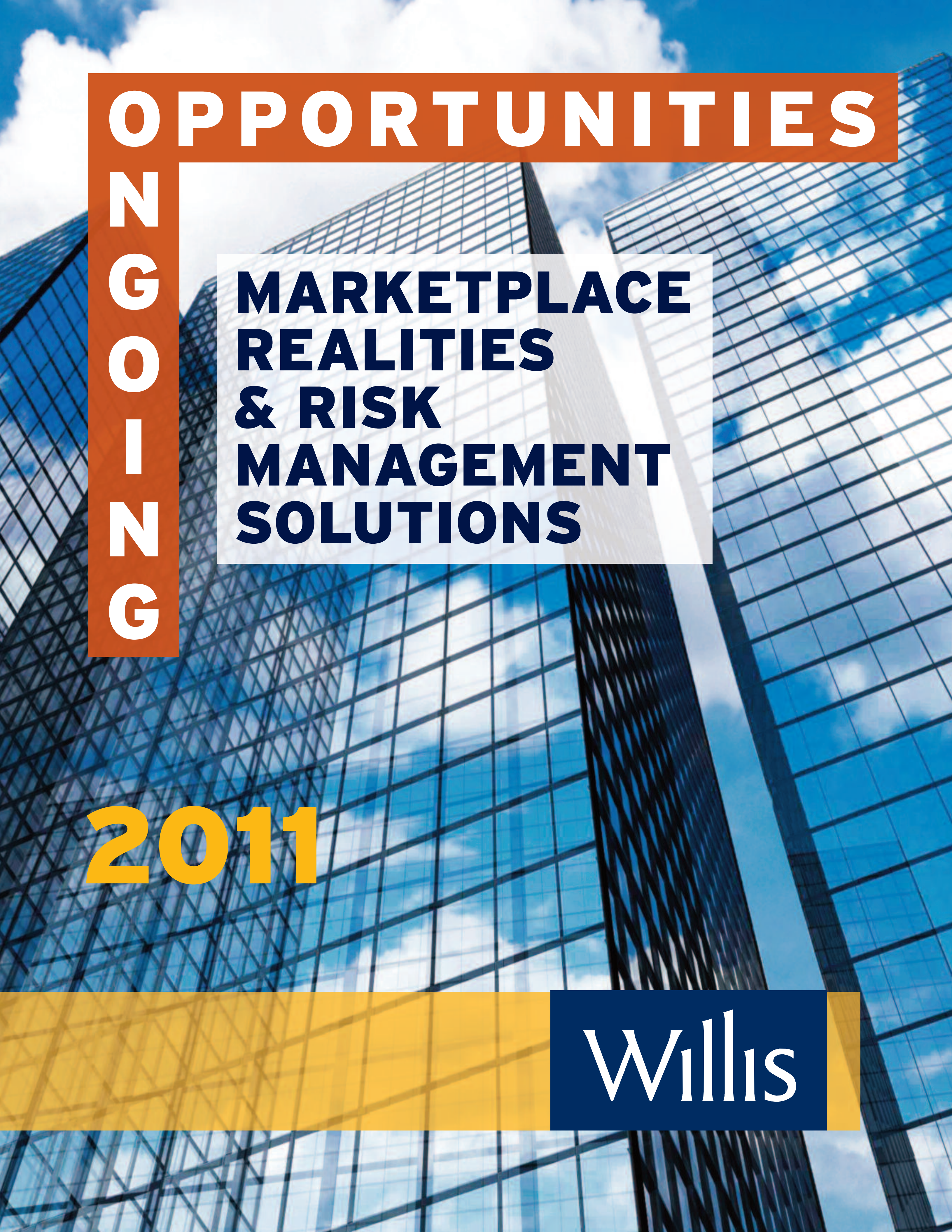

ONGOING OPPORTUNITIES

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

2011

Willis

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

NOTE FROM THE EDITOR

DOING MORE WITH LESS

Whether the global recession is really over and recovery will gather any momentum, for the moment we all have to do more with less. With the busy risk professional in mind, we at Willis have redesigned our long-standing flagship publication in North America, *Marketplace Realities & Risk Management Solutions,* to do more – or at least as much – with less. We offer our usual line-by-line review of major marketplace trends in all the major lines of business, but we keep each article to one page. We offer price predictions for 2011 and the boiled-down perspective from the people who live and breathe their product lines every day. We offer industry highlights when the market for certain sectors differs from the general product line trends. The idea is simple: get to the point.

For the risk manager, the most crucial point of all is that every risk profile is unique. That central fact is what drives the Willis Client Advocacy service model. Buyers of insurance need not only a representative in the marketplace but an advocate who understands what makes their organization different and understands that their marketplace experience may differ markedly from the experience awaiting other organizations with their own unique operations, locations, history and ambitions.

Understanding the general market, however, is the right place to start in setting a risk management strategy that takes advantage of opportunities that the current marketplace continues to provide. We offer the 2011 issue of *Marketplace Realities* as a quick, focused key to that understanding.

We also offer the series earlier than we have in the past, as it's never too early to start planning, especially with fall and 1/1 renewals ahead. As always, we are thinking of new and better ways to serve your risk management needs.

Delivering these insights is essential to the Willis Cause: understanding your business, finding you the best solutions, relentlessly delivering quality service and getting your claims paid quickly. We would say the overarching theme of the Willis Cause, "with integrity," goes without saying, but unfortunately these days integrity does not appear to go without saying. At Willis, we say it and we back it up. We offer this publication in that same spirit.

THE WILLIS CAUSE

- We thoroughly understand our clients' needs and their industries.
- We develop client solutions with the best markets, price and terms.
- We relentlessly deliver quality client service.
- We get claims paid quickly.

...WITH INTEGRITY

Eric Joost
National Partner
North American Specialties
Senior Editor
Marketplace Realities & Risk Management Solutions

Marketplace comments from Eric Joost are available on video at ***www.willis.com/What_We_Think***

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

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We also invite readers to visit the Publications **What We Think** page of **www.willis.com**, where you will find many other articles and studies of immediate and enduring value to risk managers, financial executives and corporate governance stewards of every stripe.

Marketplace Realities is updated semi-annually.

EDITORIAL STAFF

Eric Joost | Jonathan Fried | Paulette Callen

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

ONGOING OPPORTUNITIES

Long shots, black swans, worst-case scenarios, low frequency/high severity losses – call them what you want, most of us ignore them. Human nature is what it is and for the most part people proceed as if the worst will never happen.

The reason is simple enough. If we were to live by the worst-case scenario, we'd never get out of bed in the morning. Ignoring the inevitability of catastrophe is a survival mechanism, and a useful one. Without risk, there is no reward. What easier method of dealing with all the risks out there in the pursuit of our rewards than just looking the other way?

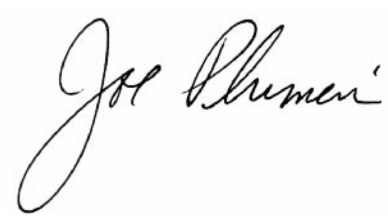
In our industry, of course, the matter is a little more complicated. It's our job to face the risks, to measure and mitigate them. And yet we're human, and can't help but play to the short term. Playing to the short term in business means thinking about the results at hand, the quarter about to end, about what the shareholders and other stakeholders will say, with maybe a glance to the year-end results, especially now as autumn rolls in. If we see an opportunity to save a little or earn a little more, we take it. In a soft insurance cycle, the risk managers can do their part for the short-term cause by reporting that, yes, once again they've saved on insurance premiums.

Not that there's anything wrong with that. In fact, we're here to tell our readers to take advantage. But we urge you to take *smart* advantage, to think beyond price. Think about the larger definition of what it is you do: protecting your organization and its people so that you can make your grandest dreams of growth and glory come true. In more specific terms, we urge you to think about terms and conditions you may want to improve. Think about coverages for emerging risks that may not be protected by conventional Property and Casualty programs (e.g., Cyber, Environmental, Political Risk insurance). Think about your carriers as trading partners, and take a moment to consider their financial stability and longer-term prospects.

The absence of market-turning loss events and ongoing competition for slowly recovering business means the soft market will in most areas go on. Sooner or later, of course, the market will turn, and if history is a guide, the longer and deeper the soft trough in the marketplace cycle, the steeper the upswing on the other side. Taking smart advantage now will help buyers weather that turn.

As we write, some forecasters are pointing to a shift in the atmospheric conditions that so far have pushed several Atlantic hurricanes well east of the U.S. coastline. Whether or not that happens, the aftermath of Katrina lingers vividly enough to remind us of the darker possibilities. According to one recent report, climate change was responsible for $65 billion in damages so far in 2010[1], and some say we have yet to feel the full impact of the ongoing planetary change. Whatever it may be – a cyber event, an environmental

disaster, a terrorist attack – some part of us knows that the long shot, the catastrophe, the terrifying news flash will appear. We accept the fact that most of us will keep this inevitability out of sight and out of mind, and we hope every buyer of insurance will make the most of the opportunities that lie immediately ahead. At the same time, we hope you will work with your risk management partners to make sure that you make the most of these opportunities in a way that will pay dividends long into the future. That's what we're here for.



Joe Plumeri
Chairman & CEO
Willis Group

[1] *ADP Germany News,* "Munich Re says climate change caused USD 65bn in damages Jan-Sep," September 27, 2010.

