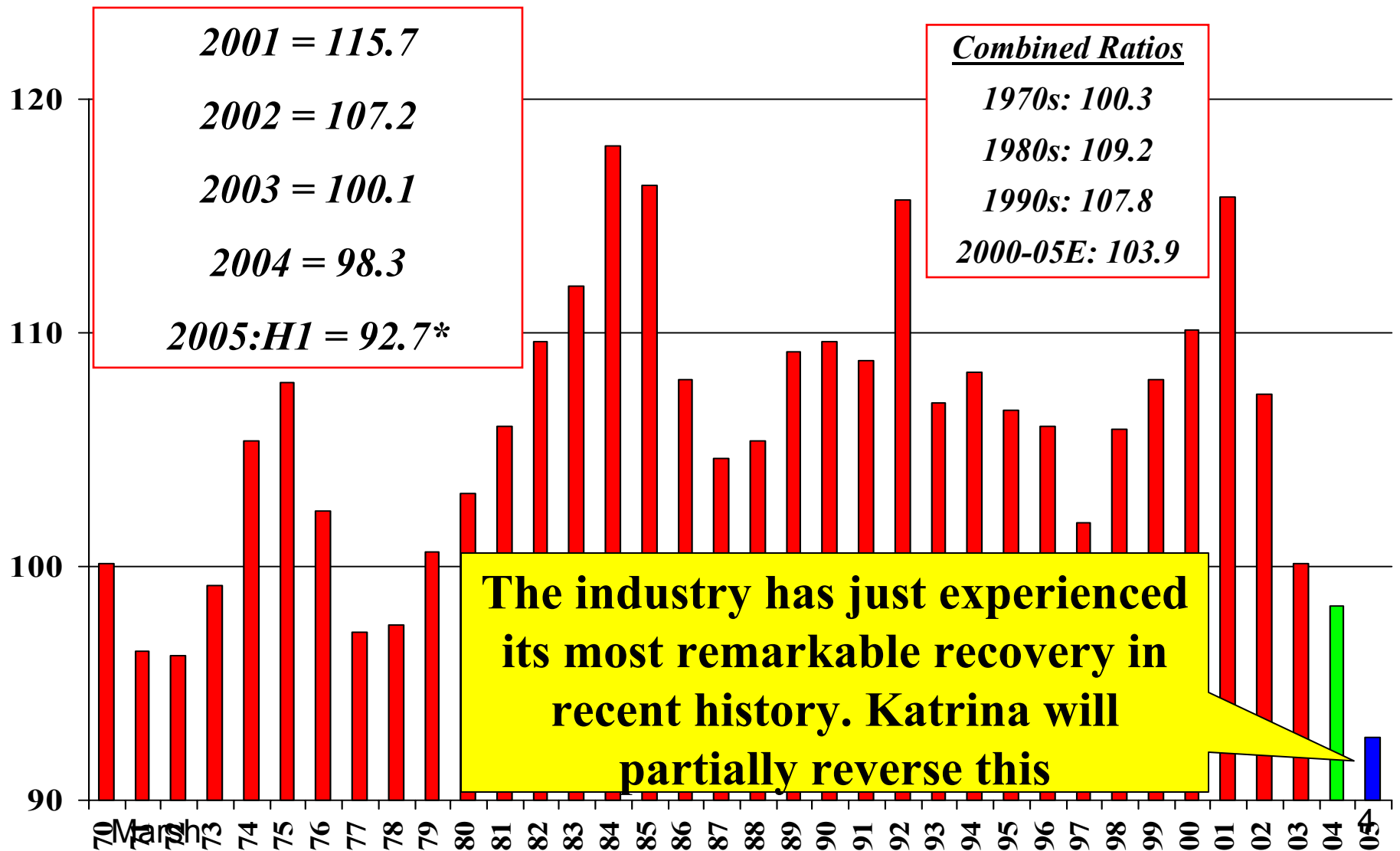


Market Drivers

GLOBAL P&C MARKET OVERVIEW

- Insurer profits for 2005 – “good” - despite \$80bn Hurricane season
- Market has surplus capital accumulation
- P&C Industry “return on equity” remains inadequate at circa 9%
- Comb ratios deteriorating but temporarily offset by Equity market recovery
- Competition pressures remain – focus on retention & top-line growth
- 2006 rating correction targeted at specific risk elements & sectors
- Fewer Accidents – More Disasters
- Insurers worried by “cat-risk” more than price/underwriting discipline
- Global & Regional divergence in insurer underwriting behaviour
- New Bermuda capacity mainly focused on Excess PD/BI (Nat Cat)

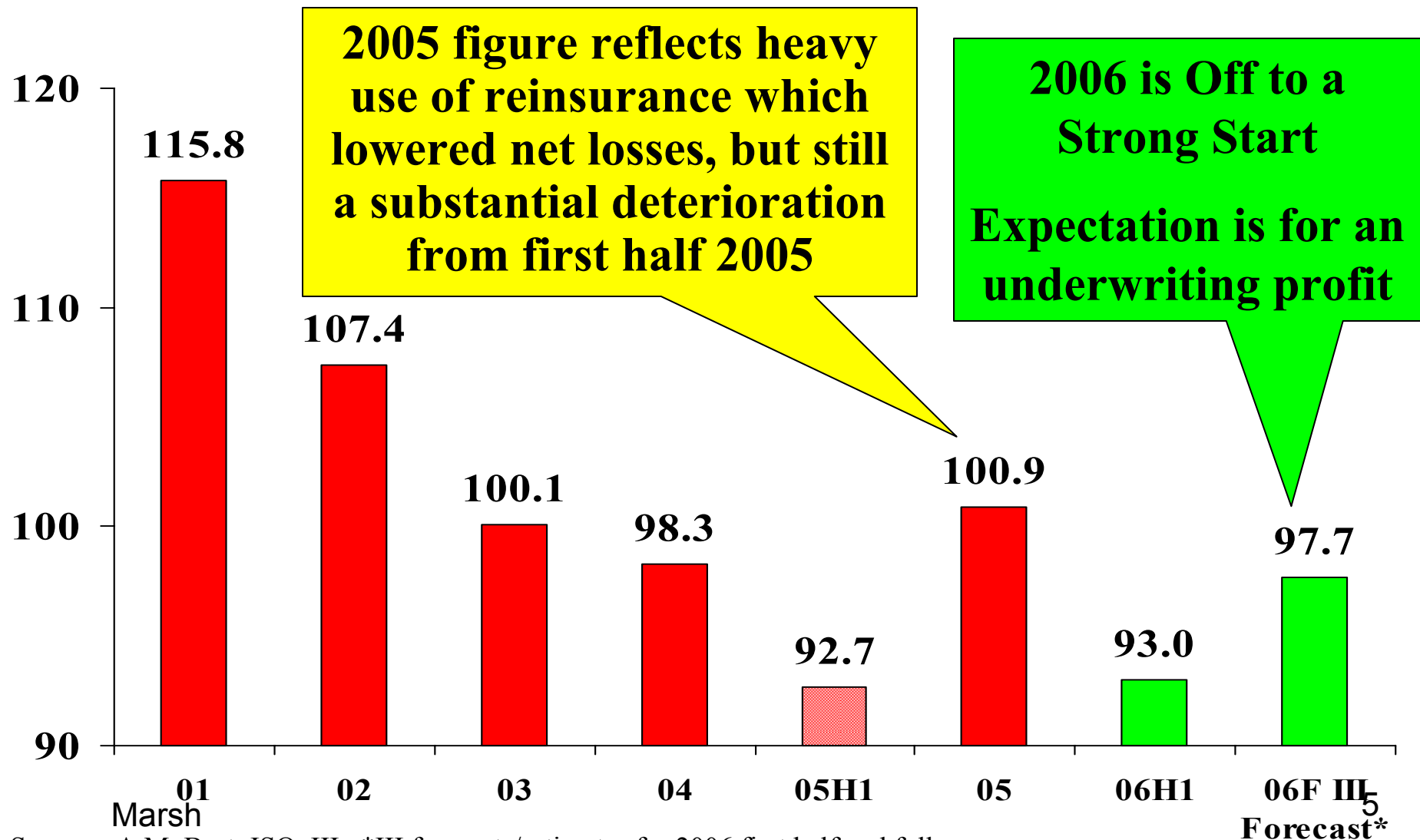
P/C Industry Combined Ratio*



Sources: A.M. Best; ISO, III.

