MARKETPLACE REALITIES

SOLID FOOTING AND A FOUNDATION FOR GROWTH

2012
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We also invite readers to visit the Publications What We Think page of [www.willis.com](http://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 | Arlene Calandria**

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SOLID FOOTING AND A FOUNDATION FOR GROWTH

For years, many in the insurance industry have been saying, brace yourself – if we’re hit by a string of major catastrophes, the market will turn. By many counts, 2011 is already the most expensive year on record for catastrophic losses. So far, no market turn. Yes, rates in CAT areas are up. And insurer profits are down from 2010. But overall, supply is still strong.

What’s the take-away? Could it be that the old paradigm of regularly revolving hard and soft markets doesn’t apply anymore? Perhaps. More certain is that the marketplace, after years of falling rates, has become an efficient place. Current struggles aside, profits are being earned with lower premiums. The industry appears to be not only resilient and prudent but elastic, nimble, even smart. These are good traits in a business environment subject to the vagaries of natural and human-generated catastrophes.

Whether or not you believe catastrophes are in fact on the rise, whether or not you see another big hit to the global financial infrastructure around the corner, it’s hard to avoid the impression that the world is an increasingly risky place. Computers, the greatest boost to productivity in this generation, give us a whole new lexicon of exposures in Cyber risk. The world political landscape has shown us that things can shift significantly over the course of a few spring weeks. And every day we’re reminded that in a global marketplace, when lightning strikes in one financial corner, the thunder is heard halfway around the planet.

Yet none of this seems to threaten access to the contingent capital that is available through the payment of reasonable premiums. In uncertain times, it appears, you can count on insurance.

So where to from here? As in any successful industry, we go where the demand is. The obvious place is in the growth areas of the world, particularly Asia. But demand for insurance and risk-related services may come from places we haven’t always looked for it in the past.

Some of the greatest risks facing businesses and private citizens in North America – flood, terrorism, disasters in general – are backstopped by the government. Think of federal flood insurance, TRIA (the Terrorism Risk Insurance Program) and FEMA. The combination of government debt and poor growth may, in the not so distant future, spell a decline in the ability of government to maintain this role. There is only one industry ready to fill the void.

Another source of demand, one we see rising right now, is in risk management support. Risk managers are being squeezed from at least two sides. On one side, risk managers have fewer resources with which to handle the analytic work of risk management. On another, the list of risks that must be addressed if an organization wants to sustain itself keeps growing beyond Property and Casualty. Cyber, Environmental, Trade Credit and Supply Chain risk are just a few areas of expanding exposure where help is needed. We can provide it.

This trend is particularly clear in the area of employee benefits. Companies seek benefit partners who can take work off the desks of their HR people whose hands are full with day-to-day issues – never mind the enormity of health care reform.
The nature of business in the developed world is also evolving. The assets of 21st century companies are increasingly intangibles, such as brand, data and intellectual property. Traditional insurance focuses on tangibles, such as buildings and machines. The shift in organizational risk calls for a change in risk management approach – another factor that should increase the demand for sophisticated risk management expertise.

This doesn’t mean we’re out of the broking business. Hardly. We will always be focused on the nuts and bolts of policies and protection and what that costs – that’s why we publish this guide. But we must at the same time respond to the larger trends at work that may be shaping our industry for years to come. Our roles as partners in the success of our clients and of society in general could be ready to surge forward.

We have built a foundation for the growth of our industry.

We are, more than ever, a foundation for the growth of enterprises everywhere.

Joe Plumeri
Chairman & CEO
Willis Group
2011 may break all records for insured losses. Before hurricane season even got underway, $70B of property losses hit the market. **We are on track to pierce the $100B mark for the first time.**

**The release of RMS 11.0 impacted the market as much as the catastrophic losses.** Many loss estimates in Tier 2 hurricane zones **increased by 50% to 100%**. Underwriters have been forced to either charge more for their CAT capacity, find another attachment point on programs or cut their line size.