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

PROPERTY

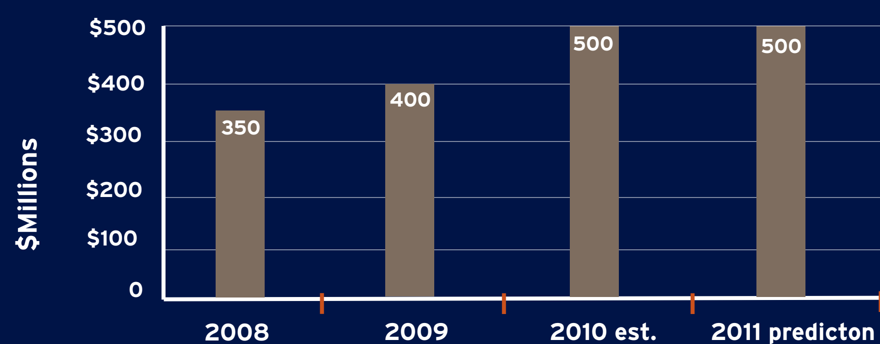
- The Property market remains soft. Reductions will depend on CAT exposure and industry type, but we expect rates will fall 15% on average.
- If your account has poor loss experience or has been aggressively marketed the last few years, your decrease might be less than 15%.
- Incumbent underwriters are fighting to maintain their position on accounts while prospective underwriters are aggressively pursuing new business.
- Most accounts are over-subscribed at renewal.
- Treaty reinsurance costs have been down by 15% in 2010 and even 20% in some cases.
- Commercial Property insurers posted an **89%** combined loss ratio in 2009. Risk losses have been low in 2010, but CAT losses significant ($10-12 billion from the Chile earthquakes, nearly $3 billion from the New Zealand earthquake). **The market remains soft despite these losses**.
- Policyholder surplus in Q1 2010 increased by a record breaking $29.2 billion (5.7%) from 2009 to $540.7 billion.[1]
- Markets may consolidate in strategic pursuit of market share.
- Rates softened over the course of 2010.

PRICE PREDICTIONS

NON-CAT
-15% to -20%

CAT (or poor loss experience)
-10% to -15%

CAT PROPERTY CAPACITY ON DIFFICULT ACCOUNTS



INDUSTRY HIGHLIGHTS

- **Health Care** — Incumbent insurers are trying to hold the line on rates but alternative insurers are competitive and the result continues to be flat or slightly lower rates. Wind-exposed properties are seeing a reduction in deductibles/retentions.
- **Real Estate** — Rates down 10% even in CAT zones.
- **Technology/Media/Telecom** — Rates will be flat to down 10%.

CONTACT

David Finnis | National Property Practice Leader | 404 302 3848 | david.finnis@willis.com

[1] *IBNR Weekly* 6/25/2010 issue

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

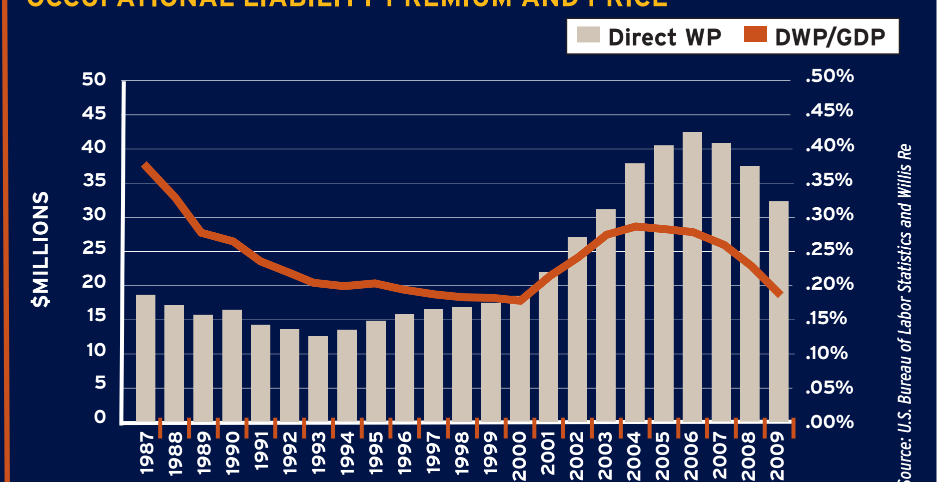
CASUALTY

- As we head into the ninth year of a soft Casualty market, reductions ahead will depend on exposure and industry type, but **we expect most rates will fall by up to 5%,** as there is abundant capacity and appetite for most risks.
- Flat to minimal growth is anticipated in most sectors for the rating bases and insured exposures (i.e. , revenues, vehicles, units sold, etc.). **To maintain premium levels, some carriers are pushing for rate increases on their renewal book.** This strategy, in a market rich with aggressive competition, has resulted in the movement of accounts.
- **Larger auto fleets should continue to see favorable Auto Liability rates and attachment points** as well as continued expansion of the Auto Buffer market.
- **Carriers continue to broaden coverages in their primary, umbrella and excess forms.** It is not uncommon to see Professional Liability returning to a carrier's base form.
- **The more loss-prone risks that tend to be marketed in London and Bermuda are seeing flat to slightly increasing rates.**
- London and Bermuda lead the marketplace in Stand-Alone Product Recall and Reputational Risk covers.
- As carriers struggle for profitable premium growth and, in the low interest environment, to generate the return on surplus required to write long-tail Casualty coverage, several are trying to drive growth through industry specialization.

PRICE PREDICTIONS

Type of Account	Q1
Minimal Products Exposure	Flat to -5%
Tougher Products	Flat to +5%

OCCUPATIONAL LIABILITY PREMIUM AND PRICE



Source: U.S. Bureau of Labor Statistics and Willis Re

INDUSTRY HIGHLIGHTS

- **Financial Services –** Based on their lending practices, FI's may be assuming more exposure to construction projects.
- **Health Care –** Carriers are expanding their appetite for non-Professional Health Care exposures but this may not result in markedly softer pricing. Overall, 5-10% reductions in Primary are still achievable.
- **Life Sciences –** Products liability and nanotechnology concerns remain a challenge.
- **Real Estate –** Commercial Real Estate remains competitive while the Residential Real Estate market is tightening.
- **Technology/Media/Telecommunications –** Primary rates are decreasing 8-12%.
- **Utilities –** Growth through "GREEN": carriers are targeting alternative energy sectors.

CONTACT

Pam Ferrandino | National Casualty Practice Leader | 212 915 7928 | pamela.ferrandino@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

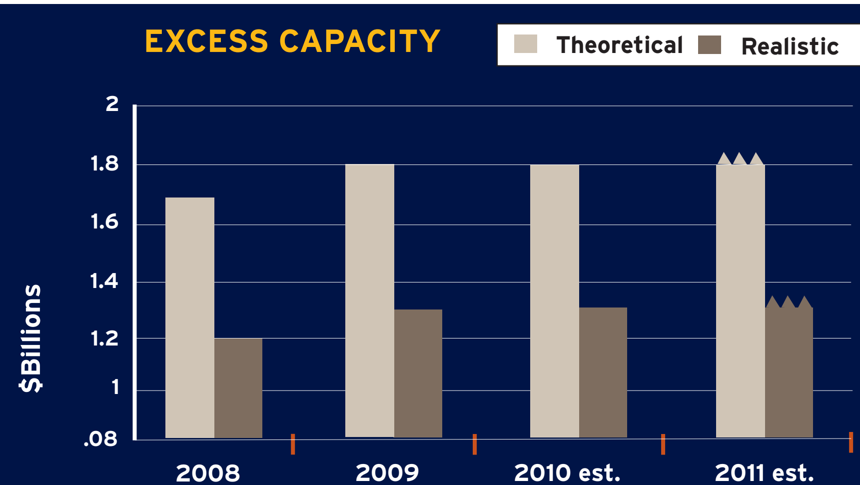
UMBRELLA/EXCESS LIABILITY

- The **Umbrella/Excess Liability market is expected to remain very competitive**.
- **Rates will vary by class of business**; less desirable industries (chemical, pharmaceutical, critical automotive products, etc.) can expect less competition.
- Flat rates for most, **coupled with exposure decreases, mean falling premiums**.
- **Coverage for Punitive Damages can be obtained** in offshore wraps, most-favored venue language and coverage within base policy forms when secured outside the U.S. Pros and cons should be reviewed carefully.
- Simple fixes to jurisdictional requirements for locally admitted coverage remain a challenge, but carriers are finally paying attention.
- **Capacity is arguably at an all-time high**, given variables of industry, reinsurance and other internal restrictions.
- One major market has recently retracted capacity for accounts with "tough products," likely in reaction to Gulf Coast oil platform losses.
- **Multiyear deals are alive and well** for accounts that are willing to aggressively leverage their position.
- Competition notwithstanding, **underwriters are standing firm on terms and conditions**, and even walking away if buyers make unreasonable demands.