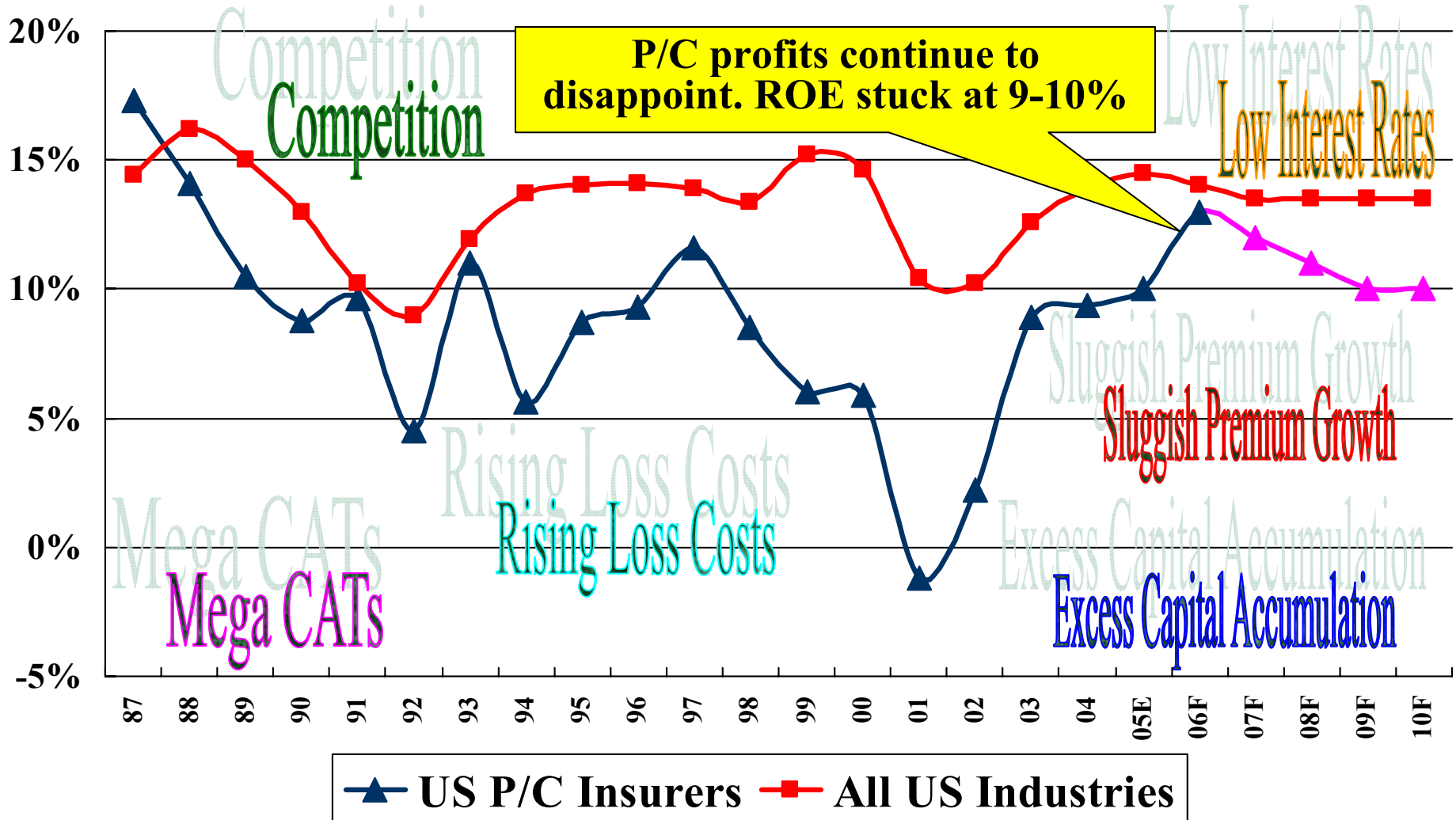
*2005 figure is though 6/30/05.

P/C Industry Combined Ratio



Sources: A.M. Best; ISO, III. *III forecasts/estimates for 2006 first half and full year.

ROE: P/C vs. All Industries 1987-2010F*

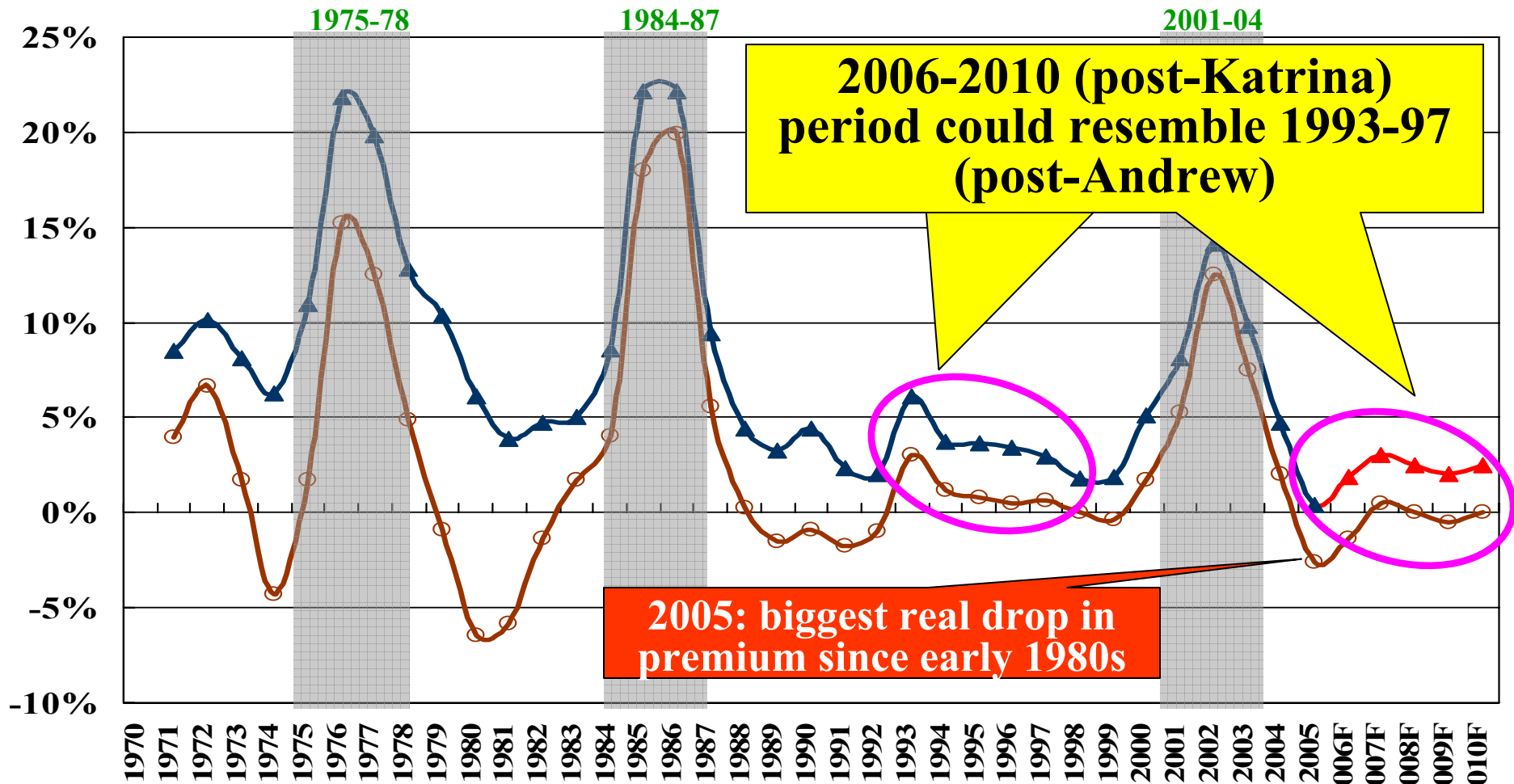


*GAAP ROE except 2005 P/C figure = return on average surplus. 2005E-10F are Ill estimates.
 Source: Insurance Information Institute; *Fortune* for all industry figures

Market Cycle - Drivers

- 1974 Oil Price & Inflation
- 1985 Capacity Crisis
- 1992 Natural Catastrophes & Terrorism losses
- 1996 Insurer Consolidation
- 2000 Equity Markets & Sustained losses
- 2007? Declining ratios & Shareholder pressure?

