

MARSH

EMEA Insurance Market Report

For Europe, the Middle East and Africa,
covering July to December 2006.



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The Europe/Middle East/Africa (EMEA) Insurance Market Report is published by Marsh's Market Relationship Management EMEA (MRM EMEA) team to keep all employees and clients informed of developments in the marketplace across the region.

Seven lines of business have been surveyed across 37 countries in this survey of Marsh's Placement and Segment Leaders, with the following African countries now also included: Botswana, Namibia and South Africa.

The premium movements covered over the last 6 months of 2006 represent approximately 58% of the total annual EMEA portfolio.

The information provides valuable insights to clients who are consistently monitoring their insurance and risk management strategies.

The following key trends have been noted across EMEA in Q3 and Q4 2006:

- The **general casualty** market continued to see slight premium reductions in the majority of the region whereas small premium increases of up to 10% were reported in Turkey, Serbia and Montenegro, Slovenia and South Africa.
- The **employers liability/workers compensation** market softened or remained stable, with Belgium seeing the largest premium reductions of up to 40%. Increases of up to 20% were reported in Turkey, Slovenia and the United Arab Emirates (UAE).
- The **property** market continued to soften for the third year in a row due to strong competition. The largest reductions of up to 40% were reported by the Czech Republic, while some small premium increases were seen in UK (large organisations), Turkey, Poland and Russia.
- Increased competition on the **motor** market resulted in premium reductions in the majority of the EMEA region, with the largest decreases of up to 30% in Spain and the Netherlands. Increases were seen in a few countries, such as up to 30% in Turkey.
- The **financial and professional (FinPro)** market remained competitive over the last two quarters of 2006 seeing a continuation in the softening trend of the market for D&O coverage and mainly stable rates for professional indemnity and financial institutions. Premium increases were reported in Africa only.
- Increased competition in the **aviation** market resulted in the premium reductions expected at the end of the first half of 2006.

2006 Q3 and Q4

	CASUALTY:		Property	Motor
	General	EL/WC		
Central				
Austria	0	No Market	0	0
Belgium	10-20	30-40	20-30	10-20
France	10-20	-	10-20	0-10
Germany	10-20	No Market	20-30	0-10
Netherlands	0	-	0-10	20-30
Northwestern				
Ireland	10-20	10-20	20-30	10-20
UK (Mid-sized)	20-30	10-20	20-30	10-20
UK (Large organisations)	10-20	0-10	10-20	10-20
Southern				
Greece	0	0	10-20	0-10
Italy	0-10	0-10	0-10	10-20
Portugal	0-10	10-20	10-20	0-10
Spain	10-20	10-20	20-30	20-30
Turkey	0-10	10-20	0-10	20-30
Israel	10-20	0-10	10-20	-
Nordics				
Denmark	0-10	0-10	10-20	0
Finland	0-10	0	0-10	0-10
Norway	0-10	0	0-10	0
Sweden	0	No Market	0	0
CEE and CIS				
Azerbaijan	0-10	0	0	0-10
Bulgaria	0	0	0	0
Croatia	0	0-10	0-10	0
Czech Republic	10-20	No Market	30-40	0-10
Estonia	10-20	0-10	10-20	10-20
Hungary	0-10	0-10	0-10	0-10
Kazakhstan	0	0	0	0
Latvia	0	No Market	0-10	0-10
Poland	10-20	10-20	0-10	0-10
Romania	0	0	0-10	0-10
Russia	0	0	0-10	0
Serbia & Montenegro	0-10	0-10	0-10	0
Slovakia	0-10	0-10	10-20	10-20
Slovenia	0-10	10-20	0	0-10
Ukraine	0	0	10-20	0
Middle East				
Saudi Arabia	0	0-10	0-10	0
UAE	0	10-20	0-10	0-10
Africa				
Botswana	0	0	0	10-20
Namibia	0	No Market	0	0-10
South Africa	0-10	0	0-10	0-10
KEY				
Increases	Number of occurrences			
Decreases	4	7	4	8
No Change	19	12	26	18
No Market	15	11	8	11
No info Supplied (-)	0	6	0	0
	0	2	0	1
	38	38	38	38