Reinsurance rates, up marginally in Q1 and Q2, moved up 5% to 15% on average. Increases were in the 10% to 20% range for accounts with losses.

For January 2012 renewals, reinsurance rates are expected to climb further due to the 2011 insured losses and RMS 11.0.

**Many insurers are running loss ratios in excess of 100%.**

**PRICE PREDICTIONS**

<table>
<thead>
<tr>
<th>Type of Accounts</th>
<th>2012 Q1 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-CAT</td>
<td>-5% to Flat</td>
</tr>
<tr>
<td>CAT (or poor loss experience)</td>
<td>+7.5 to +12.5%</td>
</tr>
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</table>

**CONTACT**

**David Finnis**

Executive Vice President
National Property Practice Leader
404 302 3848
david.finnis@willis.com
Casualty/General Liability rates are stable, with most insureds receiving a slight increase or flat renewals. Some buyers are still seeing moderate rate decreases. The driving force behind overall Casualty costs remains the extent of exposure rather than rates, as pricing tends to be flexible. Carriers are competing for new business and regional carriers are often more aggressive for middle market risks.

Insureds should carefully monitor the emerging trend in which states are reinterpreting the definition of an occurrence under Liability policies. Clients whose work product can be subject to faulty workmanship or similar claims should pay particular attention to these developments. Due to the rising number of product recall events or other events that damage a company’s brand, insureds should consider stand-alone Product Recall and Brand Protection cover. Investment in safety and technology yields rewards in the marketplace. Reinsurance pricing matches GL market pricing trends. The current market offers opportunities for buy-outs and other insurance products to close out legacy collateral and program agreements.

**PRICE PREDICTIONS**

| Flat to +5% |

**CONTACT**

**Pam Ferrandino**  
National Placement Leader  
Casualty Practice Leader, Placement NA  
212 915 7928  
pamela.ferrandino@willis.com
UMBRELLA AND EXCESS

- Umbrella and Excess rates are firming but not hardening.
- Many incumbent carriers are seeking rate increases in the range of 5% to 10%.
- Capacity remains abundant and carriers largely remain bullish for new business, but some are walking away from renewals if they can’t achieve minimum increases.
- Carriers are continuing to better define their appetite by industry with their terms and conditions reflecting their target niche.
- Energy accounts are generating higher rate increases than other exposures and carriers are actively working to identify energy exposures that may have been misclassified within their accounts.
- Reinsurance pricing is in step with the market’s pricing trends. Facultative capacity for higher excess, however, is limited.

PRICE PREDICTIONS

Flat to +5%

CONTACT

Pam Ferrandino
National Placement Leader
Casualty Practice Leader, Placement NA
212 915 7928
pamela.ferrandino@willis.com
Firming Workers’ Compensation rates do not indicate the arrival of a hard market.

- Carriers are actively seeking new business.
- Few carriers have an appetite for monoline Excess Workers’ Compensation.
- Reinsurance capacity remains abundant.
- Several states (WI, MI, OH, KS and IL) are in various stages of modifying their Workers’ Compensation programs.
- Many national carriers are willing to consider Sureties as part of the collateral for financially strong insureds.
- Carriers seeking premium growth are offering buy-outs or other insurance products to close out legacy collateral and program agreements.
- While most insureds are seeing their renewal rates range from flat to +5%, buyers in the Southeast continue to see modest rate decreases.

**PRICE PREDICTIONS**

| Flat to +5% |

**CONTACT**

**Pam Ferrandino**
National Placement Leader  
Casualty Practice Leader, Placement NA  
212 915 7928  
pamela.ferrandino@willis.com
Auto Liability rates are firming and carriers are eager for new business despite increases in the frequency and severity of losses.

We expect these trends to continue through 2012.

Buyers that have invested in safety and technology should brag about it.

Large fleet owners should make the time to meet their underwriters and, if possible, their facultative underwriters to promote their risk profile.