Strength of Recent Hard Markets by NWP Growth*



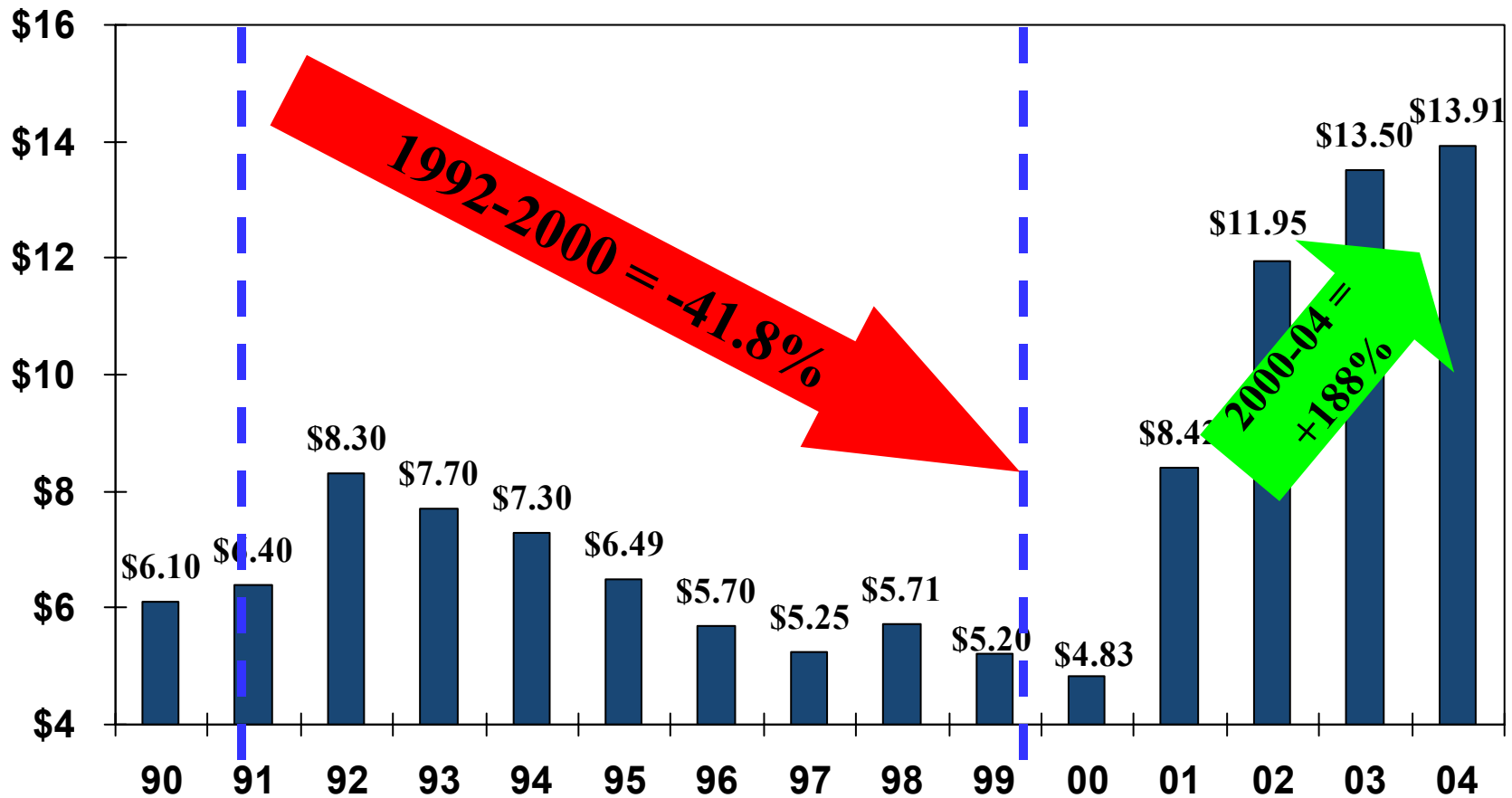
Note: Shaded areas denote hard market periods.
 Source: A.M. Best, Insurance Information Institute

*2006-10 figures are IIR forecasts/estimates. 2005 growth of 0.4% equates to 1.8% after adjustment for a special one-time transaction between one company and its foreign parent. 2006 figure of 1.9% is based on 2006:Q1 data.

Annualised Average Rate Change Risk Managed Portfolio

Year	Primary/Excess PD/BI	Primary EL	Primary PPL	Excess Liability
1999Base	0	0	0	0
2000	+15%	+10%	+10%	+10%
2001	+100%	+100%	+75%	+50%
2002	+25%	+35%	+35%	+25%
2003	-17%	+10%	+15%	+10%
2004	-20%	-9%	-7.5%	-5%
2005	-5%	-12%	-7%	-5%
2006E	-10%	-15%	-10%	-10%
2007E				

Cost of Risk: 1990-2004*

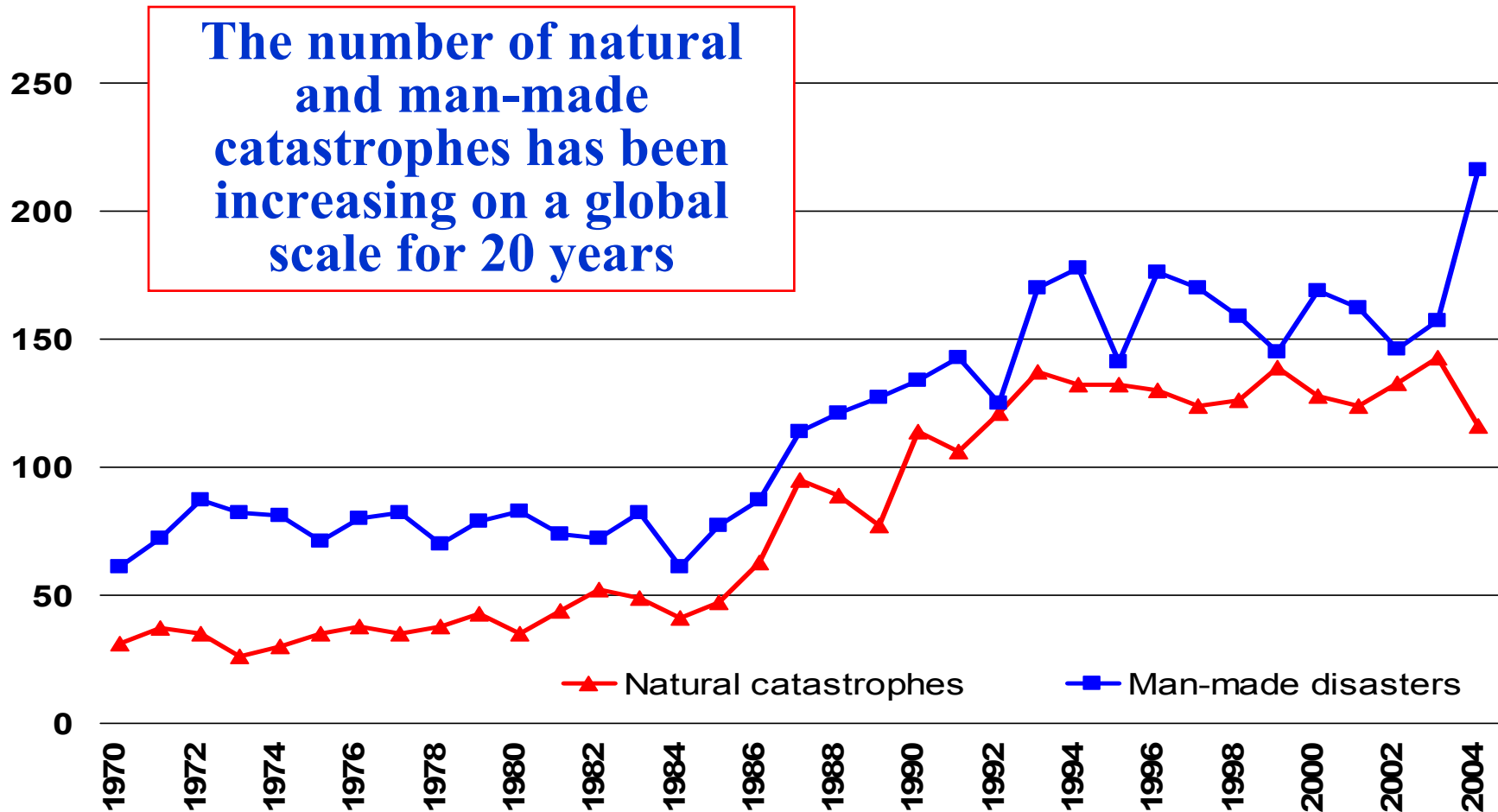


* Cost of risk includes insurance premiums, retained losses and administrative expenses

