

U.S. Insurance Market Report 2008

Summary of Major Coverage Lines

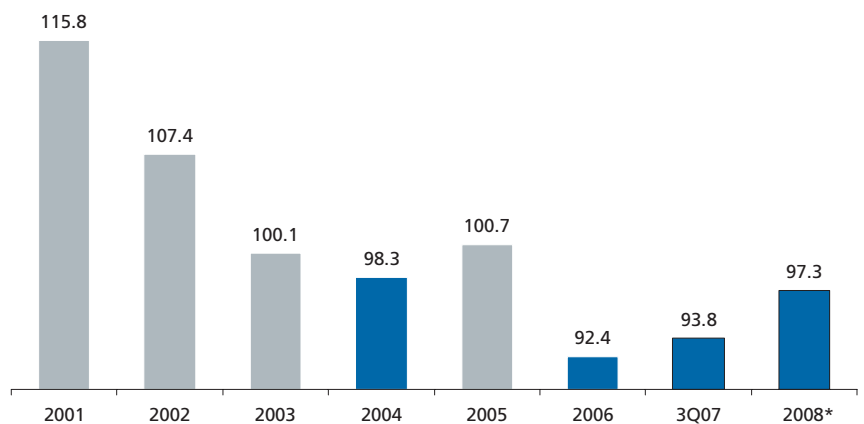
Overview

In most lines of coverage, the insurance market softened in 2007 and insureds with good loss histories were able, on average, to obtain rate decreases and/or improvements in terms and conditions. Two years of mild hurricane seasons, a lack of other significant catastrophes, and solid investment returns allowed insurers and reinsurers to not only stabilize following the devastating 2004 and 2005 losses, but to earn considerable profits. As a result, competition for our clients' business has increased as insurers seek to expand market share and premiums. In 2008, Marsh expects the general softening trend to continue in most insurance lines—with some important exceptions.

U.S. Property/Casualty Industry Overview

- The U.S. property/casualty (P/C) industry weathered increasing competition through the third quarter of 2007 and recorded relatively strong underwriting results, with an underwriting gain of \$18.6 billion for the nine months ended September 30, 2007.
- The non-catastrophe insurance market is more competitive than it has been in years, due in part to the record profits obtained in 2006.
- In the absence of any surprises—such as extreme losses from a hurricane, earthquake, or other catastrophe—the P/C industry is on course to record its third underwriting profit in the last four years and only its third since 1978.

U.S. Property and Casualty Industry
Combined Ratio



Source: Insurance Service Organization
* Estimate

Property

Median Rate Change at Renewal (Average/Good Risk Profile)			
Segment	Q4 2006	Q4 2007	2008 Trend
Non-CAT-Exposed	15% decrease to 5% increase	10% to 25% decrease	Softening
Moderately CAT-Exposed Organizations (10% to 50% of values in catastrophe zones)	10% increase to 30% increase or greater, depending on location, risk profile, and loss experience	5% to 20% decrease	Softening
Moderately CAT-Exposed Organizations (more than 50% of values in catastrophe zones)	Greater than 30% increase	10% to 30% decrease	Softening

Please note: The above figures are based on benchmarking data analyzed by Marsh's Property Practice. They may not be indicative of all renewal experiences. Moderate changes in renewal rates may be a result of significant program changes to terms and conditions. Changes in program structure and terms and conditions—including the layering of programs, increased deductibles, decreased limits, and so on—that affect the premium rates charged are not included in the analysis. Therefore, the range of rate changes at renewal is significantly broader than the median rate change illustrates.

- Throughout 2007, insurers continued to differentiate between accounts with difficult catastrophe exposures and those without; however, nearly all types of accounts experienced rate reductions.
- The soft property insurance market is likely to continue in 2008, barring major catastrophic losses, with opportunities for clients to achieve premium savings, enhanced coverage terms, and higher limits. Rate reductions, however, may not match those of the fourth quarter of 2007.
- The Terrorism Risk Insurance Act (TRIA) was extended for another seven years; the majority of U.S. companies continue to purchase terrorism insurance. Pricing and capacity for terrorism insurance are expected to remain stable in 2008.

Casualty

Typical Rate Change at Renewal (Average/Good Risk Profile) - Large Organizations				
Coverage	Segment	Q4 2006	Q4 2007	2008 Trend
General Liability	Guaranteed Cost	Flat to 10% decrease	10% to 20%+ decrease	Softening
	Loss-Sensitive	Flat to 15% decrease	10% to 20% decrease	Softening
Auto Liability	Guaranteed Cost	Flat to 10% decrease	10% to 20% decrease	Softening
	Loss-Sensitive	Flat to 15% decrease	10% to 20% decrease	Softening
Umbrella Liability	Lead	5% to 10% decrease	5% to 10% decrease	No Change
	Excess Layers	5% to 10% decrease	5% to 10% decrease	No Change

Please note: Rate decreases above are averages. Where we have been able to introduce significant competition, rate reductions of 30 percent to 50 percent may have been achieved.

- With respect to primary casualty, higher rate decreases may be available for insureds with favorable loss histories and significant retentions, particularly in industries viewed as preferred risks.
- Despite macroeconomic financial difficulties, insurers are more amenable to considering negotiating terms such as attachment points—especially auto— treatment of defense cost, and tail or nose cover for discontinued products, as well as offering multiyear commitments to retain business.
- Insurers likely will show greater oversight on products liability, particularly when products are manufactured in China.
- The casualty market is unlikely to firm in 2008 even if other lines experience adverse financial results.