PRICE PREDICTIONS

NON HIGH HAZARD PRODUCTS:
-5%

HIGH HAZARD/ CAT PRODUCT LIABILITY:
Flat



INDUSTRY HIGHLIGHTS

- **Health Care** — Very competitive for layers above $10 million.
- **Life Sciences/Pharma** — Carrier appetite is limited but growing.
- **Manufacturing** — Be prepared to demonstrate product use and potential exposures.
- **Real Estate/Hospitality** — Residential will be more limited; mold/fungus sublimits should be expected; terrorism concerns remain in hospitality depending on location/occupancy.
- **Technology/Media/Telecommunications** — Expect some electronic data coverage limitations. Rates are flat.
- **Transportation** — Appropriate underlying attachment point required, some limitations on long haul.
- **Utilities** — Rate increases sought by AEGIS, the industry mutual, are easing. AEGIS is now issuing an annual aggregate of two times limit; other carriers are competitive with relatively flat rates.

CONTACT

Paul G. Smith | Willis North America | 212 915 7976 | smith_pg@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

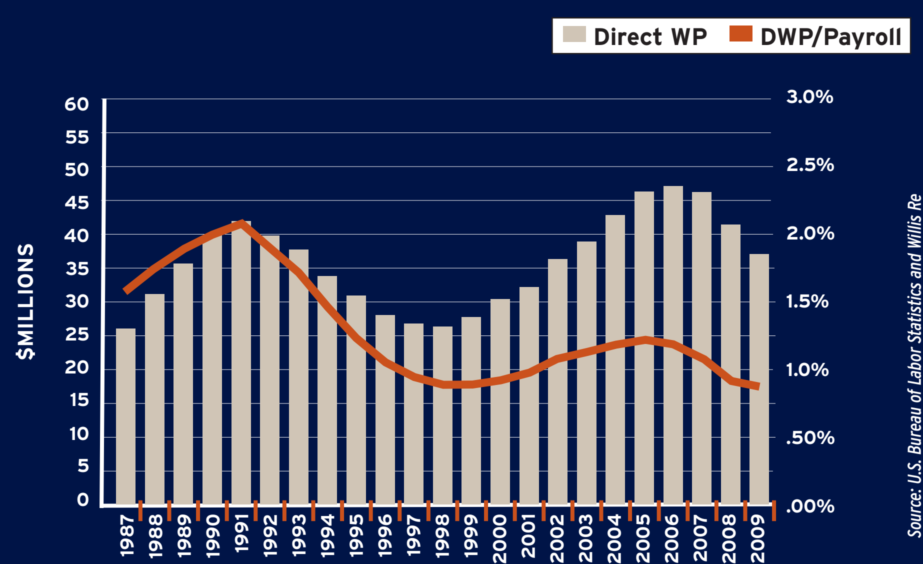
WORKERS' COMPENSATION

- **The soft Workers' Compensation market is expected to continue into 2011.** Payroll is the key driver for Workers' Compensation premium and as employment stabilizes so should rates.
- Last year, many carriers struggled to secure rate increases on their renewal book to offset the impact of payroll reductions. Workers' Compensation combined ratios have reached 110%. **This year, several states are filing for rate increases.** California, Florida and New York lead the list.
- Carriers are still aggressively competing for financially strong accounts.
- **Guaranteed cost options are available to almost any employer.**
- Even though the credit market has improved over the past 18 months, **collateral requirements remain a challenge** for many insureds, often prohibiting them from taking full advantage of market conditions.
- With rates low, there are fewer dollars to squeeze out of the premiums, leaving employers to focus on **loss costs, claim expenses and medical cost containment** as means to further lower Workers' Compensation costs.

PRICE PREDICTIONS

Flat to -5% in Q1,
Flat by Q4 2011

WORKERS' COMPENSATION PREMIUM AND PRICE



INDUSTRY HIGHLIGHTS

- **Health Care –** Carriers are expanding their appetite for health care exposures.
- **Construction –** With construction work still down, carriers that have historically written construction risks are feeling more pressure on the top line growth as construction risks tend to generate more premium per dollar of payroll than other industries.

CONTACT

Pam Ferrandino | National Casualty Practice Leader | 212 915 7928 | pamela.ferrandino@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

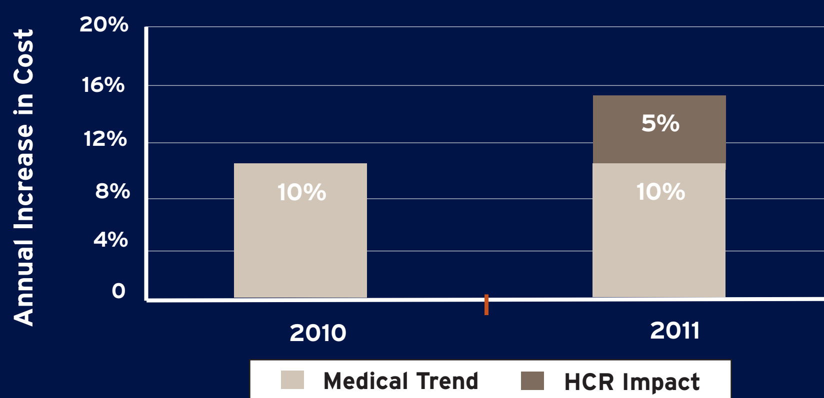
EMPLOYEE BENEFITS

- **Health care reform dominates the employee benefits agenda**.
- Many employers expect health care reform to raise costs.
- Despite ongoing economic uncertainties, **most employers continue to maintain robust benefits programs**.
- **The rolling effective date for health care reform (HCR) starts with the first plan year after September 23, 2010**. The government is steadily releasing detailed guidance fleshing out the details of the changes brought by reform.
- **Interest in wellness programs continues to grow**. Though employers better understand the links between good health, employee engagement and increased productivity, most lack the ability to change behaviors.
- Employers struggle to balance shrinking revenues with competitive total reward strategies.
- Economic forces are putting **pressure on employer pension and welfare benefit dollar allocations**.
- As employees continue to take on more work, work/life balance issues persist.

PRICE PREDICTIONS

+15%

MEDICAL TREND - EFFECT OF HCR



COMPENSATION AND BENEFITS COSTS

- Effective compensation planning has become mission critical for employers.
- Average employee compensation costs of $29.71 per hour consist of wages and salaries ($20.67 per hour, or 69.6%) and associated benefits ($9.04, or 30.4%). *Source:* ***U.S. Bureau of Labor Statistics***.
- Of the benefits portion, health benefit costs average $2.08 per hour, or 7.5% of total compensation (for private industry).
- This compares to an average health insurance cost of $1.09 per hour (5.5% of total compensation) five years ago.

Further information about health care reform is available through the Willis Human Capital Practice at: **http://www.willis.com/Client_Solutions/Services/Employee_Benefits/Publications/**

CONTACT

Maureen E. Gammon, JD | National Legal & Research Group | Willis Human Capital Practice | 610 254 7476 | maureen.gammon@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

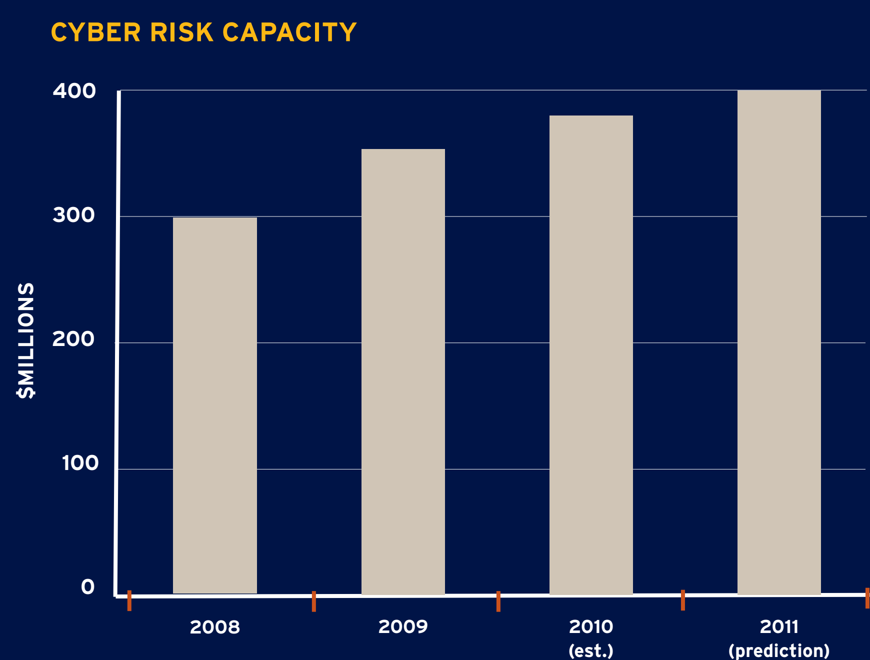
CYBER RISK

- The market for stand-alone Cyber policies is competitive, with **rates flat to down 5% for renewals at present.**
- **Competition for first-time buyers remains intense,** with a wide range of rates offered by insurers as they seek larger shares of a growing market.
- **With mounting losses, Q1 2011 renewal rates may begin to flatten and even rise 5%.** First-time buyers will likely find a continuing competitive environment, though the range between insurers may narrow.
- Policy wording continues to expand both for privacy coverage (fines/penalties and breach cost sublimits) and more dramatically for first-party coverage (including system failure coverage for networks that extends beyond the more limited computer attack trigger).
- Insureds that buy Errors & Omissions (E&O) policies are often able to add Cyber risk by endorsement.
- Insurers are moving to control loss costs and attract business by **providing privacy breach risk management services,** including panels of breach response firms. **Insureds agreeing to use the panel may be able to buy higher** sublimits for breach notification cover.
- Privacy laws continue to spread both in the U.S. and Europe. Over 45 states now have privacy breach notification laws, and in the health care sector, the HITECH Act adds national privacy regulation for protected health information.
- As privacy laws expand internationally, the impact on claims from multinational buyers of Cyber insurance adds another **significant variable that could impact rate and capacity.**
- Publically reported privacy breaches in 2010 stand at 266, down from 600 in 2009, and the number of breached records is so far lower (16 million vs. 221 million in 2009), according to the Open Security Foundation. The potential exposure, however, remains undiminished.