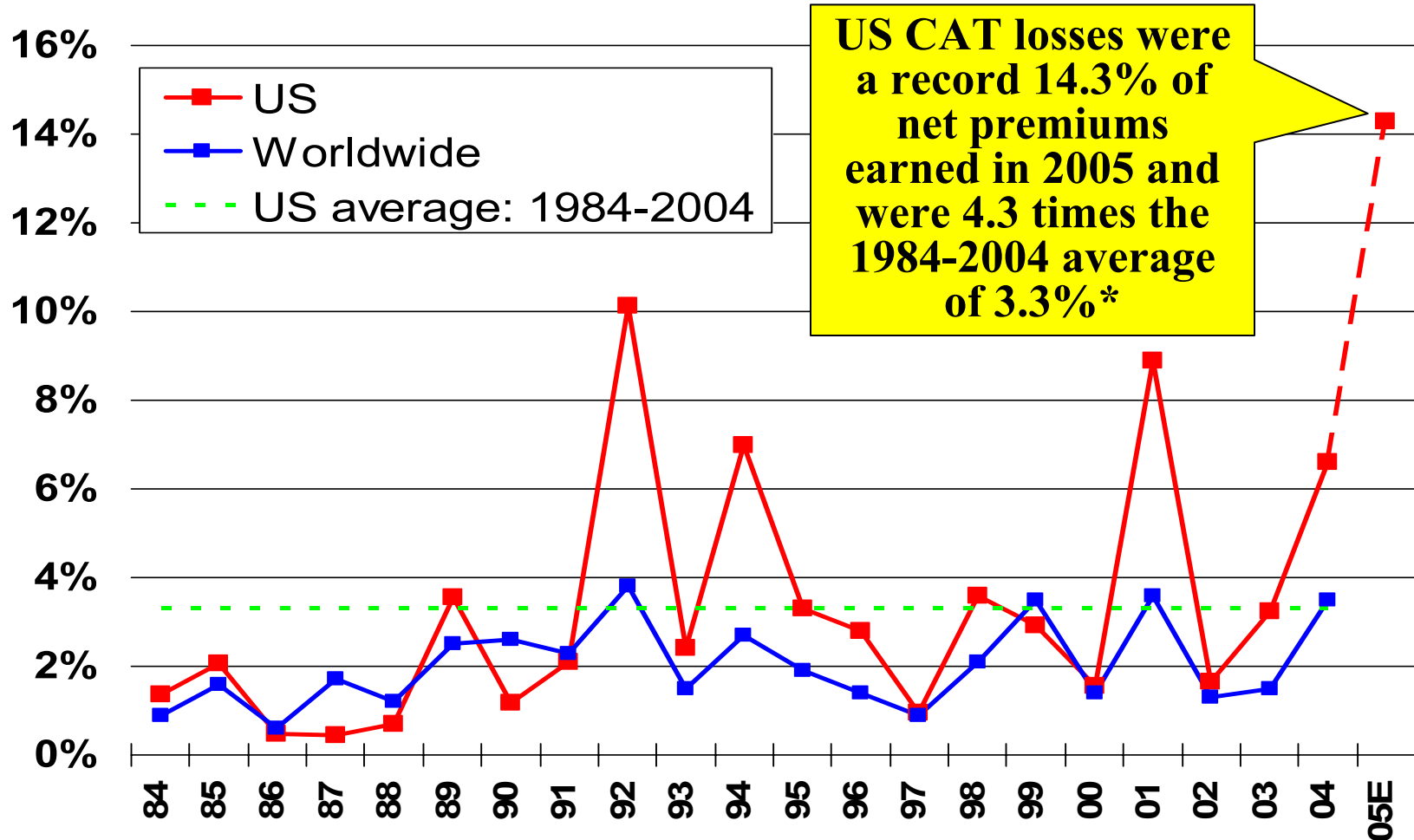
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Source: 2004 RIMS Benchmark Survey; Insurance Information Institute

Fewer Accidents - More Disasters

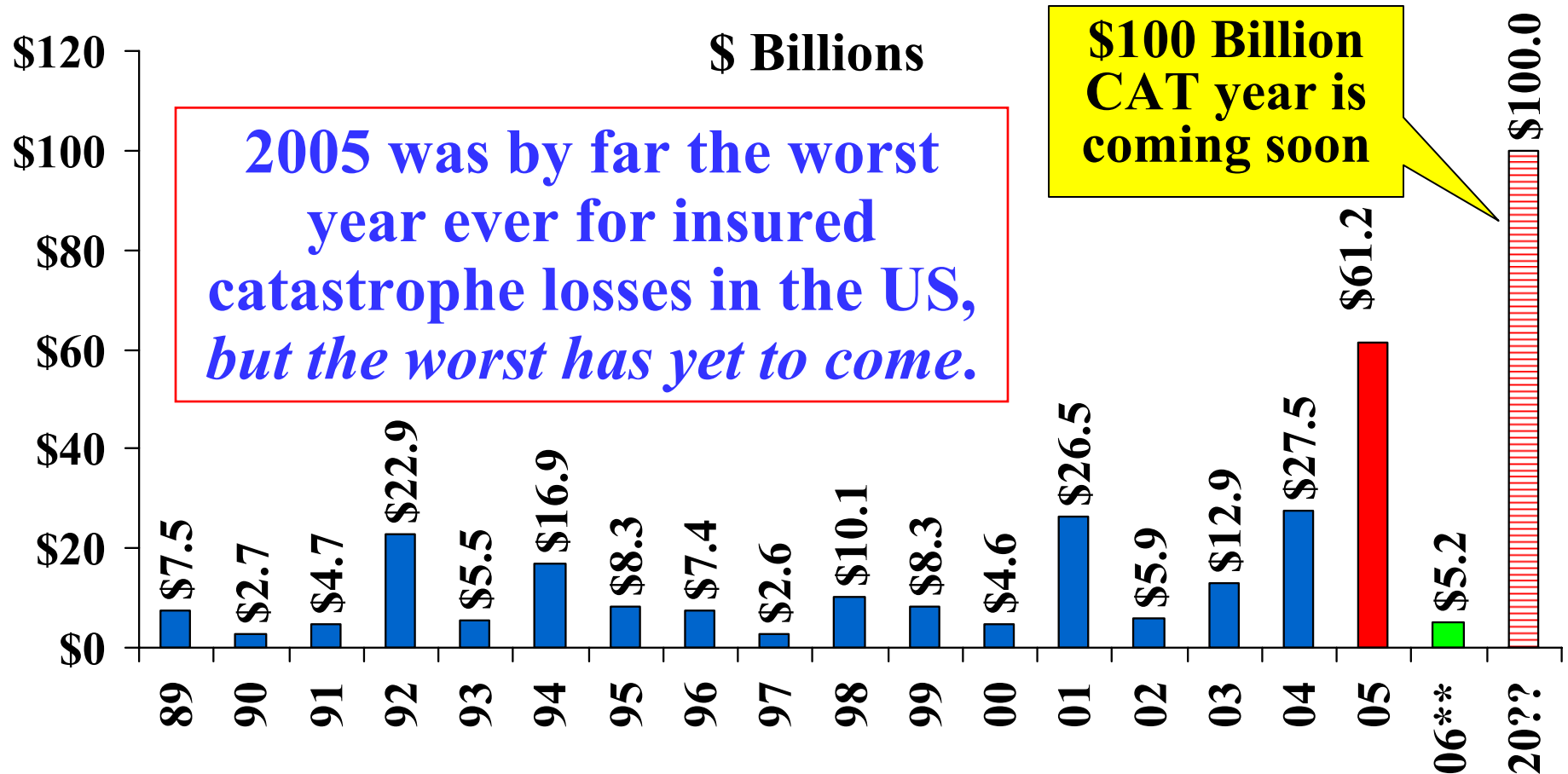


Insured Property Catastrophe Losses as % Net Premiums Earned, 1983-2005E



*Insurance Information Institute estimate of 14.3% for 2005 based estimated 2005 DPE of \$418.8B and estimated insured CAT losses of \$60B.
Sources: ISO, A.M. Best, Swiss Re Economic Research & Consulting; Insurance Information Institute.