Workers' Compensation

Typical Rate Change at Renewal (Average/Good Risk Profile)				
Segment	Line of Coverage	Q4 2006	Q4 2007	2008 Trend
Large Organizations	Guaranteed Cost	Flat to 10% decrease	5% to 15% decrease	Softening
	Loss-Sensitive	Flat to 10% decrease	10% to 20% decrease	Softening
	Excess	Flat to 15% decrease	5% to 15% decrease	Softening
Midsize Organizations	Guaranteed Cost	Flat to 15% decrease	5% to 15% decrease	Softening
	Loss-Sensitive	5% to 10% decrease	10% to 20% decrease	Softening
	Excess	Flat to 15% decrease	5% to 15% decrease	Softening

- Many of the forces driving the workers' compensation marketplace come from outside the insurance industry. In 2007, 41 states enacted new workers' compensation legislation and/or reforms. More than 1,000 bills with workers' compensation-related issues were introduced throughout the United States; more than 20 percent passed.
- Wage gains are expected to moderate in 2008, reports the National Council on Compensation Insurance (NCCI). With most states' indemnity benefits tied to wage growth, the rise in wages suggests further increases in indemnity severity.
- The 2006 net combined ratio for workers' compensation was 96.5 percent—the best underwriting result in 30 years and the first underwriting profit for workers' compensation since 1995.

Financial and Professional

Typical Rate Change at Renewal (Average/Good Risk Profile)				
Coverage	Segment	Q4 2006	Q4 2007	2008 Trend
Directors and Officers Liability	Fortune 500 to Fortune 1000	10% to 15% decrease	10% to 20% decrease	5% to 15% decrease
Employment Practices Liability	Large Organizations	Flat to 10% decrease	10% to 15% decrease	No Change
Fiduciary Liability	Large Organizations	Flat to 5% decrease	5% to 15% decrease	Softening
Fidelity	Commercial Organizations	Flat to 5% decrease	Flat to 10% decrease	Softening

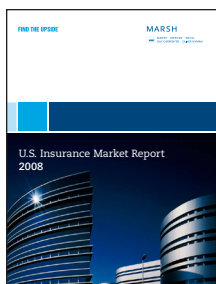
- The directors and officers (D&O) liability market remained very competitive throughout 2007. Barring major changes in securities litigation activity, the D&O market is expected to remain competitive in 2008, albeit with generally smaller reductions in premium as compared to those seen over the last two years.
- The employment practices liability (EPL) insurance market remained fairly stable and favorable to buyers in 2007. Significant losses in the employment practices liability insurance market in 2007 combined with expected large losses on some pending claims, however, likely will lead the EPL market to tighten slightly in 2008, particularly for financial institutions.
- There likely will be a continued demand for privacy and information security coverage as breaches and losses mount in 2008. Clients should be prepared for rates, terms, and conditions to fluctuate, especially attachment points, as insurers experience mounting losses.
- Fiduciary liability insurers are interested in understanding the extent to which plan assets are invested in alternative investments such as hedge funds, private equity, venture capital, commodities, and real estate.
- There is unlikely to be any significant change in underwriting appetite for fidelity business in 2008. Capacity remains high both domestically and in London.

Midsized Companies

Typical Rate Change at Renewal (Average/Good Risk Profile)				
Coverage	Segment	Q4 2006	Q4 2007	2008 Trend
General Liability	Guaranteed Cost	Flat to 15% decrease	5% to 20% decrease	Softening
	Loss-Sensitive	Flat to 15% decrease	5% to 20% decrease	No Change
Automobile Liability	Guaranteed Cost	Flat to 5% decrease	5% to 15% decrease, and up to 20% decrease in competitive situations	Softening
	Loss-Sensitive	Flat to 10% decrease	Flat to 20% decrease	Softening
Package/Multiperil		5% to 15% decrease	5% to 20% decrease with good loss history	Softening
Workers Compensation	Guaranteed Cost	Flat to 15% decrease	5% to 15% decrease	Softening
	Loss-Sensitive	5% to 15% decrease	10% to 20% decrease	Softening
	Standalone Excess of Self-Insurance	Flat to 10% decrease	5% to 15% decrease	Softening
Umbrella Liability	Lead Umbrella	Flat to 15% decrease	5% to 15% decrease	No Change
	Layers Excess of Lead Umbrella	Flat to 15% decrease	Flat to 15% decrease, based on little change in exposures, and assuming top layers are already at minimum premiums	No Change
Directors and Officers Liability	Small to Mid Cap	15% to 20% decrease	15% to 20% decrease	No Change
Employment Practices Liability		Flat to 5% decrease	10% to 15% decrease	Softening
Fiduciary Liability		Flat to 10% decrease	5% to 15% decrease	Softening
Fidelity		Flat to 5% decrease	Flat to 10% decrease	Softening
Property	Non-CAT-Exposed	15% decrease to 5% increase	10% to 25% decrease	Softening
Catastrophe-Exposed Organizations	Moderately Exposed (10% to 50% of values in catastrophe zones)	10% to 30% increase or greater, depending on exact location, risk profile, and loss experience	5% to 20% decrease	Softening
	Largely Exposed (more than 50% of values in catastrophe zones)	Greater than 30% increase	10% to 30% decrease	Softening

- The primary casualty insurance market continues to be competitive, with rate decreases of 5 percent to 20 percent common for midsize organizations, defined by Marsh as having annual revenue from US\$100 million to US\$1 billion and total insured property values between US\$100 million and US\$500 million.
- Many midsize organizations, which experienced significant increases in pricing from 2005 to 2006, are now seeing significant decreases as the minimum premium thresholds drop. For non-catastrophe risks, up to 30 percent rate reductions generally have been achieved.

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