Healthcare	Trade Credit	Environmental	FINPRO:		
			D&O	PI	FI
0	0-10	0	0-10	0	0
-	10-20	10-20	0-10	0-10	0
-	0	0	10-20	0-10	0-10
0-10	10-20	0-10	10-20	0-10	10-20
0	0-10	0	0-10	0	0-10
10-20	20-30	0	10-20	10-20	0-10
10-20	10-20	0	0	0-10	0-10
10-20	10-20	0	0	0-10	0-10
0-10	0-10	No Market	10-20	0	0
0	0	10-20	0	0	0
0	0	0	0-10	0	0
0-10	0-10	0-10	10-20	0-10	20-30
0-10	0	No Market	0-10	0	10-20
10-20	-	0	10-20	0-10	10-20
-	-	-	10-20	0	0-10
20-30	10-20	No Market	10-20	0-10	0-10
No Market	0	No Market	0-10	0-10	0
0	0-10	0-10	10-20	10-20	10-20
10-20	-	0-10	0	0	0
0	0	0	0	0	0
0	No Market	No Market	No Market	No Market	No Market
No Market	0-10	-	20-30	10-20	No Market
No Market	10-20	0	0-10	0-10	0
0	0	0	10-20	10-20	No Market
0-10	0	0	0	0	0
No Market	No Market	No Market	No Market	No Market	No Market
10-20	20-30	-	20-30	0-10	10-20
0	0	0	0	0	0
0	-	0	0-10	No Market	0
0	No Market	No Market	0	0	0
0	0	0	20-30	0	0
0-10	0	0	No Market	0	No Market
0	No Market	No Market	0	0	0
0-10	No Market	No Market	No Market	No Market	No Market
0-10	0	No Market	0	0	0
-	-	-	0-10	10-20	0-10
No Market	0	No Market	0-10	0	0
0-10	0-10	-	0	0	0-10
8	1	1	2	1	2
8	14	5	21	15	13
13	13	16	11	18	17
5	5	11	4	4	6
4	5	5	0	0	0
38	38	38	38	38	38

EMEA Insurance Market Report

Casualty

General

The majority of the general casualty market continued to soften in Q3 and Q4 2006 due to high capacity and strong competition, resulting in premium reductions of above 10% in most countries, and up to 30% in UK (mid-sized).

- Competition remained a key driver in Belgium resulting in premium reductions of up to 20%. Long-term agreements on some large accounts have favoured stability while some accounts being renewed could benefit from reductions.
- In Estonia, premium reductions of up to 20% were due to competition and good loss ratios. It was also noted that there are low limits within a limited local market.
- In France, the softening trend recorded in 2005 has continued in 2006 with decreases of 10-15% and in exceptional cases of up to 30%.
- Premium reductions of up to 20% were reported in Germany but rates remained high for recall cover. In some individual cases where the loss ratio was good and where insurers wanted to keep a good relationship with the client, premium reductions were between 20% and 50%.
- Insurers are looking to maintain their current book of business in Ireland whilst trying to offset the loss in premium on their renewal book with competitive new business quotations. This resulted in premium reductions of up to 20%. It was also reported that the local market is seen to be more competitive than the London market, therefore we have seen a number of accounts return from the London market.
- Italy saw small premium reductions of up to 10% due to the good capacity available. However, it was reported that insurers tend to introduce more exclusions than in the past, pay more attention to wordings and litigation is increasing.
- The market was stable in Namibia but a New Labour Act is currently under review and, if implemented, will impose a higher level of responsibility/liability on the part of employers, which in turn might become a cost driver for this class of cover.

- South Africa saw slight premium increases of up to 10%. The local market is generally very competitive with significant capacity.
- In Turkey, premium increased up to 10% because of a high loss ratio. There are also limited Treaty conditions and no local market for recall or guarantee liability.
- UK (large organisations) reported that the price reductions of up to 10% are still being propagated by an abundance of capacity combined with significant market aggression.
- UK (mid-sized) saw premium reductions of up to 30% following competition in the market place due to overcapacity.