U.S. Insured Catastrophe Losses (\$ Billions)*

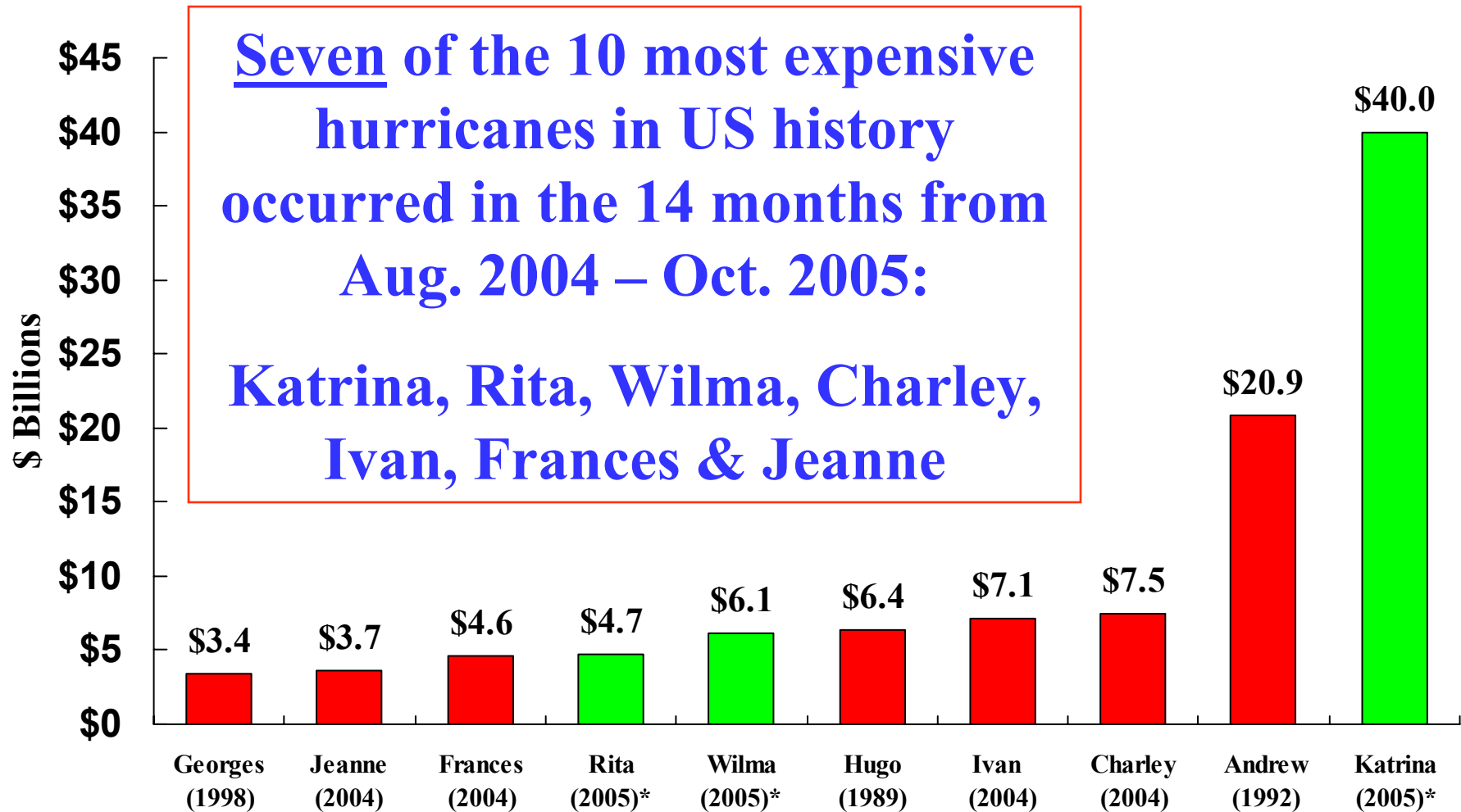


*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita. ** As of June 30, 2006.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

Source: Property Claims Service/ISO; Insurance Information Institute

Top 10 Most Costly Hurricanes in US History, (Insured Losses, \$2004)



*Hurricanes Katrina, Rita and Wilma stated in 2005 dollars.
Sources: ISO/PCS; Insurance Information Institute.



Casualty Risk Landscape

Risk Perception



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Risk Landscape for Liability Underwriters

- Low investment returns
- FSA & Risk based capital constraints
- Reserving surprises & Emerging Hazards
- Latent disease (Asbestos, Silica, Lead, Manganese)
- Medical & Injury costs inflation(+50% last 5 years)
- Junk science & Defence costs
- US exposure & Mass Torts
- Impact of Catastrophe losses on Global risk capital
- Calculating impact of changes in Technology & Societal values
- Claims challenges & Contract Certainty
- Pressure on Technical pricing & Deteriorating ratios

Emerging Risks (Real or Phantom)

- Asbestos, Lead, Silica
- Alcohol & Obesity
- Antibiotic resistance
- Benzene
- Chemical Additives
- Construction Defects
- Cyber Quake
- EMF & mobile telephony
- Defence Allocations
- Diacetyl
- Endocrine Disrupters
- GMO & Labelling
- Accidental GM & Non-GM mixing
- Human mobility
- Life expectancy
- Lifestyle Products
- Mega-cities
- Nanotech (Beyond the brink)
- Perchlorate
- Pharma – Grey Market Drugs
- Terrorism/MPT
- Toxic Shock
- Welding Rods
- Xeno transplants

Employers Liability

Inflationary pressures

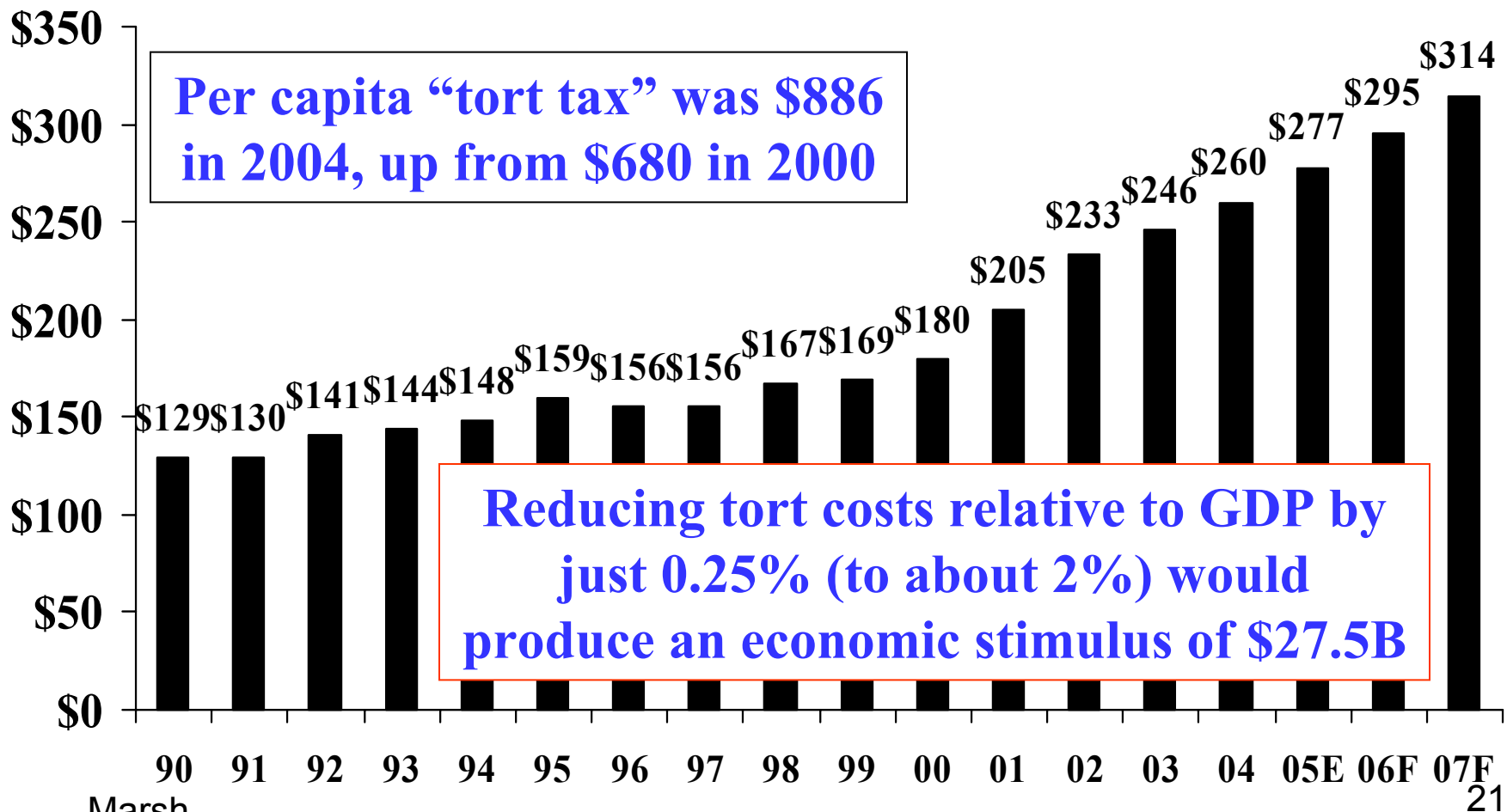
- Settlements increase average 19%, according to the DWP
- Costs increase average 12% pa, according to the DWP
- Courts Act
- NHS chargeback
 - emergency ambulance call-out charge
 - out-patient charge
 - in-patient charge overnight rate
 - capped at £35,000 per claim (RTA rates)
 - 5% on EL rates
 - effective April 2005
- Discount rate on future loss: 0.05 to 5%, according to Ogden's Tables 5th Edition
- **Asbestos liability – anarchy in the UK?**

Liability Catastrophes do exist

Event	Country	Amount (USDbn)	Year
Tobacco Litigation	US	145	1999
Asbestos	US	30-60	1990's
9/11	US	15.5	2001
Alaska oil spill	US	9.0	1976
Silicone breast implants	US	6.0	1990's
Katrina	US	3.0	2005
Piper Alpha	UK	2.8	1988
Product Failure	EU	1.6	2003
Mt Blanc Tunnel fire	EU	1.0	2002
Toulouse Explosion	EU	0.8	2001