PRICE PREDICTIONS

Renewals:
Flat to +5%

First-time buyers:
Competitive



CONTACT

Geoffrey K. Allen | National E&O and eRisk Practice Leader | 212 915 7951 | geoffrey.allen@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

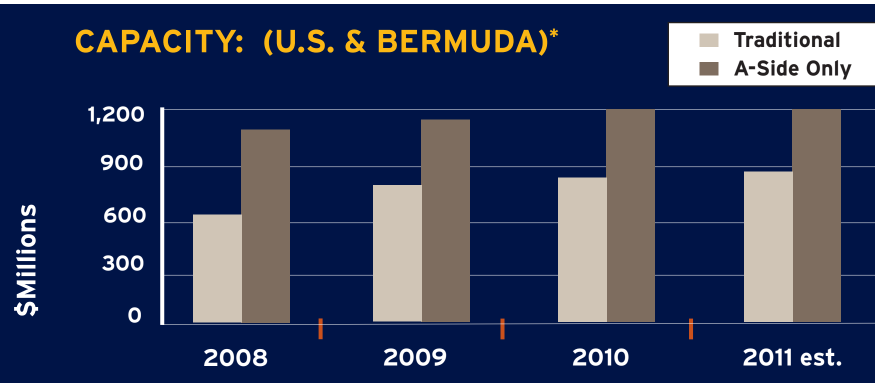
DIRECTORS & OFFICERS

- The Directors & Officers (D&O) Liability market **continues to be soft**, with broader terms available and program **rates flat or down as much as 15%**.
- Reductions on the primary layer are harder to negotiate and often available only if the incumbent carrier faces competition, so **marketing strategies tend to focus on excess layers**.
- Excess D&O rates have continued to soften, largely due to excess capacity. Rates as high as 80% of the **underlying layer have dropped as low as 60-65%**.
- **Coverage trends remain favorable**. The new primary D&O form issued by a leading carrier has set a broader standard and other carriers are replicating some or all of its enhancements.
- Today there is less separation between the traditionally challenging non-financial services industries (tech/media/telecom, life sciences and health care) and other sectors.
- Bermuda carriers continue to have a strong appetite for catastrophic risks. Many insurers have a bifurcated approach – their U.S. operations underwrite the primary and low excess exposure while their **Bermuda operations write the high excess CAT risk**.
- The credit crisis produced much litigation, including suits resulting from asset write downs or corporate insolvency, but most of these cases are working their way through the courts.
- As mergers and acquisitions heat up, however, **new D&O claims are being brought** by investors dismayed by the (low) values being assigned to their companies.

PRICE PREDICTIONS

COMMERCIAL:
Flat to -15%

FI:
Flat to -20%



* Markets will **not** usually write all types of businesses and/or will **not** necessarily make both their traditional (A+B+C) capacity and their A-Side limits available for every account.

INDUSTRY HIGHLIGHTS

- **Financial Services** — Increased capacity has facilitated a quick transition from a hard to a stable market, with exceptional risks experiencing meaningful decreases.
- **Health Care** — Competition is putting the focus on the critical differences in terms and conditions.
- **Life Sciences** — Those without cash flow challenges are finding a buyer's market.
- **Real Estate** — Pricing has not yet returned to pre-credit crisis levels, but today, this industry class is closely tracking with general trends.
- **Technology/Media/Telecommunications** — While not all markets will use their full capacity on these risks, good risks garner serious interest and competitive terms.
- **Utilities** — Low frequency (but higher severity) makes these desirable risks.

CONTACTS

Ann Longmore | D&O, EPL and Fiduciary Leader | 212 915 7944 | ann.longmore@willis.com
John Connolly | Growth Leader | 610 254 5686 | john.a.connolly@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

EMPLOYMENT PRACTICES LIABILITY

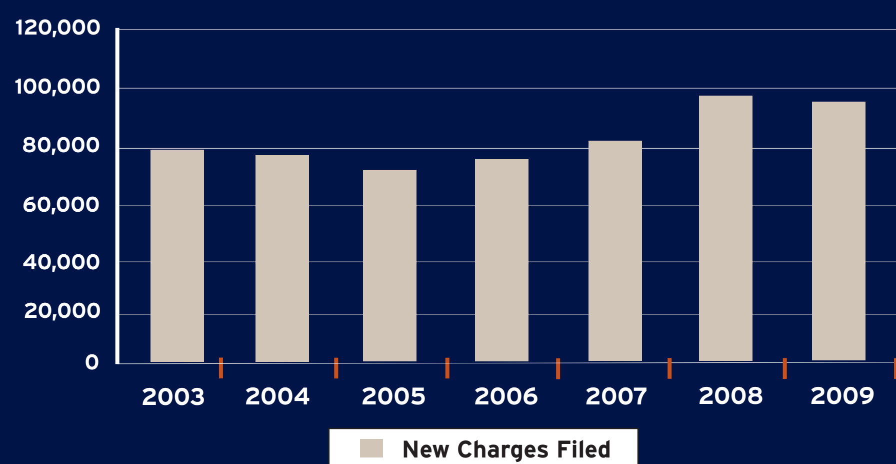
- **The Employment Practices Liability (EPL) market remains soft**, like the Directors & Officers (D&O), with reductions expected throughout 2011. While the size of the reductions will depend on the size of the exposure and industry class, we expect **most rates will fall by up to 15% or more**.
- **Even companies with active claim histories are able to reposition themselves** today with a compelling loss control plan.
- Bermuda and London have always played a strong EPL role and this is increasingly true.
- Private companies and not-for-profit organizations continue to purchase their EPL as part of a package with their D&O or Management Liability coverage, with **EPL as the price driver**.
- Carriers who introduced new D&O forms in 2009-2010 are now looking to do the same for EPL, so stay tuned for more information on **new terms and conditions.**
- With the largest EPL class action ever (1+ million potential plaintiffs) heading to the U.S. Supreme Court in 2011, the coming year may hold surprises, but **we still anticipate stability in pricing**.

PRICE PREDICTIONS

PRIVATE / NONPROFIT
Flat to -20%

PUBLIC COMPANY
Flat to -15%

NEW CHARGES FILED WITH THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION



INDUSTRY HIGHLIGHTS

- **Financial Services** — The premium base is higher than in other industries (due to historical claims) but pricing trends are following those for public companies.
- **Health Care** — For nonprofits, perceived EPL exposures are the dominant factor when it comes to package Management Liability pricing.
- **Retail** — Buyers will find their efforts at differentiation rewarded within this tougher class.
- **Technology/Media/Telecommunications** — Carriers tend to view this sector's mobile workforce as riskier (less predictable, more volatile) until shown otherwise.
- **Large, Public Companies** — 2011 will see more competition on primary placements, but there will still be a limited class of competitors.

CONTACT

Ann Longmore | D&O, EPL and Fiduciary Leader | 212 915 7994 | ann.longmore@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

ERRORS & OMISSIONS

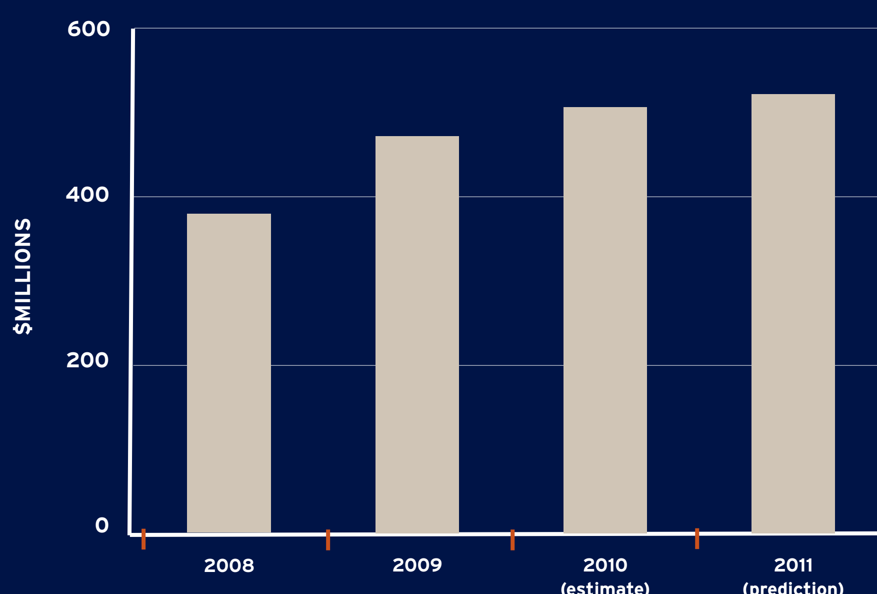
- Overall, **the global Errors & Omissions (E&O) market remains soft,** driven by an abundance of capacity fueled by new entrants and underwriters' desire to expand E&O market share. Authorized global E&O limits are approximately $600 million, though any single insured will likely find available capacity from $350 million to $400 million.
- For a range of E&O market segments, reductions are expected in Q1 2011. While reductions will depend on exposure and industry type, **for many, rates will fall by up to 5%.**
- A counter trend is emerging as some underwriters are walking away from heated competition, **suggesting a turn in the E&O market.**
- **Competition will remain generally strong in the middle market** and continue on a more selective basis for large insureds in Q1 2011.
- Competition will continue to focus on price and policy wording enhancements, with **most insurers standing firm on deductibles.**
- Policy forms for mature market segments will not expand meaningfully in terms of core coverage although insurers will continue to add or enhance options to add Network Security and/or Privacy Liability coverage.
- Despite the expected recessionary spike in claim frequency, **severity has not followed suit.**
- Competition will continue for the most desired risks, putting an emphasis on submission quality and clarity.
- As the market firms in 2011, E&O buyers should find **ongoing opportunities to drive policy wording expansion.**