EL/WC

Certain countries do not have employers liability/workers compensation (EL/WC) coverage as such, as it is either part of governmental social security schemes or included in general liability.

The EL/WC market witnessed slight premium reductions in Q3 and Q4 2006 across the majority of the EMEA region, with Belgium reporting the highest reductions of up to 40%. The rest of the region remained stable except for a few countries, including Turkey, Slovenia and the UAE, who saw premium increases of up to 20%.

- A continued soft market in Belgium resulted in significant premium reductions of up to 40%. Most carriers want to increase or maintain their market share no matter the price. Also, it was noted that there is a decreasing number of underwriters (only approx. 11 specialised carriers remaining) due to mergers.
- As in casualty general, Ireland saw premium reductions of up to 20%, due to local insurers trying to maintain their market share and offering competitive terms on new business.
- Italy saw small premium reductions of up to 10% and reported that professional illness coverage continued to be an issue for the retroactivity period.
- EL is compulsory in Kazakhstan and the law stipulates the terms and insurance tariff ranges. The market was mainly stable, with some industries such as mining having suffered substantial losses, but this has affected these insureds individually and rate increases have not been passed on to others.
- Premium rates increased up to 20% in Turkey, especially for large organisations where there have been major losses in heavy industries. It was also reported that there is limited cover for occupational illnesses.

- In the UAE, the recent rise in workers' compensation losses – in the construction industry in particular – has caused the insurers to show greater concerns and the premium rates to increase up to 20%.
- As the market continues to soften in UK (large organisations) and Insurers remain “hungry” for new premium, significant competition is leading to consistent pricing reductions of up to 10%, especially where there is significant premium to market (e.g. conventional / ground-up programmes).
- Competition and a better approach to health and safety resulted in premium reductions of up to 20% in UK (mid-sized).
- In Portugal, the premium decreased up to 20% due to the current soft market. There is, however, a limited capacity for larger risks.
- Romania reported premium reductions of up to 10% mainly because of commercial discounts on renewals as opposed to a softening market.
- Significant local capacity in South Africa coupled with the arrival of new entrants such as Allianz and ACE on the market resulted in premium reductions of up to 10%. Moreover, Kiln - who were already operating in the RSA market – had their capacity significantly increased, as did Emerald's. It is also to be noted that the local rates are far more competitive than the rates obtained from the London market.

Property

The Property market continued to soften in Q3 and Q4 2006 for much of the EMEA region due to strong competition.

- Underwriters willing to maintain their market share in a market with increased capacity resulted in premium reductions of up to 30% in Belgium.
- Increased competition and lower reinsurance rates resulted in significant premium reductions of up to 40% in the Czech Republic.
- Competition mainly from the EU market and higher deductibles available on the Estonian market caused the premium rates to decrease up to 20%.
- In Germany, where premium reductions of up to 30% were seen, it was difficult to place property coverage in the wood, recycling and chemical industries with stable premiums. It was also noted that on large accounts some reductions of more than 30% could be seen.
- There is high competition on the Greek market – which is mainly operating on a named perils basis – causing premium reductions of up to 20%. It was reported that it is now cheaper to obtain terrorism coverage but that there is no local capacity and coverage is placed via the London market. Earthquake coverage on the other hand is still expensive and capacity is limited.
- Fierce competition and a good loss ratio resulted in premium reductions of up to 30% in Ireland. Larger hazardous risks are more difficult to place with premium reductions.
- An increased capacity and a good loss ratio in Italy resulted in premium decreases of up to 10%. It was also reported that carriers do request significant technical information before placing a risk.
- Spain saw premium reductions of up to 30% following the arrival of new players earlier in the year, such as Tokio Marine, Factory Mutual and QBE, in the mid-sized segment.
- There is limited property all risks cover in Turkey where the premiums increased up to 10% due to limited treaties conditions.
- The UAE reported small premium reductions of up to 10%. It was also noted that insurers are unwilling to support woodworks, joinery, foam and hazardous chemical and stand-alone warehouse risks.
- In UK (large organisations), where premium increased up to 20%, good risk management is a key driver for property business, and the UK markets still have aggressive growth targets and are still producing profits on their portfolios.