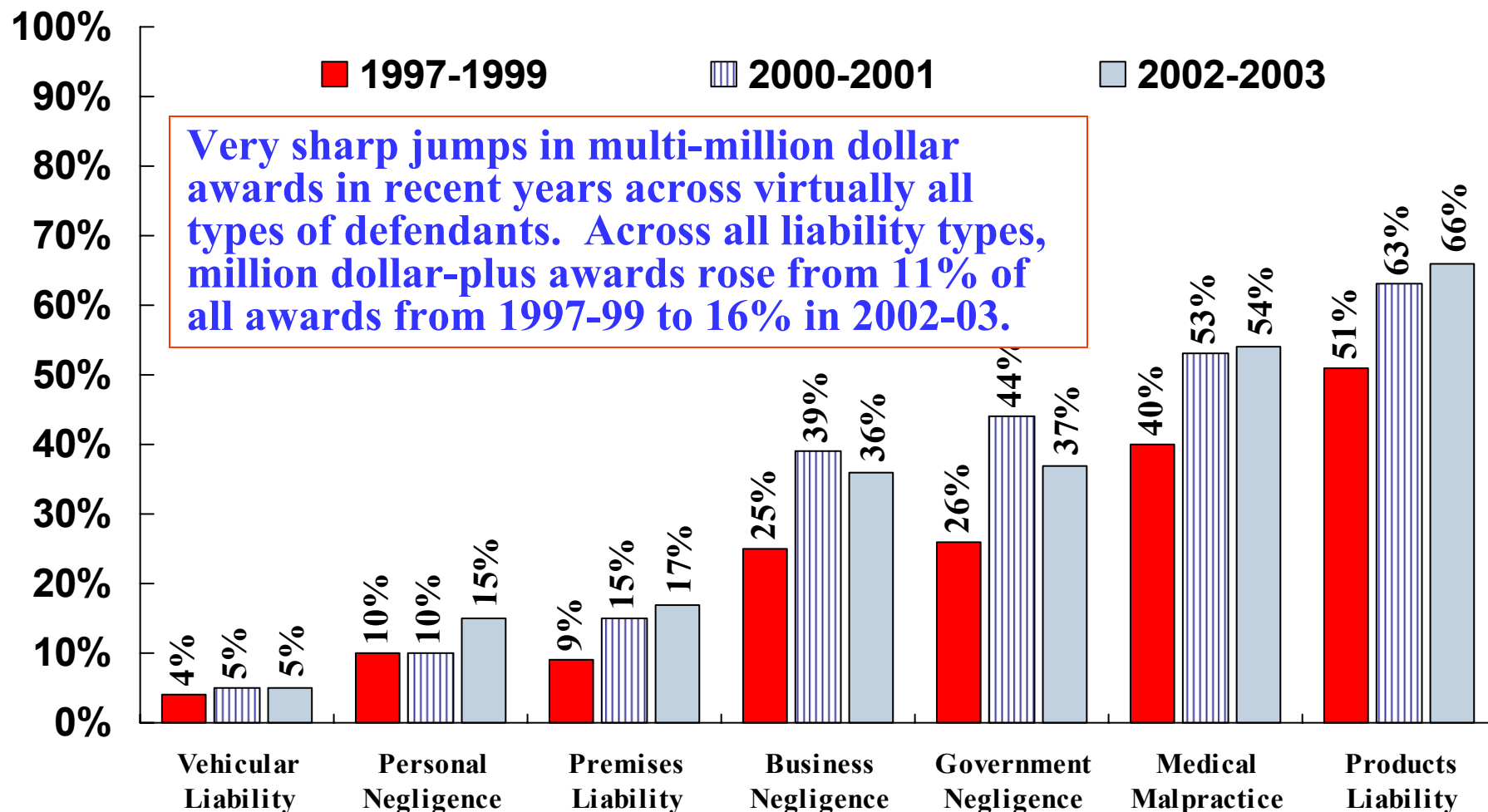
Cost of U.S. Tort System (\$ Billions)

Tort costs will consume an estimated 2.25% of GDP in 2006



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Source: Tillinghast-Towers Perrin.

Trends in Million Dollar Verdicts*



Top Ten US Jury Verdicts 2005

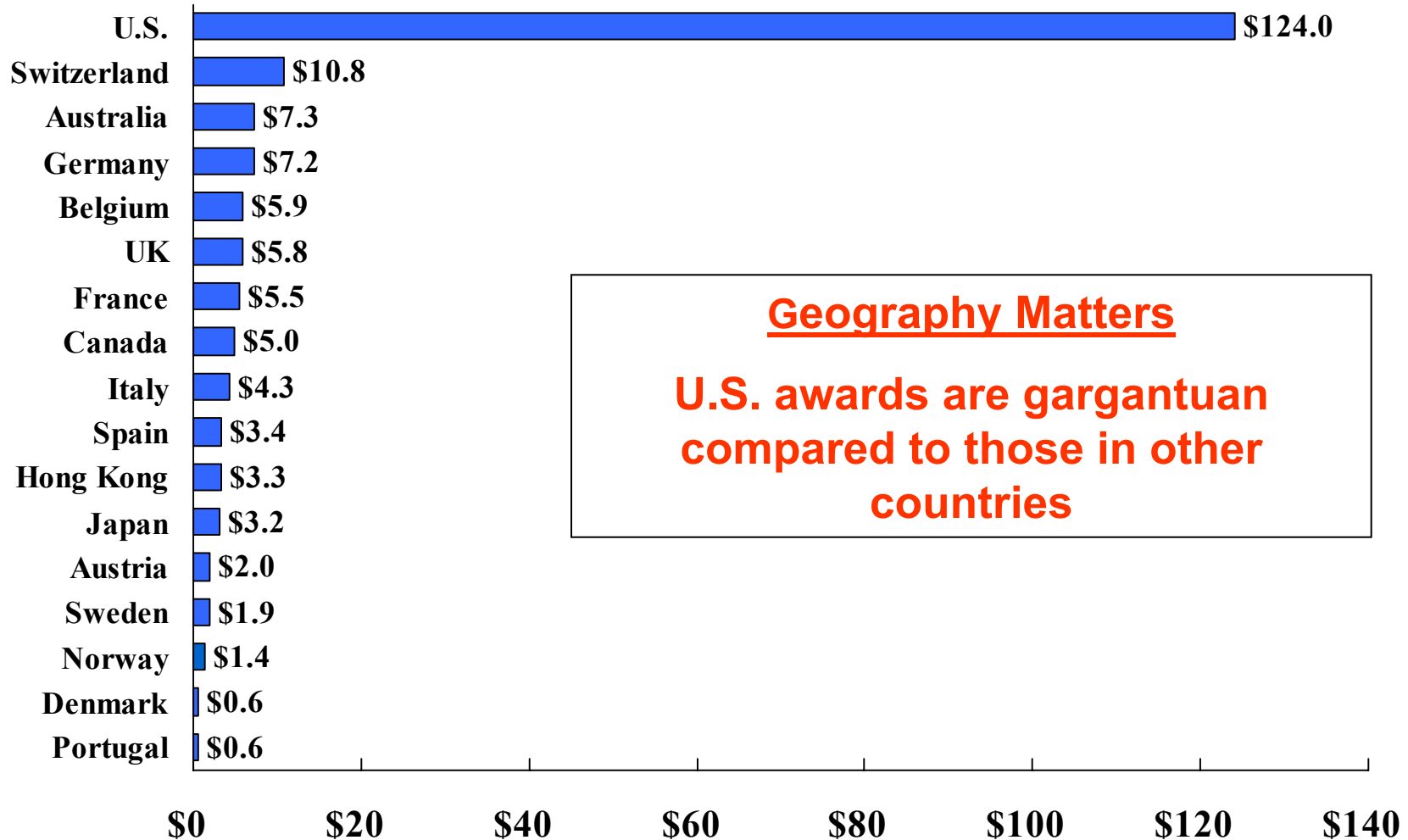
Value	Issue	State
\$1.45 Billion	Investment Fraud	Texas
\$606 Million	Medical Malpractice (Chemo overdose)	Florida
\$253 Million	Pharmaceutical Liability (Vioxx)	Texas
\$164 Million	Negligence/Products Liability → Traffic Death	Florida
\$135 Million	Vicarious Liquor Liability	New Jersey
\$90 Million	Unfair Business Practice	Illinois
\$65.5 Million	Conflict of Interest, Estate Planning	Texas
\$65 Million	Products Liability, Electrocution	Florida
\$64 Million	Age Discrimination	California
\$61.2 Million	Products Liability (Ford Explorer)	Florida

Factors Driving Severity

Why Are Awards Getting Bigger?

- More Sophisticated & Innovative Plaintiff's Bar
- Declining frequency means remaining cases are “better”
- Trial Bar is Flush With Cash
- Medical Inflation
- Venue—Judicial “Hellholes” in these states:
 - FL, IL, TX and WV
- Class Actions Still an Issue
- Erosion of Tort Reform/Acceptance of “Junk Science” as Fact
- Jury Desensitization to Money/Deep Pockets Syndrome
- Sensationalized Media Coverage (e.g., Rollovers, Mold)
- Concern over Corporate Image—Cos. Quick to Settle