PRICE PREDICTIONS

Good loss experience:
Flat to -10% in Q1, flat to +5% by end of 2011

Poor loss experience:
+5-10% in Q1, +15-20% by end of 2011

E&O CAPACITY



CONTACT

Geoffrey K. Allen | National E&O and eRisk Practice Leader | 212 915 7951 | geoffrey.allen@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

F I D E L I T Y

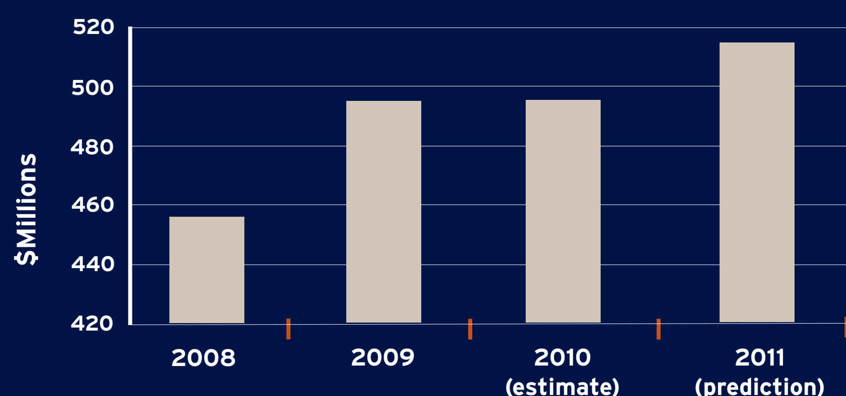
- Pricing in the Fidelity market remains mixed. **The Commercial Crime market remains soft while the financial institutions (FI) market has been trying to bump pricing 5-15% for larger institutions**.
- From a fraud perspective, **2009 was a particularly harsh year in the financial sector**; 150 pyramid schemes were revealed, involving losses of over $16.5 billion, versus 40 schemes in 2008.
- Willis' Executive Risks Claim Division reports a **130% spike in Commercial and FI bond claims** since 2008, validating the truism that Fidelity losses rise in recessionary times.
- Several of the largest Fidelity carriers experienced combined loss ratios of over 100% in 2009, according to the Surety Association of America, which tracks the financial results for the top 50 Fidelity underwriters.
- **Capacity remains plentiful, however**, so we expect smaller to mid-sized institutions and commercial risks will continue to see competition for their business.
- Larger institutions and commercial risks can expect a firmer market for the primary layers of their programs, as **only a handful of carriers have an appetite for the greater fraud exposures**.
- Extensive excess capacity should keep **pricing in check for excess policies**.

PRICE PREDICTIONS

COMMERCIAL CRIME
Flat or down slightly

FI BOND MARKET
+5 to +10% in Q1,
flat by Q4

FIDELITY CAPACITY



INDUSTRY HIGHLIGHTS

- **Broker Dealers** — Registered Rep losses remain problematic but coverage is still being offered by leading markets.
- **Mutual Funds** — The market is still soft for this traditionally attractive class.

CONTACT

Stephen Leggett | National Fidelity Product Leader | 212 915 7901 | stephen.legget@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

FIDUCIARY

- The soft Fiduciary Liability insurance market continues, **with program rates flat or down 15% – or more**.
- As in Directors & Officers (D&O) coverage, reductions on the primary layer are now harder to negotiate and are often available only where there is competition, so **the focus here may turn to the excess layers**.
- Many Bermuda carriers remain reluctant to underwrite Fiduciary risks, but some London markets are now more receptive if they also write the D&O.
- Carriers that introduced new D&O forms in 2009-2010 are now looking to do the same for Fiduciary, so stay tuned for more information on **new terms and conditions**.
- A major claim driver for public companies continues to be the prevalence of company stock in the company's pension plans.
- After ERISA tagalong suits (ERISA suits brought in parallel to D&O claims), Fiduciary Liability carriers worry most about the **potential for ERISA actions filed in tandem with Fair Labor Standard Act claims** under the theory that if the minimum wage rules were violated, then credits/contributions to ERISA plans must also have been mishandled. Defense costs covered by ERISA Fiduciary policies (if written on a duty-to-defend basis) can be expensive and unpredictable.

PRICE PREDICTIONS

PRIVATE / NONPROFIT
Flat to -20%

PUBLIC COMPANY
Flat to -15%

WITHOUT COMPANY STOCK
Flat to -20%

RECENT CIVIL ENFORCEMENT: FREQUENCY + SEVERITY

	2005	2006	2007	2008	2009
Cases Filed	178	170	114	91	107
Cases Closed	3,782	3,411	3,236	3,570	3,669
Closed + Corrections	3,056	2,534	2,402	2,696	2,833
Results ($)	$1.7B	$1.4B	$1.5B	$1.2B	$1.36B

Source: Department of Labor Fact Sheet, ***EBSA Achieves $1.36 Billion in Total Monetary Results in Fiscal Year 2009***.

INDUSTRY HIGHLIGHTS

- **Financial Services** — Increased capacity has helped soften this segment of the market, with many risks experiencing decreases greater than the norm.
- **Health Care** — Private and nonprofit firms remain the sweet spot for insurers, especially where Fiduciary Liability may be packaged with D&O and EPL cover.
- **Technology/Media/Telecommunications** — Good risks garner serious interest and competitive terms.
- **Utilities** — Disproportionately low frequency (but higher severity) means that these risks are a desired class for most underwriters.

CONTACT

Ann Longmore | D&O, EPL and Fiduciary Leader | 212 915 7994 | ann.longmore@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

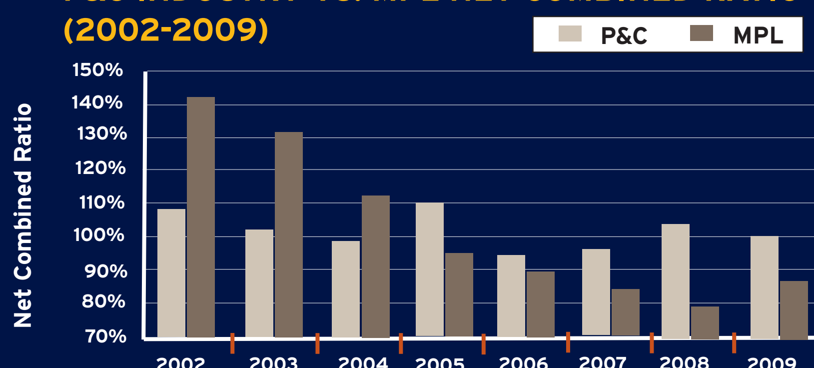
HEALTH CARE PROFESSIONAL

- The Health Care Professional Liability (HPL) market will likely remain **soft through at least March 2011**.
- Reductions will depend on such key factors as jurisdiction, loss experience and the particular layer of coverage, but **rates will fall from 0-5% or more**.
- Primary layers of coverage will see less pricing fluctuation than Excess layers. **High Excess layer pricing is extremely competitive, particularly in the layers above $10 million**.
- HPL has become one of the most profitable insurance lines and hence one of the most competitive, with excess capital chasing a shrinking pool of insureds, particularly hospitals and physicians, as health care industry consolidation accelerates and the larger health care organizations assume more risk.
- HPL pricing is competitive but not irresponsible, given favorable frequency and severity trends. Tort reform must be closely observed over the next few years as the **trial bar has succeeded in overturning non-economic damage caps** in states such as Illinois and Georgia.
- **Consolidation of insurers in the HPL industry will continue**. Recent examples include FPIC acquiring Advocate MD and The Doctors Company acquiring AP Capital.
- **The impact of health care reform on HPL exposures is an enormous unknown**. No meaningful federal tort reform was enacted as part of the legislation. Some worry that a rising volume of patients seeking primary care services will overburden the health care delivery system and compromise care.
- Accountable care organizations (ACOs) are new entities created under the reform law to provide high-quality, low-cost care for a defined patient population. ACOs are, in effect, a kind of integrated health care delivery system. New coverages may need to be crafted to respond to exposures related to ACOs.

PRICE PREDICTIONS

Flat to -5%

P&C INDUSTRY VS. MPL NET COMBINED RATIO (2002-2009)



SECTOR HIGHLIGHTS

- **Hospitals/Health Systems** — Carriers compete for lead excess layers.
- **Physicians & Surgeons** — The private practice model continues to be threatened by lower reimbursements, resulting in fewer buyers in this sector.
- **Long-Term Care** — Favorable pricing continues unabated.
- **Managed Care Organizations and Health Plans** — A growing number of participating insurers in recent years contributes to competitive pricing in this segment.
- **Miscellaneous Facilities** — This is the most competitive HPL sector due to favorable loss experience and more potential insureds.