Motor

The majority of the EMEA region saw a softening motor market, caused mainly by strong competition.

- Premiums continued to remain stable, with reductions of up to 20% for profitable business in Belgium. The number of carriers reduced due to mergers and sale of portfolios. However, for large fleets, there is very fierce competition between major carriers.
- Botswana reported premium increases of up to 20% due to bad claims history.
- Increased competition with the arrival of new markets in Estonia caused premium reductions of up to 20%.
- In France, fierce competition for large fleets encouraged the

Soft market and resulted in premium reductions of up to 10%. Rates for small fleets on the other hand increased systematically by 2 or 3%.

- Germany saw premium reductions of up to 10% because of the strong competition with leasing companies. Also, passenger car fleet premiums decreased up to 20% due to loss ratio.
- High competition caused premium rates to decrease up to 20% in Italy.
- In Namibia, high losses and the increased repairing costs resulted in premium increases of up to 10%.
- The soft market and a good loss ratio caused premium reductions of up to 10% in Portugal. The market is however limited for larger fleets, such as leasing companies'.
- South Africa, where the rates are driven by loss history and client profile, reported premium increases of up to 10%. Local markets write 100% own damage net and only buy reinsurance for third party liability. This resulted in significant pricing variations between markets for the same book of business.
- Turkey saw premium increases of up to 30% due to the dramatic increases in spare parts prices coupled with the worst average loss ratio in Turkish motor history, which was particularly significant for operational leasing and pharmaceutical companies. There is also a very limited number of markets for compulsory third party liability insurance.
- Very competitive market in UK (large organisations) where premium reductions of up to 20% were seen. Reserves from prior years are being released and risk management are improving claims records.

Healthcare

The healthcare market is small in Europe, and a few countries are still dependent on international capacity to place this line of business.

The market remained stable in the majority of the region in Q3 and Q4 2006. Premium reductions and increases were also seen in the rest of the region.

- Azerbaijan reported premium increases of up to 20% due to the higher cost of medical services.

- In Finland, premium decreased up to 30% due to heavy competition in the public sector.
- In France, the market remained tight for the risks considered as sensitive, notably in the pharmaceutical industry and for specialty chemicals. It was also reported that Zurich reduced its capacity in the pharmaceutical industry by half, to €25m.
- Healthcare is not a desirable risk for insurers in Germany where premium increases of up to 10% were reported. Rates remained high for chemical and pharmaceutical risks in particular. There are a limited number of carriers on the market and there is an increasing tendency for claims made.
- Premium increased up to 10% in Greece, where capacity and commitment from insurers is limited. Premium increases were caused by E&O claims.
- In Ireland, there is a limited market but Insurers are however following the general market trends and premium reductions of up to 20% were seen.
- In Israel, significant capacity was offered by Allianz in healthcare casualty and the market was aggressive for private hospital business, resulting in premium reductions of up to 20%. In EL, manual handling, stress and infection control are the main risk issues. It was also reported that claims costs were reduced as a consequence of court and litigation management reforms, causing premium reductions of up to 30%.

For healthcare property, market rates were pretty stable over the past few years. Healthcare sheltered from the significant rate fluctuations seen in other industries.

- Premium increases of up to 10% in Kazakhstan have been caused by inflation.
- Premium increased up to 20% in Poland where it is difficult to place cover for medical devices.
- In Portugal, premium rates remained stable for medical malpractice coverage. It was reported that the lack of local markets is forcing placement abroad for larger risks. In property and workers' compensation, premium decreased up to 20% due to a good loss ratio and a soft market.
- Insurer competition along with significant local capacity and appetite resulted in premium reductions of up to 10% in South Africa. Pure health/medical aid type risks are the subject of legislation. Insurers offer travel, GPA and sometimes hospital plan type products.