Highest Indemnity Award for a Single Bodily Injury

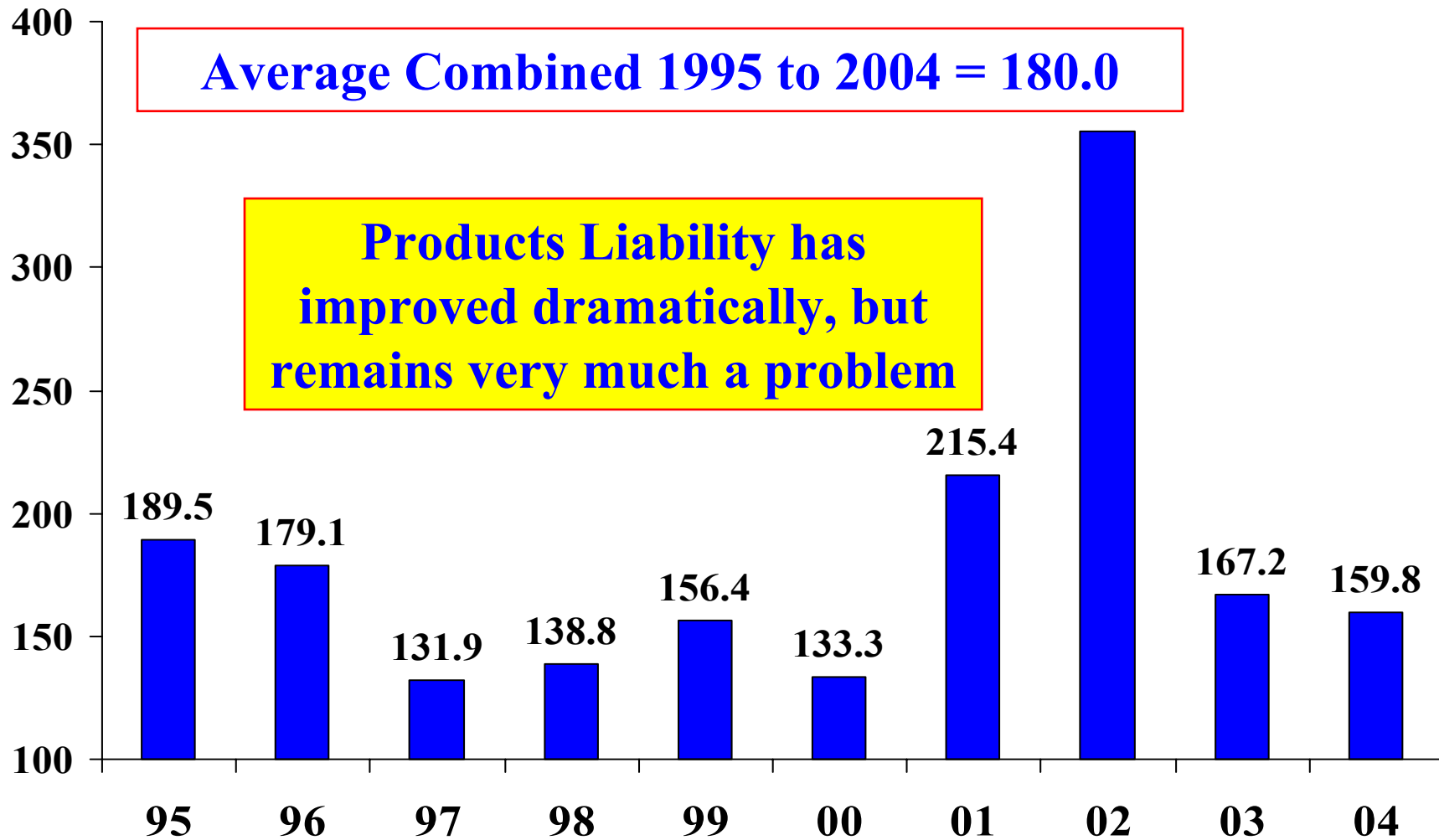


Geography Matters
U.S. awards are gargantuan compared to those in other countries

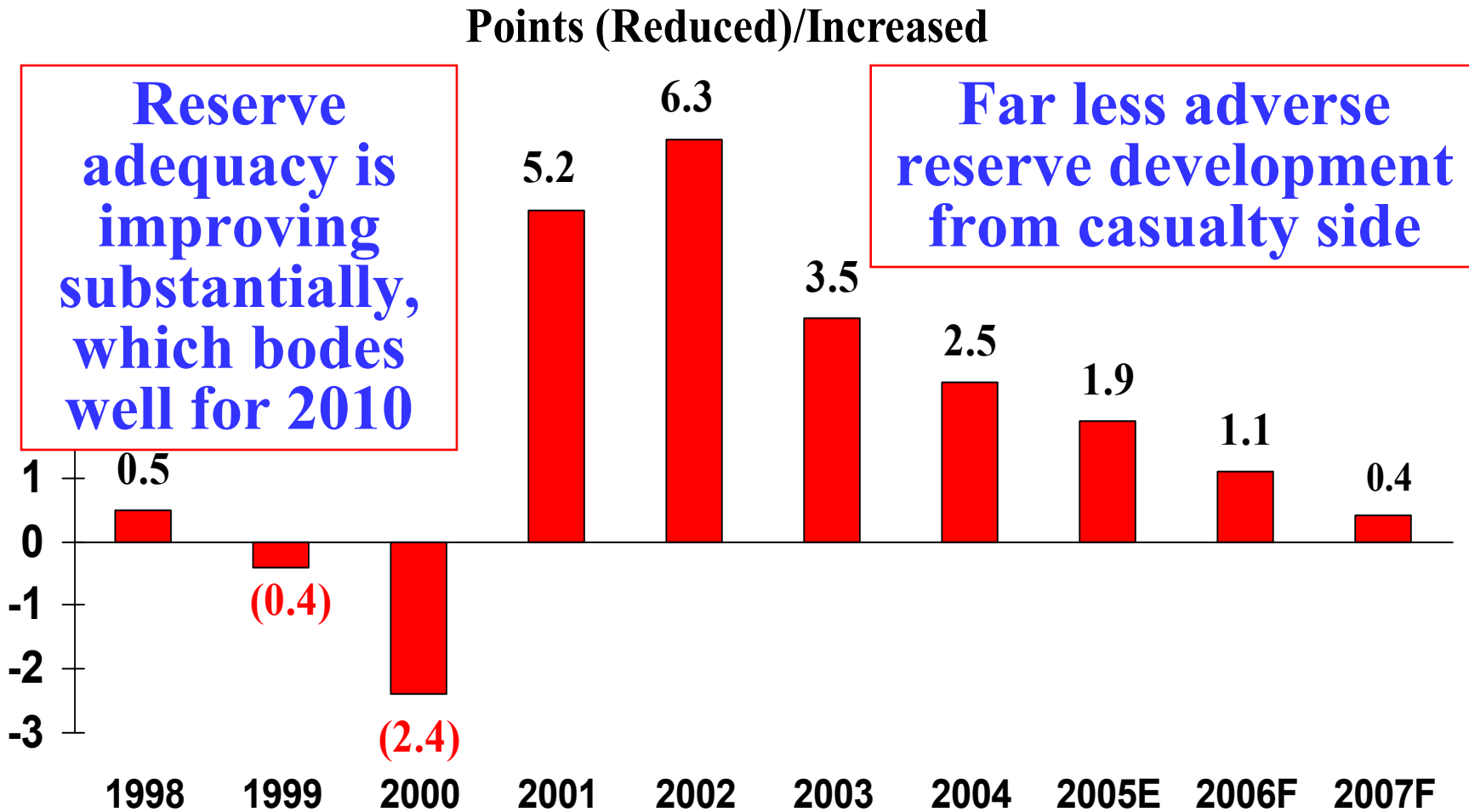
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Sources: Swiss Re; 2003 Marsh Limits of Liability Survey