CONTACT

Mary S. Botkin | National Health Care Practice Leader | 713 625 1146 | mary.botkin@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

AEROSPACE

- Conditions vary be sector:
    - **Airlines – The market is softening**, with some reductions, but premium increases are now in the low single digits, down from 20% in Q4 2009. Reductions, however, are expected to increase as the final quarter progresses.
    - **Aerospace – Single-digit premium reductions continue** for the manufacturers who dominate this sector.
    - **Corporate Aviation – Significant capacity is bringing reductions.**
- **Significant capacity in the Aerospace market** as a whole is driving the downturn in premium. With a recent spike in loss incidents, airline losses are predicted to once again exceed $2 billion for 2010, extending a **run of loss-making years for underwriters.**
- **Ongoing consolidation in the airline industry** will further reduce the number of buyers and shape many market programs in Q4 renewals, when most airline renewals occur.
- Economies of scale mean **lower premium increases for the top 50 airline programs.**
- **Airline insurance market results depend on the final six weeks of the year**. With the combination of excess capacity and increasing losses it remains to be seen if underwriters can halt the softening or if buyers will continue to have the upper hand.
- **Industry and, therefore, exposure growth is now being predicted** by most aerospace sectors and geographies.

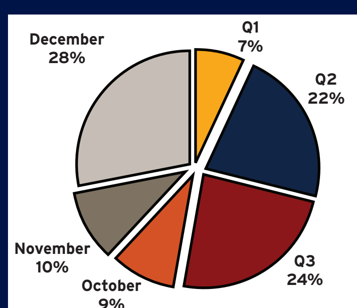
PRICE PREDICTIONS

AIRLINE:
-5% to +5%

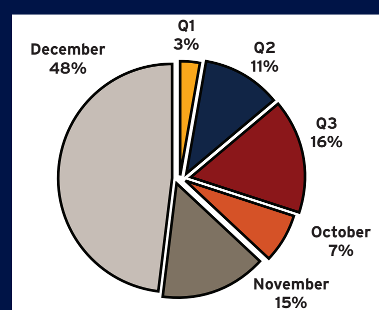
AEROSPACE:
Flat to +10%

AIRLINE RENEWAL PREMIUM DISTRIBUTION

Renewal Distribution % Share



Premium Distribution % Share



For programs with an AFV in excess of US $100M

CONTACTS

Steve Doyle | Business Development and Sales Director, Aerospace | +44 203 124 7208 | steve.doyle@willis.com
Garrett Hanrahan | CEO, Willis Aerospace North America | +1 972 715 6390 | garrett.hanrahan@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

CONSTRUCTION

- **Construction activity is expected to remain slow in 2011**. Increased competition, lower margins, difficult credit markets, onerous contract terms and conditions, unfamiliar locals and new types of construction all present challenges for construction firms.
- With the reduction in the construction exposure base, **Property and Casualty markets continue to compete aggressively for construction business**. Pricing remains soft and buyers will continue to see rate reductions well into 2011. Rates will depend on CAT exposure, industry type and claim experience, but **most buyers will see rates stay flat or fall by up to 15%**.
- Carriers are being very aggressive **on new business, offering at times 15-20% reductions**, while incumbents try in vain to hold pricing.
- With no major U.S. storms, there has been **no significant claim activity to date in 2010**. The total financial impact of the Gulf oil spill is still uncertain but we have seen no measurable impact in the insurance marketplace.
- The ongoing recession will likely prompt **acquisitions, consolidations and bankruptcies in the construction sector**.
- One bright spot is in **the alternative energy sector**. We have also seen an increase in infrastructure projects, although mostly private work.

PRICE PREDICTIONS

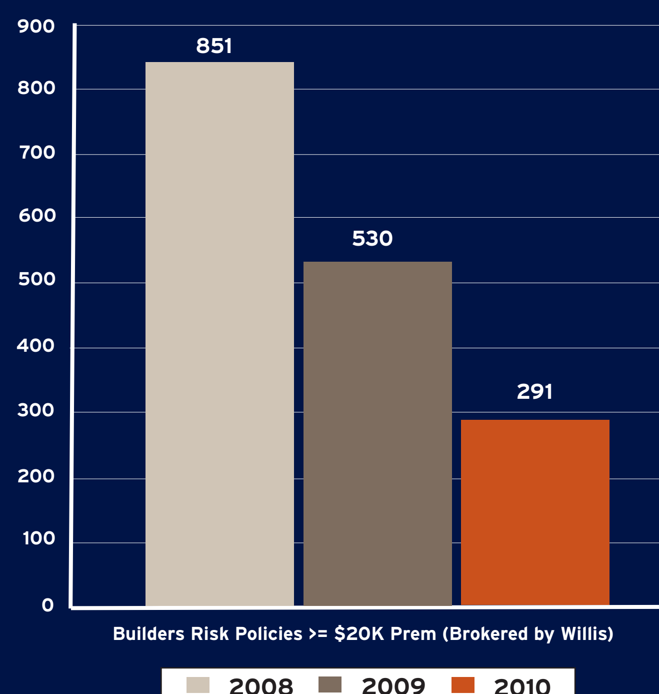
GENERAL LIABILITY:
Flat to -15%

WORKERS' COMPENSATION:
Flat to -15%

BUILDERS RISK:
Flat to -15%

PROJECT INSURANCE (WRAP-UPS):
Flat to -15%

2008-2010 BUILDERS RISK POLICIES



CONTACT

Paul Becker | National Construction Practice Leader | 404 942 5070 | paul.becker@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

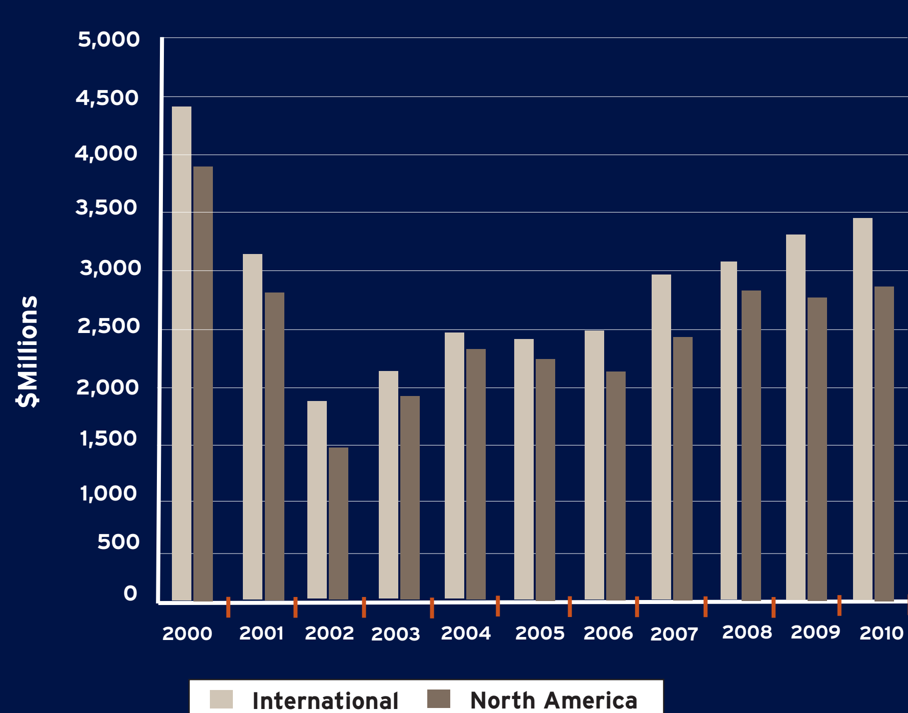
ENERGY – DOWNSTREAM

- **Market capacity continued to increase in 2010**.
- Losses continued to be modest enough to continue the recent profitable trend.
- The result: **significant market softening that shows no sign of abating**, particularly for non-U.S. business.
- Competitive tensions have increased for several reasons:
  - **The premium pool declined following the oil price collapse of late 2008/early 2009**, when asset values and business interruption values fell.
  - **Carriers need to guarantee signings** to secure sufficient premium income and meet their targets.
  - **Insurers are competing to prove they are true leaders** in their class by showing that they better understand the risk.
- More competition may emerge from an upstream market negatively impacted by Deepwater Horizon and other losses. More flexible products are also a possibility.
- **Buyers still need to demonstrate risk quality** to take full advantage of the increasingly competitive marketplace. They should work with their broker to consider relayering and improving the dynamics of their programs.