- High loss ratio resulted in premium increases of up to 10% in Turkey.
- The UAE, where the medical malpractice market continued to be limited, saw premium increases of up to 10%.
- In the UK, premium reductions of up to 20% were reported. For medical professional liability coverage, the premiums have been going down for the last couple of years following substantial increases of up to 30% in previous years regardless of claims experience. Although there is a limited market (various Lloyd's syndicates and company markets), the healthcare client base is quite small generating competition. It was also reported that one of the key variables in exposure changes is revenue relating to the activities which might give rise to a claim. Underwriters are finding it more difficult to justify premium increases to reflect growth in revenues.
- The loss ratio has increased in Spain where the premium rates decreased up to 10%. It is to be noted that TCRE, Zurich and ACE are new players in the Spanish trade credit market.
- The rates were stable in Turkey but the arrival of Euler Hermes and Atradius on the market will very likely broaden competition and see premiums go up in 2007.
- Trade credit coverage in the UAE is receiving fair attention from the trade community, and two international insurers – Coface and Atradius – have now established local offices in the country.
- In the UK, whilst actual numbers of insolvencies have risen over the past 6 months, there have been few significant underwriter losses. Moreover, the dominant markets are being challenged by new insurers offering trade credit cover and buying market share by discounted terms. This has caused the premiums to decrease by up to 20%.

Trade Credit

Trade credit is a fairly small market in Europe. The market remained soft or stable across the region. South Africa is the only country to have reported premium increases.

- Fierce competition between insurers and brokers has resulted in premium reductions of up to 20% in Belgium.
- Increased competition with the arrival of new trade credit players such as Atradius, Coface and Euler Hermes in Estonia resulted in premium reductions of up to 20%.
- Germany reported premium reductions of up to 20% due to competition and a low claims ratio.
- There is a limited number of trade credit insurers in Greece, including AIG, Atradius and Euler Hermes, but they are very competitive, causing the premium rates to decrease up to 10%.
- Premium reductions of up to 30% in Ireland were caused by insurer and broker competition, and a good loss ratio.
- South Africa, where the rates are driven by loss history and client profile, saw premium increases of up to 10%. The main trade credit insurers on the local market are Credit Guarantee Insurance Corporation and Coface and they are more likely to offer financial solution type alternatives such as spread loss facilities or captive arrangements. Lombards are another Credit player who concentrate on Bonds and Guarantees and also write a book of Credit Risk insurance.

Environmental

The environmental market is limited in Europe; in some instances it is included in general liability policies.

The market remained stable across the region in Q3 and Q4 2006. As earlier in the year, Azerbaijan was the only country to report small premium reductions of up to 10%.

- Premium reductions of up to 20% were reported in Belgium where newcomers ACE and XL have taken aggressive positions to ensure a market share, pushing AIG in a serious defensive position.
- Germany saw premium reductions of up to 10% and reported that insurers have not yet developed a concept with regards to the EU Directive on environmental liability.
- There is currently no market in Greece. However, AIG has decided to provide environmental cover but has not officially launched its new products yet.
- Premium were also stable in Ireland where it was reported that the Environmental Protection Agency (EPA) is very stringent with regard to soil pollution issues and is often unwilling to accept recommendations of consultants.
- In Italy, it was reported that specialised carriers and pools apply more competitive wordings than in the past, with wordings being regularly updated. This resulted in premium reductions of up to 20%.

- Premiums were stable in Kazakhstan where the current compulsory environmental law sets limits and tariff premiums.
- In Poland, environmental coverage is purchased as an additional clause to general liability and is fairly expensive.
- Russia reported that the environmental market is not well developed as clients show limited interest.
- Environmental coverage in South Africa is generally available from global carriers such as AIG, Allianz and ACE, as local markets will only provide limited sudden and unforeseen pollution as a sub-limited extension under the general PL. There has not been a real need on the part of the business to consider this cover but this is changing and seen as a potential significant growth area for Marsh risk consultants and Marsh in South Africa has recently acquired an environmental survey/consultancy business.
- The EU Directive 35/2004 which regulates the compulsory environmental liability insurance for industrial activities should be introduced in Spain in April 2007.
- As advised in our previous report, a new law was passed in Turkey in 2006 which made environmental coverage compulsory for companies with environmental risks. There is, however, still no local market at the moment. The local players could only offer sudden and accidental pollution sub-limit with their liability proposals, where the limits are insufficient. During 2007, all insurers should be in a position to offer environmental coverage to their clients.
- In the UK, the environmental market was stable; large rate reductions at the start of 2006 were not continued in the latter part of the year. Risks are still competitively priced and cover is still increasing in breath as the market becomes increasingly comfortable with this type of risk. It was reported that we are seeing markets willing to provide cover to small companies at affordable prices.