Products Liability Combined Ratio

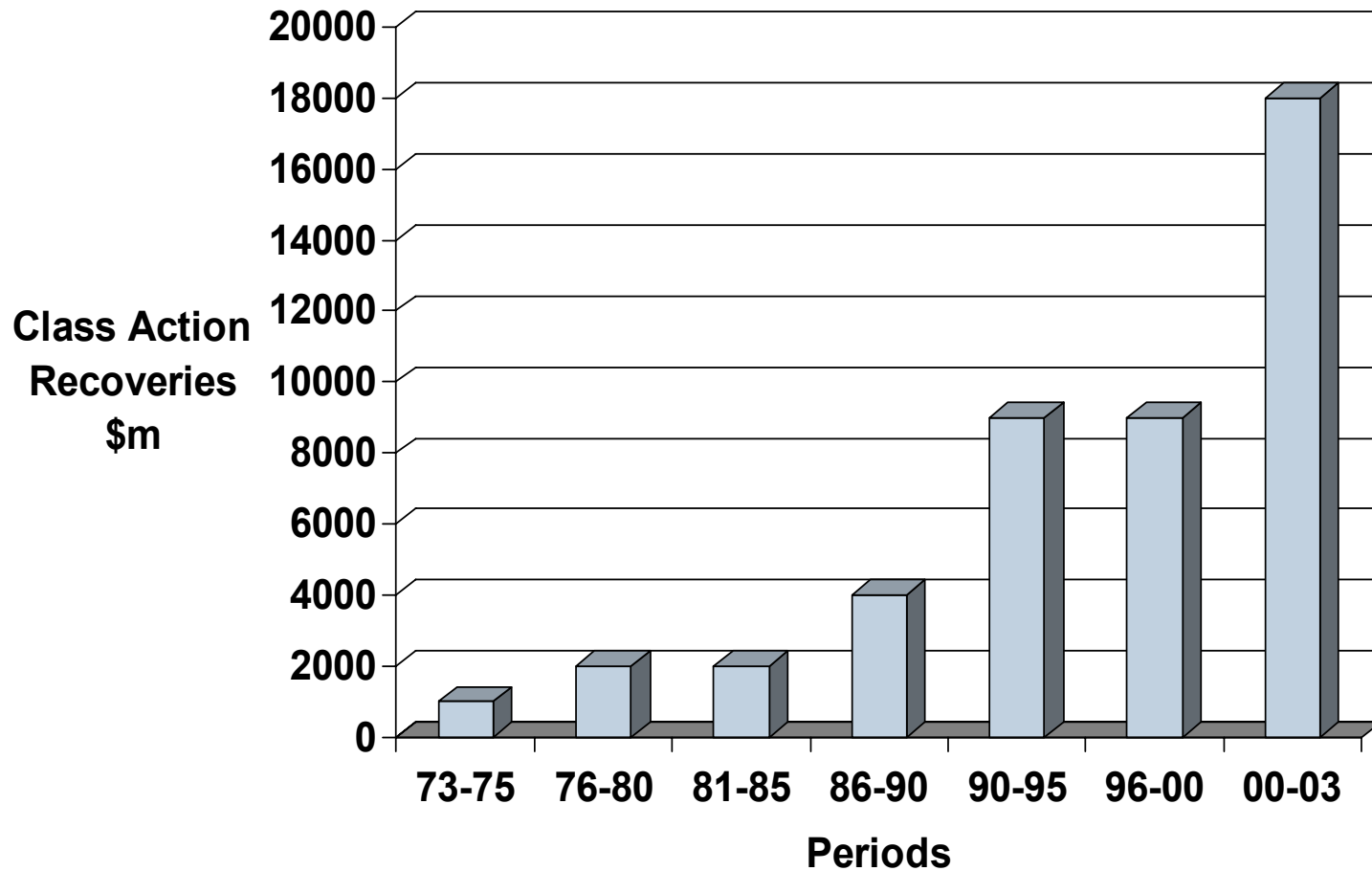


Combined Ratio: Impact of Reserve Changes (Points)



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Source: ISO, A.M. Best, Lehman Brothers for years 2005E-2007F

US Class Action Claims Cost Skyrocket



Source : classactionreports

Leading Types of Class Actions

Response	Past Three Years	In the Future
<i>Labor/Employment</i>	38%	29%
<i>Securities Litigation/ Enforcement</i>	31%	10%
<i>Product Liability</i>	17%	13%
<i>Environmental/Toxic Tort</i>	15%	12%
<i>Contracts</i>	10%	6%
<i>Personal Injury</i>	10%	4%
<i>Insurance</i>	10%	4%

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Source: Second Annual Litigation Trends Survey, Fulbright & Jaworski, 2005.

Business Leaders Ranking of Liability Systems for 2005

■ Best States

1. Delaware
2. Nebraska
3. North Dakota
4. Virginia
5. Iowa
6. Indiana
7. Minnesota
8. South Dakota
9. Wyoming
10. Idaho

New in 2005
ND, IN, SD, WY

Drop-Offs
ID, UT, NH, KS

■ Worst States

41. Hawaii
42. Florida
43. Arkansas
44. Texas
45. California
46. Illinois
47. **Louisiana**
48. **Alabama**
49. West Virginia
50. **Mississippi**

Newly Notorious
HI, FL

Rising Above
MO, MT

LA, AL and MS's liability systems are ranked among the worst in the country by the US Chamber of Commerce

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The Nation's Judicial Hellholes (2005)

Dishonorable Mention

WI Supreme Ct.

Watch List

California

Eastern Kentucky

Eastern Alabama

Philadelphia

New Mexico

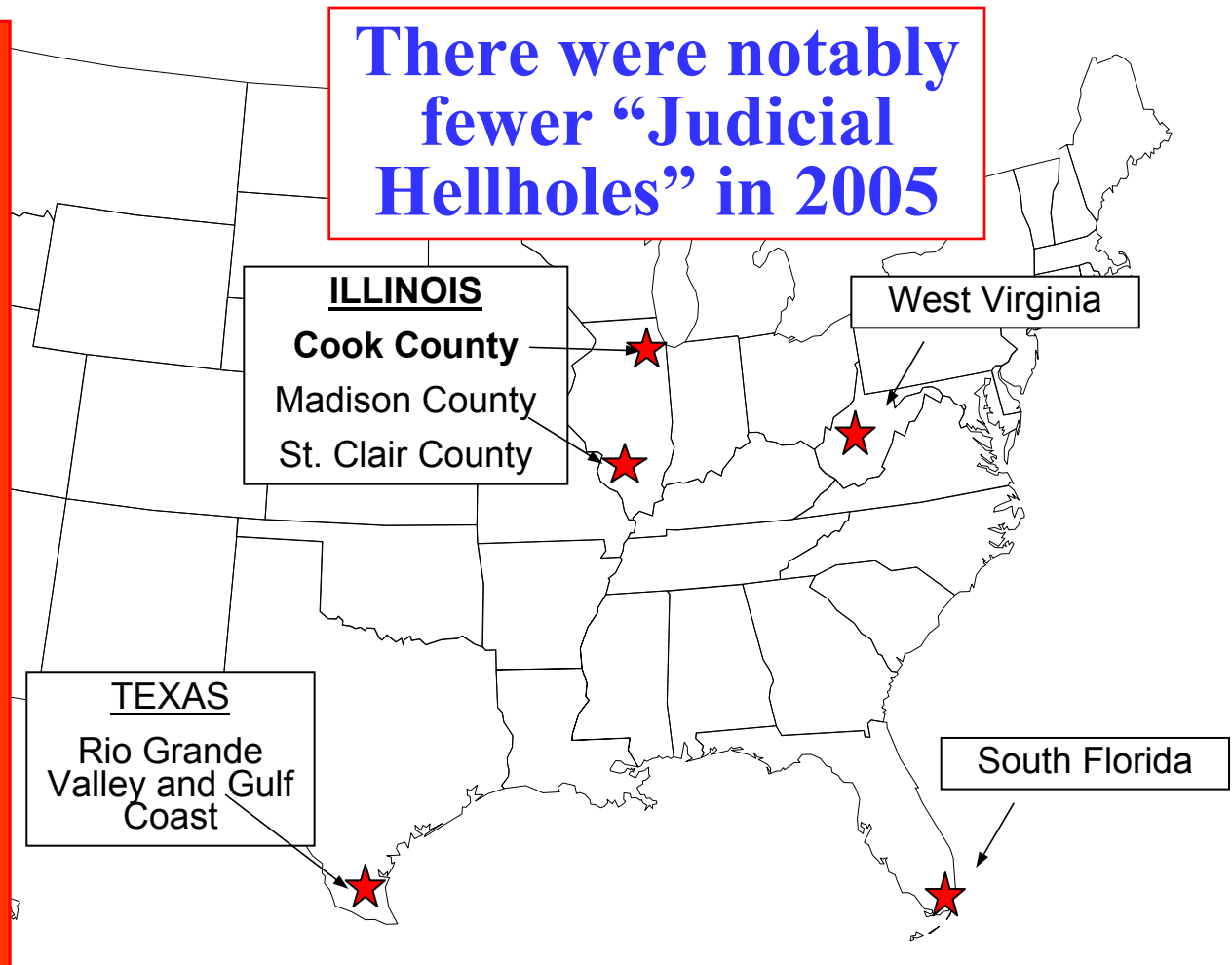
Delaware

Oklahoma

Orleans Parish, LA

Washington, DC

There were notably
fewer “Judicial
Hellholes” in 2005



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Source: American Tort Reform Association; Insurance Information Institute



Changing the Future

Challenges for our Customers

- Market Cycle volatility
- Litigious climate & severity cost growth
- Sarbanes Oxley pressures
- Adequacy and Security of Liability Limits
- Can “Occurrence” form survive Capital market angst
- Contractual Liability risk management
- New EU Directives – Products, Environment, REACH, Services tax
- New Exclusions – impact on M&A and retained Legacy exposures
- Stacking of Aggregate retentions and associated Collateral
- Accumulation of exposures in fewer locations
- Insurer service levels under pressure
- Reducing Global insurer networks
- Driving down Cost of Risk

Liability Development Risk

Broad Social Forces

Legal Developments

Injury developments

Injury cost developments

Standard of care developments

Claiming developments

Emerging risks

- Law on the books
- Liability rules
- Damages rules
- Procedural rules
- Contract rules

Underwriting Challenge

Legal

- Elasticity issues & number of claimants
- Geographic diversity & forum shopping
- Indeterminate plaintiffs & defendants
- Causation issues
- Statutes of limitation & unimpaired claimant
- Standards of liability & fairness
- “All or Nothing” risk
- Claims admin failures

Hazard

- EMF
- Genetic modification
- Nanotechnology
- Lifestyle – obesity
- Legacy occupational disease
- Environmental
- Epidemics
- Technology
- Demographic change

1. Baseline risk → Past experience
2. Development risk → Change in rate or cost
3. Contract risk → Change in legal meaning

Thought for the Day – Always have an Exit Strategy

