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Marsh Risk Management Research **Briefing**

BENCHMARKING TRENDS: EXCESS/UMBRELLA INSURANCE RATES STILL INCREASING

OCTOBER 2012

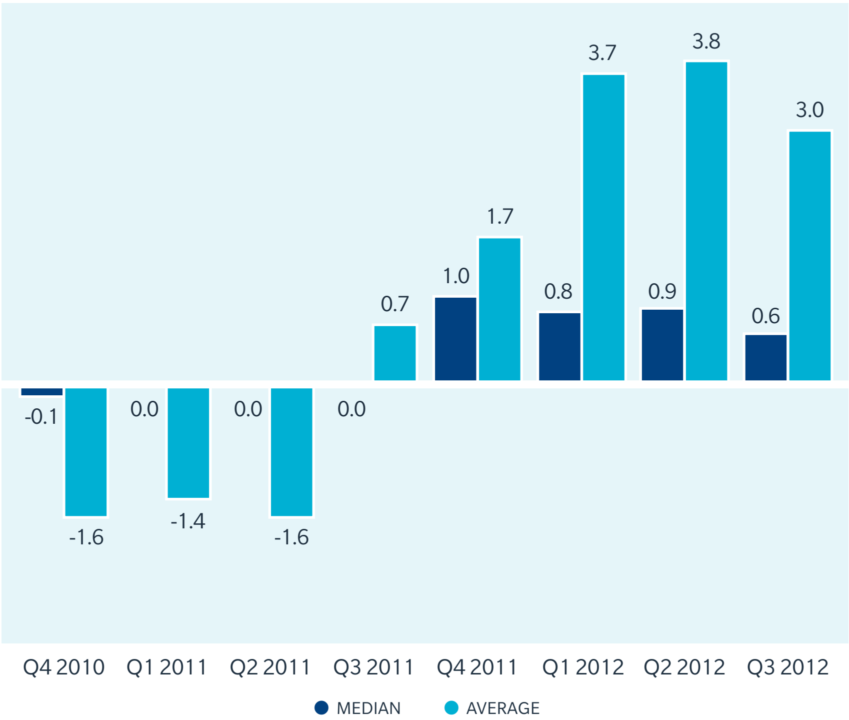
Excess/umbrella casualty insurance rates at renewal rose in the third quarter of 2012, marking the fifth straight quarter of increases. Insureds with difficult risk profiles typically experienced the highest increases in pricing and primary attachment points, sometimes in conjunction with coverage restrictions.

Renewal rates in the quarter—for all clients—increased at an average of 3%, with the median increase at 0.6% (see Figure 1).

Among the reasons for the continued rate increases for excess/umbrella insurance:

- The economy shows little sign of interest income relief.
- Insurers' ability to release their reserves has slowed significantly.
- Lawsuits generally continue to bring large awards and settlements.
- Underwriters are willing to decline certain hazardous risks, despite the potential to assess large premiums for such exposures.

FIGURE 1: EXCESS/UMBRELLA LIABILITY INSURANCE HISTORICAL RATE CHANGES BY QUARTER



Source: Marsh Global Analytics

HIGHLIGHTS

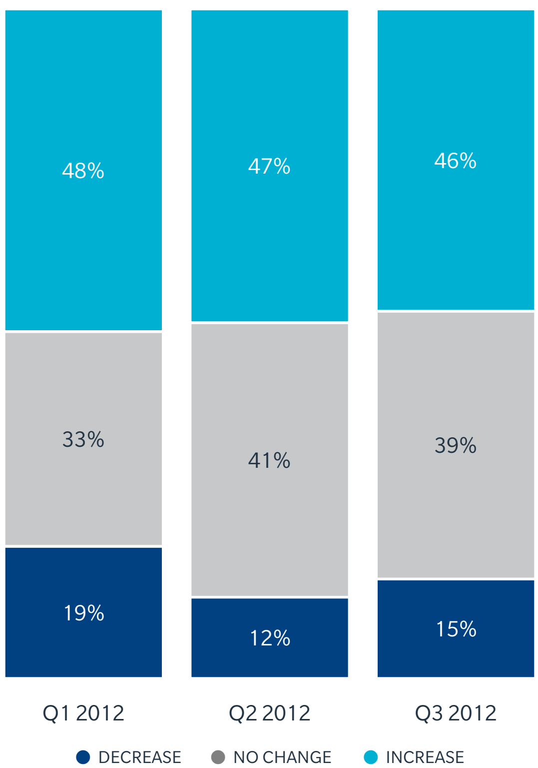
- Excess/umbrella casualty insurance rates at renewal rose in the third quarter of 2012.
- Excess/umbrella insurers generally are seeking to raise rates.
- Large clients were slightly more likely than others to experience rate increases in the first three quarters of 2012.

MORE LARGE COMPANIES SEEING EXCESS/UMBRELLA INCREASES

Excess/umbrella insurers generally are seeking to raise rates. In the first quarter of 2012, 19% of clients saw rate decreases at renewal; in the third quarter that fell to 15% (see Figure 2). Also in the third quarter, 46% of renewals experienced increases, similar to the first half of the year. Still, competition among insurers remains robust and may be helping to mitigate a wider hardening of the insurance markets.

Large clients—those with annual revenues greater than $1 billion—were more likely than others to experience rate increases in the first three quarters of 2012 (see Figure 3). In each quarter, more than half of all large clients saw rates go up at renewal, with 59% seeing increases in the third quarter.