FINPRO

The soft market in FinPro lines was mainly driven by abundant capacity and a competitive environment. Significant wording improvements were negotiated and drove substantial pricing reduction, mainly in D&O. Most, if not all, restrictive provisions were negotiable. Some markets claimed their willingness to stop that trend, but are showing no sign of changing.

Zurich is expanding in most territories and across all lines of FinPro business and AIG has been reacting extremely aggressively in order to maintain its market share, by increasing the limits/structures of some programmes and focusing on small and mid-sized business.

D&O

The D&O market continued softening across the region, with some risk management accounts having seen very substantial reductions of up to 50% in some countries, such as Sweden.

- Premium increases of up to 10% were seen in Botswana, which were caused by the small local capacity coupled with some inflationary aspects.
- Premium reductions of up to 20% were reported in Germany where there is strong competition, with Dual having entered the small to mid-sized market early in 2006, and AIG and Chubb being pretty competitive in the mid-sized segment.
- Greece saw premium reductions of up to 20%. A good loss history led to profitable accounts and more appetite for business. There are, however, only a couple of local players on the market and there is a dependency on foreign reinsurers.
- Rates were mainly stable in Italy but US exposure continued to steadily increase the cost of D&O coverage.
- Namibia saw small premium increases of up to 10% because of high reinsurance costs.
- Rates were stable in Romania but with D&O coverage now compulsory for joint-stock companies since December 2006, it is very likely that the market will soften over the next few months.
- In Slovakia, increased local capacity along with good competition and appetite, especially from AIG and Allianz, resulted in premium reductions of up to 30%.
- The market was stable in South Africa where there is currently a drive to get a market approved Marsh specific wording agreed with leading South African markets.
- Spain saw premium reductions of up to 10% following an increased capacity and the arrival of Markel, Liberty, Allianz and Berkeley on the market.
- Competition and a good loss ratio in Turkey resulted in premium reductions of up to 10%.
- The D&O environment continued to see new capacity entering the UK. The main primary underwriters were seeking single digit percentage increases in premium or flat renewals. Excess pricing continued to see downward pricing pressure. At last some competitive pricing for excess "A-side" or "A-side DIC" placements started to be seen with more dedicated capacity available.

Professional Indemnity

The PI market remained mainly stable or saw small premium reductions in the region but it is worth mentioning that the trend is different depending on the activities to be insured: law firms will enjoy rates improvement, whereas auditors and accountants could see slight increases, or at best will renew “as expiring”.

- In Botswana, premiums – driven by the high cost of Reinsuring – increased up to 10%. With clients who participate in global programmes, deductibles are often in US\$ and prove prohibitive to local consumers; exchange rate is over BWP6 to US\$1.
- France saw premium reductions of up to 20% and reported that competition was very strong for the “Big 4” accounting (KPMG, Ernst & Young, PWC, and Deloitte).
- Small premium reductions of up to 10% were reported in Germany where the market is fairly stable but where there is an obvious tendency for a softening market. Allianz, Gerling, Victoria and R+V are dominant in the market.
- A stable market in Greece where there are few underwriters, low limits, very limited local capacity and a dependency on reinsurance.
- High capacity in Ireland resulted in premium reductions of up to 20%. However, it was reported that it is difficult to find primary competitive markets for engineers and one-off PI projects.
- Premium rates were stable in Portugal but the lack of capacity for larger risks is forcing placement abroad.
- The PI market continued to soften in the UK entering the final quarter of 2006. Rate reductions were experienced on renewals, which was a similar scenario for all types of industry. During the UK solicitors season, rate reductions of 10% and greater were not uncommon. Insurers underwriting technology, media and telecoms (TMT) and architects and Engineers (A&E) business also showed rate reductions of up to 10%.