PRICE PREDICTIONS

Continued softening through 2011

DOWNSTREAM OPERATING UNDERWRITING CAPACITIES, 2000-09 (EXCLUDING GULF OF MEXICO WINDSTORM)



CONTACT

Robin Somerville | Global Communications Director | +44 203 124 6546 | somerviller@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

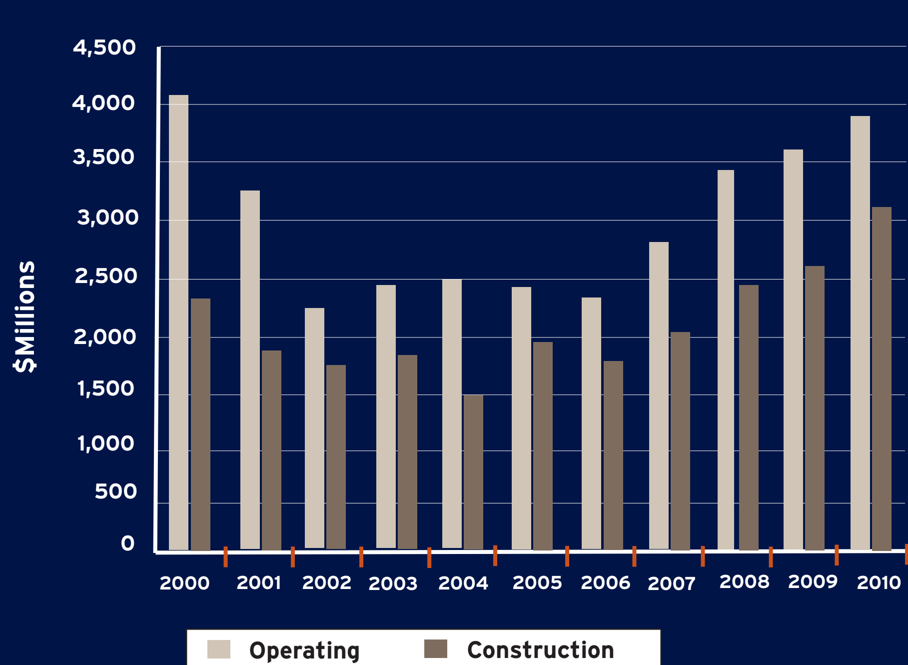
ENERGY – UPSTREAM

- Until April, upstream Property rates were gently softening due to an increase in capacity at the beginning of the year.
- **A series of major losses, including the Deepwater Horizon incident in the Gulf of Mexico, turned the market, and modest rate increases are now the norm**.
- The **extent of the market hardening varies widely** and depends on a number of factors, including:
  - Loss record/risk profile
  - Type of operations (operator/drilling contractor, pipelaying, etc.)
  - Associated premium income
  - Required policy limit
  - Location of assets (especially CAT exposure and water depth)
  - Utilization of new technology
- **The outlook for 2011 hinges on two key factors**:
  - Impact of Gulf of Mexico hurricane season – to date, this has not affected energy infrastructure, although the season does not officially end until November
  - Eventual impact of Deepwater Horizon loss on insurance market (expected to be approximately $1.5 billion)
- Expected legislation is likely to **increase demand for Operators Extra Expense and Offshore Liability insurance products**.

PRICE PREDICTIONS

Modest price increases in the immediate future

UPSTREAM INSURER CAPACITIES, 2000-2010 (EXCLUDING GULF OF MEXICO WINDSTORM)



CONTACT

Robin Somerville | Global Communications Director | +44 203 124 6546 | somerviller@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

ENVIRONMENTAL

- The environmental insurance market continues to attract new entrants and the increased competition has delivered **many advantages for buyers**.
- The environmental sector is experiencing a **dilution of underwriting expertise** as personnel leave established carriers to join new market entries. Some carriers may start to face challenges in underwriting, policy servicing and claim handling as a result.
- **Underwriting appetites** range from near commoditization in some products (i.e., Contractors Pollution Liability) to very cautious in others (i.e., Cleanup Cost Cap).
- Softness in pricing has produced opportunities for clients to lock in **long-term savings through multiyear programs**, as well as to obtain **enhanced limits, coverage or other terms and conditions**.
- With the cautious recovery of the world financial markets, we expect that **transaction-related environmental placement opportunities** (real estate, development and M&A) will continue to slowly increase in both frequency and success.
- Many companies are reinvesting the savings they have experienced in traditional Property and Casualty lines in **first-time purchase of environmental coverage**.
- A **worldwide increase in environmental regulatory requirements and enforcement** (reporting of greenhouse gas emissions, financial assurance, green certification of general contractors, etc.) is also raising interest in environmental coverage.
- **With more coverage, we have seen more claims,** particularly in association with construction and transportation-related activities, including mold, excessive siltation, fuel spills, etc.

PRICE PREDICTIONS

PRODUCT	MARKET OUTLOOK
Contractors Pollution Liability	-5% to -25%
Pollution Legal Liability (Including Combined GL/PLL)	-5% to -15%
Environmental Professional Liability (including CPL)	-5% to 10%
Financial Assurance Instruments - UST, Closure (risk transfer), Performance Bonds	Flat to +5%
Cleanup Cost Cap	Flat to +5%

CONTACT

Mike Balmer | North American Environmental Practice Leader | 671 351 7530 | balmerm@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

KIDNAP & RANSOM – SCR

- The Special Contingency Risks (Kidnap & Ransom) **market remains basically flat**, which is expected to carry over into the first quarter of 2011. However, **premium increases are possible for exposures in relatively high risk locations**, such as Haiti, Mexico, Pakistan, Venezuela and off the coast of Somalia.
- Competition among insurers with respect to coverage should continue into 2011 as well. **More insurers are offering coverage extensions**, and the willingness to manuscript customized coverage solutions for unique exposures is likely to continue.
- Changes in the relationships between insurers and response consultants, due to acquisitions and spin-offs in the security industry in 2010, are **expected to subside**. However, the entrance into the field of new consultants without contractual connections to specific insurers remains a distinct possibility.
- **Insurers are focusing on the deteriorating security situation in Mexico**, which has seen a dramatic increase in kidnappings and serious criminal activity. Buyers with either operations or personnel regularly traveling to Mexico are being underwritten closely, with a spotlight on security measures and loss history.

PRICE PREDICTIONS

Flat

INSURERS AND THEIR ASSOCIATED RESPONSE CONSULTANTS

INSURER	RESPONSE CONSULTANT
ACE	Neil Young Associates
Chartis	Clayton Consultants
Chubb	Ackerman Group
Great American	Accesses Control Risks through their relationship with Hiscox
Hisox	Control Risks
Liberty	red24
PIA	Corporate Risk International
Travelers	ASI Global

CONTACT

Todd Cranche | Special Contingency Risks – North America | 212 915 8217 | todd.cranche@scr-ltd.co.uk

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

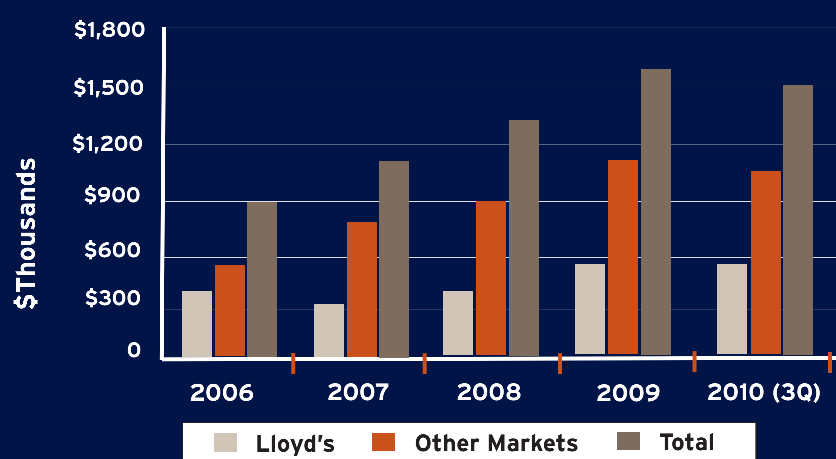
POLITICAL RISK

- **The market has stabilized** after a period of active claims when Political Risk products were vigorously tested and mostly delivered their intended value.
- Premium rates rose in 2010, **but the market has flattened, and rates even decreased in certain countries** (Brazil, Turkey, Russia).
- The premium base for 2010 is expected to be around $1.25 billion, with losses at more than 100% of that mark, but claim levels have stabilized since 2009, when claims totaled roughly $2 billion (with some estimates as high as $4 billion).
- **No new significant claim notifications have hit the marketplace since Q3 2009**.
- Losses remain concentrated in **Ukraine, Kazakhstan, Brazil, Bahrain and Indonesia**.
- Recoveries are not likely to be as high as in previous claim periods due to the high incidence of commercial insolvency losses.
- **Stability is expected in 2011**, as overall capacity should stay the same or increase (an estimated 8-12%).
- Reinsurers have new restrictions, such as not covering working capital loans or bullet loans over 24 months.
- Underwriters are essentially looking for more sovereign business, and less subsovereign risk (municipalities, states or quasi-government companies)
- **New underwriters have entered the market** while one significant carrier has stopped writing new business despite extremely low claim experience.
- For 2011, we anticipate several trends:
  - **Increased underwriter due diligence**
  - **Increased focus on structure and security**
  - **Downward pressure on premium rates**
  - **Policies more likely to be syndicated**
  - **More risk sharing between underwriters and insureds**

PRICE PREDICTIONS

Flat to -10%

CAPACITY FOR CONFISCATION, EXPROPRIATION AND NATIONALIZATION (CEN) PLUS POLITICAL VIOLENCE RISKS (PV)



CONTACT

John Lavelle | North America Political Risk Leader | 212 915 8256 | john.lavelle@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