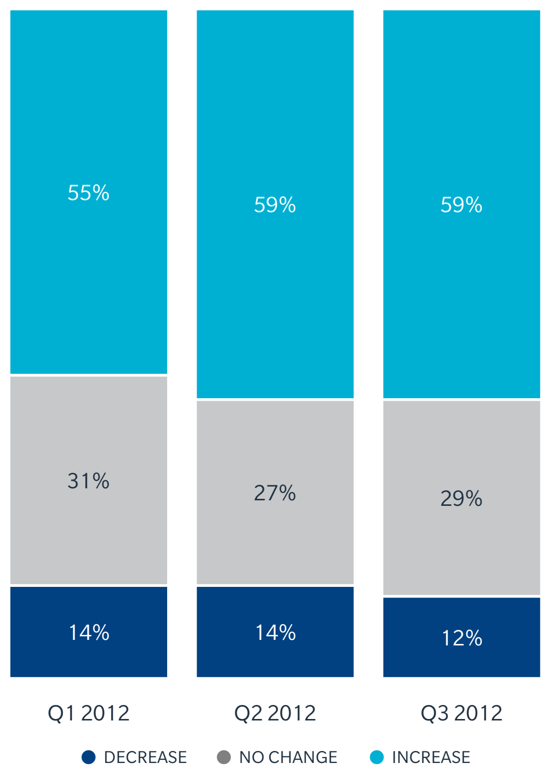
FIGURE 2: PERCENTAGE OF ALL CLIENTS WITH EXCESS/UMBRELLA RATE CHANGES



Source: Marsh Global Analytics

FIGURE 3: PERCENTAGE OF LARGE CLIENTS WITH EXCESS/UMBRELLA RATE CHANGES

REVENUES US$1 BILLION+



Source: Marsh Global Analytics

SMALL TO MIDSIZE COMPANIES ALSO FACE INCREASES

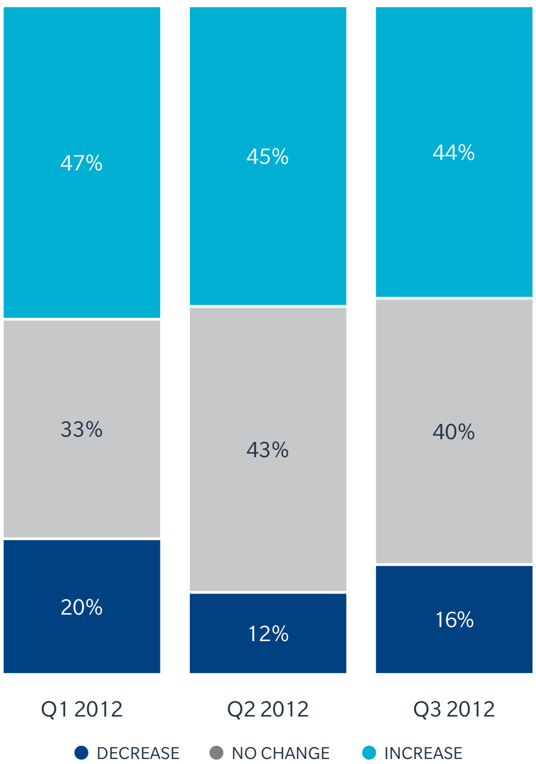
Small and midsize companies—those with annual revenues less than $1 billion—have been less likely than large ones to experience increases at renewal (see Figure 4). The percentage of small and midsize companies seeing increases has been relatively stable throughout the year, between 44% and 47%. Meanwhile, the percentage of small and midsize firms seeing decreases in excess/ umbrella rates declined from 20% in the first quarter of 2012 to 16% in the third.

For the remainder of 2012, excess/umbrella insurers likely will continue to seek mid- to high-single digit rate increases, on average. Companies with more difficult risk profiles are likely to experience increases of 10% or greater, while more "vanilla" risks likely will see upticks of less than 5%.

Insureds should continue to differentiate themselves to underwriters, for example by showing that they have tight controls over claims and a consistent claims philosophy. They also should be prepared to increase retention levels, if necessary. Starting the renewal process early allows insureds to look at options that can help optimize the balance between retention and risk transfer.

FIGURE 4: PERCENTAGE OF SMALL AND MIDSIZE CLIENTS WITH EXCESS/UMBRELLA RATE CHANGES

REVENUES UP TO US$1 BILLION



Source: Marsh Global Analytics

ABOUT THIS BRIEFING

This report was prepared by Marsh's Excess Casualty Group, which is responsible for the advice, design, and placement of complex excess casualty transactions for Fortune 1000 companies, coordinating global placements in the US, and with Bowring Marsh in Bermuda, London, Dublin, and Zurich.

The report was prepared in conjunction with Marsh Global Analytics – Benchmarking Center of Excellence, which provides purchasing patterns and pricing behavior analytics to Marsh clients and the insurance industry. The real-time data is sourced from Marsh's Global Benchmarking Portal, which provides high quality data and analytics through on-demand, real-time benchmarking analysis, peer-comparison reports, and industry/product-specific reports.

ABOUT MARSH

Marsh, a global leader in insurance broking and risk management, teams with clients to define, design, and deliver innovative, industry-specific solutions that help them protect their future and thrive.

From its founding in 1871 to the present day, Marsh has provided thought leadership and innovation for clients and the insurance industry—introducing and promoting the concept and practice of client representation through brokerage, the discipline of risk management, the globalization of insurance and risk management services, and many other innovative tools and service platforms.

In further support of clients' strategic, operational, and risk management objectives, Marsh provides consultative advice, brokerage, and claims advocacy services through an array of dedicated global risk specialties and industry practices. For both large and midsize organizations, Marsh colleagues apply their experience and working knowledge of clients' industry sectors and of the unique environments in which they operate to facilitate the requisite breadth of coverage and to reduce cost of risk.

Product and service offerings include program design and placement, post-placement program support and administration, claims advocacy, and a wide array of risk analysis and risk management consulting services.