Despite the softening global market conditions, the London market remained competitive and capacity remained stable. Underwriters are both eager to increase their book of business and retain their renewals.

Within this aggressive environment, it was noticed that several markets were investigating the possibility of underwriting different industries. There could well be more TMT underwriters within the coming months providing TMT capacity.

Financial Institutions

The financial institutions market was mainly stable in the majority of EMEA. The real focus of our clients has been coverage and therefore for the large risk management accounts, the renewals were on an “as expiring basis”, whereas some requiring smaller limits could achieve some premium reductions.

- FI covers in Botswana are reinsured to external markets because of the small capacity locally, causing premium increases of up to 10%.
- Premium reductions of up to 10% were reported in France, where the higher reductions were seen for large accounts due to strong competition.
- Germany reported premium reductions of up to 20%, due to higher competition mainly on savings and loan banks. The key FI markets are AIG, Chubb, Zurich and Liberty.
- Ireland saw premium reductions of up to 10% despite the FI market getting less competitive and premium reductions slowing down.
- Stable rates were seen in Italy where it was noted that Zurich are a key partner offering new products.
- There is a limited client base in South Africa, where the premium increases of up to 10% were largely driven by the growth in client business as opposed to rate increases. Most wordings are based on Lloyd’s agreed wordings and a large percentage of FI business is being placed via the London market.
- In Turkey, premiums decreased up to 20% due to high competition within the London market. There is currently no local market but recent regulatory changes are pushing the clients to get better control procedures in place.
- In the UK, as per the first half of 2006, the London market FI business has slightly softened in the second half of the year, with average reductions, on like for like premiums, of up to 10%. Coverage is still softening and improved wordings have been negotiated in most cases.

Aviation

New capacity played a big part in the airline insurance market in the final two quarters of 2006. The ten new entrants wanting to underwrite airline business provided an additional 30% of new capacity and pushed the total available airline capacity over 200% (subject to limits, geographical location and pricing).

The need for new entrants to write business helped accelerate the level of premium reductions being obtained. This resulted in some of the traditional established markets losing their participation as they were unwilling or unable to match the levels of reductions being offered.

Overcapacity and the lack of significant losses had a significant effect on airline rates and premiums. While growth in exposure allowed underwriters to offset the level of rate reductions being given, the level of premium reductions averaged over 20% for the last six months of the year. The premium reductions have meant that the overall airline income, excluding excess AVN52 and Hull War, has fallen below US\$2 billion for the first time since 2000. We currently estimate that the total premium for airlines for 2006 is around US\$1.9 billion on lead terms.

While the continued improved safety record is good news for underwriters with airline losses estimated to be just under US\$ 1.3 billion, the level of gross profit on the primary airline portfolio has reduced due to the fall in the premium income. Therefore, the book has the potential to become volatile, should there be a spate of major airline claims.

There are no indications that market conditions will alter in 2007. Renewals in the first part of the year will be looking at what happened in the final quarter of 2006 and expect similar levels of premium reduction. The new players will be looking to continue to grow their portfolio, while established markets may well review if and how they participate.

The manufacturers' book started to see some effects of the new capacity with veticalised terms being obtained for the first time. However, on the whole during Q3 & Q4 of 2006 the majority of accounts received small premium increase, with

the average being around 3%. The large manufacturers with the high premium spends were able to leverage the market better than those with smaller higher premium spends, with some obtaining modest premium reductions.

While the influence of the new capacity may grow during 2007, underwriters are still concerned with the deterioration of old claims, with nearly US\$1.7 billion being added to reserves over the last 4 years. Therefore underwriters will continue to be cautious and any softening of the market will be modest.

The airport book of business saw the slight softening that occurred in the first six months continue in Q3 & Q4 of 2006. The new capacity started to bite with premium reductions averaging around 5% for airports without any Air Traffic Control (ATC) exposure. ATC providers obtained as before renewals as underwriters remain cautious, especially following several recent high profile losses.

Despite this note of caution, we anticipate that the new capacity will start to have a greater effect in 2007, with pure airport exposure seeing increases in their premium reductions and even ATC providers being able to obtain modest reductions in premium.

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