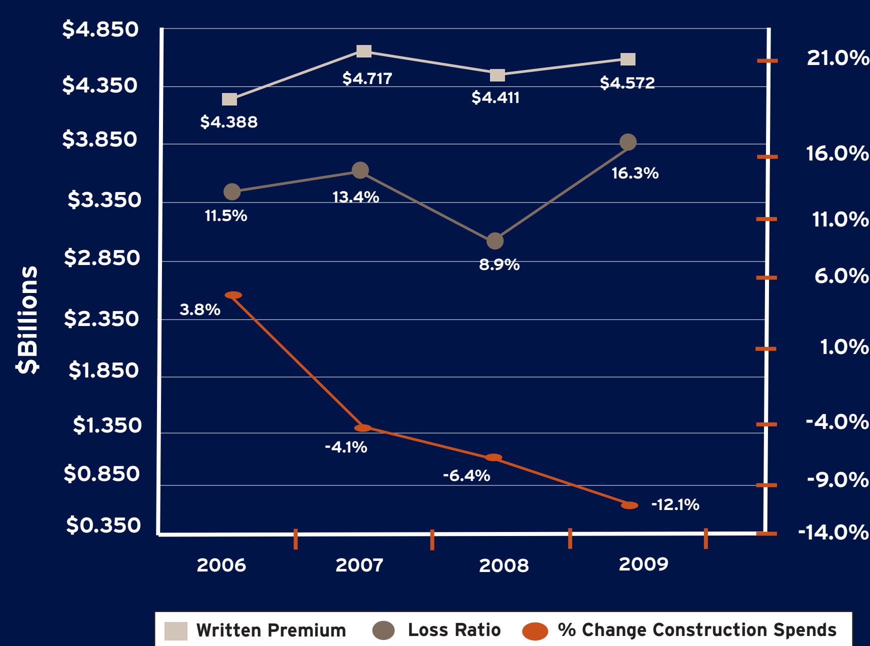
SURETY

- **The Surety market is competitive for the best accounts** on capacity, indemnity, rates, etc. and very difficult for contractors struggling in the tough construction market.
- We expect surety losses to increase in 2011 and 2012 as the downturn in construction activity means more bidders for fewer jobs and reduced contractor profit margins. **If losses mount, as widely expected by surety companies, underwriters will become more conservative**.
- However, we do not anticipate a sharp change in underwriting in the first half of 2011, as results are positive for underwriters. They should **stay interested in new, high-quality accounts**.
- **Surety industry results remain strong** after a very good 2009 and Q2 numbers for 2010 show a highly profitable loss ratio of 17%.
- **We see capacity increasing for single bonds** and maximum lines.
- Reinsurance results for surety have also been good and direct companies will find plenty of supporting capacity. As most have evolved to excess-of-loss reinsurance with large deductibles, underwriting shifts will be driven by the direct markets more than reinsurance restrictions.
- Surety rates continue to follow an inverted pricing curve, where the largest capacity users pay higher rates than the middle market, because **many surety companies are willing to write the middle market but only about five will write the large contractors** ($500+ million work programs).
- Surety underwriters are concerned about project financing, collection of accounts receivable (and retainage) and most of all exposure to subcontractor default. As a result **they are requiring more subs to provide bonds to their prime and GC clients**.
- The residential and private construction sectors continue to struggle.

PRICE PREDICTIONS

Flat or down for desirable risks

CONTRACT AND COMMERCIAL SURETY (U.S.)



Sources: McGraw Hill Construction ENR, Surety & Fidelity Association of America

CONTACT

Paul Healy | North American Surety Practice Leader | 860 670 3396 | paul.healy@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

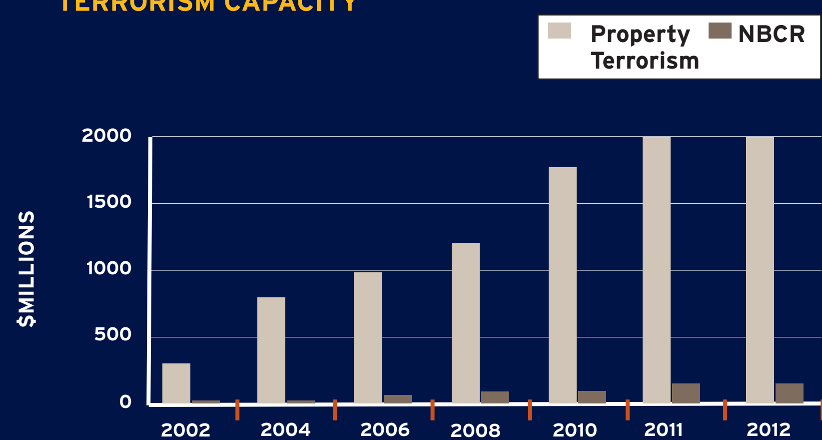
TERRORISM

- **Slight rate decreases are tracking with prevailing trends in the Property and Liability markets,** except for tier-one risks, for which rates remain relatively static.
- While rates have declined since 2002, **adverse selection and modeling deficiencies will continue to inhibit further softening of rates** and will leave carriers less willing to offer additional terrorism capacity.
- **Risks located in areas subject to high terrorism risk aggregation (tier-one risks) continue to be restricted in their ability to purchase adequate limits.**
- Increased usage of captive insurance facilities has provided additional capacity and enhanced coverage for otherwise uninsurable perils.
- Most policies still exclude nuclear, biological, chemical and radiological terrorism events. Stand-alone market capacity is limited to $200 million per risk.
- **Approximately two-thirds of all companies purchase Property Terrorism insurance,** either embedded in Property programs or on a separate, stand-alone basis. **An estimated 40-45% purchase Liability Terrorism.**
- Further extension of the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) beyond its current 2014 expiration date has been put in doubt by the current administration.
- Without government intervention, the insurance industry would likely be unable to develop sufficient surplus to respond to the potential magnitude of a terrorist attack.

PRICE PREDICTIONS

Flat to -5%

TERRORISM CAPACITY



TERRORISM INSURANCE TAKE-UP BY INDUSTRY

HIGHEST	LOWEST
Real Estate	Manufacturing
Transportation	Retail
Utilities	Energy
Hospitality/Gaming	Mining
Health Care	Food & Beverage

CONTACT

Wendy A. Peters | Terrorism Practice Leader | 610 254 7288 | wendy.peters@willis.com

MARKETPLACE REALITIES & RISK MANAGEMENT SOLUTIONS

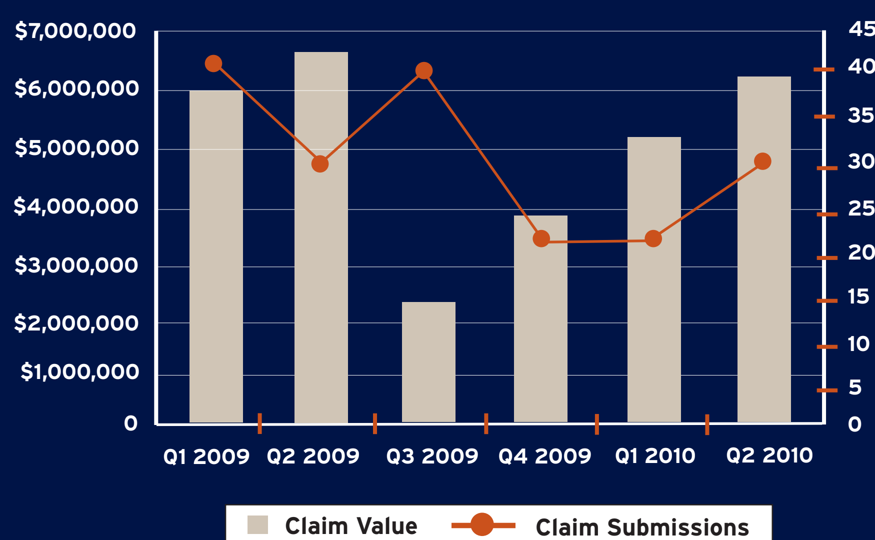
TRADE CREDIT

- **The convergence of a softening Trade Credit market and uncertain economic times offers significant opportunities** for corporations wishing to transfer their risk of non-payment of receivables for customers based in the U.S. and abroad. Policies cover non-payment exposures due to financial and political events.
- As the economy begins to revive, the Trade Credit market is seeing some relief from the hard market that followed the global credit crisis. **Premium rates have dropped 10%-20% from their highs in 2008**.
- After a tightening of reinsurance capacity and an increase in reinsurance cost during 2008/2009, we have seen increased capacity from the reinsurers and a new carrier in the primary market in 2010.
- Increased competition from current carriers in response to the entrance of new market capacity and higher limit availability has led to **more aggressive underwriting in coverage, policy structure and premium**. Carriers on the whole remain *cautiously* optimistic.
- The successful payment of **a record volume of claims during the financial crunch** validated the product as a means of mitigating the risk of bad debt losses. The constrained availability of the product during the downturn underscored the value of secure partnerships with insurers, as **long-time buyers were better able to obtain and hold coverage**.

PRICE PREDICTIONS

Flat to -10%

TRADE CREDIT INSURANCE CLAIMS



CONTACTS

Scott Ettien | East Coast | 212 915 7960 | scott.ettien@wllis.com
Brian Brown | East Coast | 212 915 8254 | brian.w.brown@willis.com
Damion Walker | West Coast | 949 930 1776 | damion.walker@willis.com
Vanessa De La Cruz | West Coast | 213 607 6282 | vanessa.delacruz@willis.com