Now is the time, while carriers remain hungry for premium growth, to consider buy-outs or other insurance products to close out legacy collateral and program agreements.

Reinsurance pricing is following the market's pricing trends.

**PRICE PREDICTIONS**

| Flat to +5% |

**CONTACT**

Pam Ferrandino  
National Placement Leader  
Casualty Practice Leader, Placement NA  
212 915 7928  
pamela.ferrandino@willis.com
With one year of health care reform compliance under their belts, employers are now focusing on elements of the law that will become effective in the next few years. Government agencies have struggled to publish compliance details sufficiently in advance of effective dates.

**Employers will continue to see the cost of insurance rise as insurers pass down the costs of complying with the health care reform law.**

As the costs of health care continue to increase, employers are actively seeking more aggressive cost containment strategies. **More employers are considering self-insurance options. Costs are also shifting to employees.**

Interest in wellness programs as a means of improving employee health and reducing costs continues to grow. Employers with existing programs are expanding them.

Shrinking revenues continue to thwart employer efforts to offer competitive total reward programs.

Employers are relying more heavily on their advisers and brokers to navigate regulations and to help them achieve greater cost savings. **Brokers will be under increasing scrutiny to demonstrate the value they bring beyond insurance placement.**

Fewer employers are able to retain the grandfathered status provided by the health care reform law as cost-cutting plan design changes cause the loss of protected status.

**Countering the expectations of many observers, health care reform does not appear to be causing employers to stop providing benefits to their employees.**

Attempts by federal and state politicians to amend or repeal the health care reform law continue. Several legal challenges to the law have been brought in federal court and the U.S. Supreme Court is expected to hear these challenges in 2012.

**PRICE PREDICTIONS**

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<table>
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<tbody>
<tr>
<td></td>
<td>+10-12%</td>
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</table>

**CONTACT**

Maureen E. Gammon  
Employee Benefits Attorney, National Legal & Research Group  
Willis Human Capital Practice  
610 254 7476  
maureen.gammon@willis.com
The market for stand-alone Cyber policies remains competitive, with rates flat to down 5% for renewals. With mounting losses, renewal rates have begun to flatten. First-time buyers should still find a competitive environment, though the range between insurers may narrow if losses mount. New markets have entered the space. Several markets have revised their policies, bringing in more robust data breach incidence response services. Insurers are moving to provide panels of breach response firms. Insureds agreeing to use the panels may be able to buy higher sublimits for breach notification cover. More markets are putting up excess limits, building capacity for large placements, while the competition is driving down the price. Policy wording continues to expand both for privacy coverage (regulatory and PCI fines/penalties and breach cost sublimits) and more dramatically for Network Business Interruption coverage. One major carrier has introduced a Reputational Loss cover triggered by a covered incident. Insureds that buy Errors & Omissions (E&O) policies are often able to add Cyber risk by endorsement. Exceptions include financial institutions. Privacy laws continue to spread both in the U.S. and Europe. The European Union and the U.K. have enacted new laws mandating notification to residents following a breach of their personal identifiable data. 450 privacy breaches were reported publically in 2010, down from 612 in 2009. Stolen laptops were involved in 19% of the breaches and 61% were the result of external intrusion, according to the Open Security Foundation. Despite the decline in the number of privacy breaches, the overall cost of cyber crimes is rising.

**PRICE PREDICTIONS**

<table>
<thead>
<tr>
<th>Renewals</th>
<th>Flat to -5%</th>
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<tbody>
<tr>
<td>First-Time Buyers</td>
<td>Competitive</td>
</tr>
</tbody>
</table>

**CONTACT**

Geoffrey K. Allen  
National E&O and eRisk Practice Leader  
212 915 7951  
geoffrey.allen@willis.com
Primary rate decreases remain common but are easing into the single digits, and at least one major carrier is mandating flat renewals.

Capacity, meanwhile, remains constant, with no new entrants into the marketplace for commercial (non-financial) risks. We expect abundant competition to continue to drive double-digit reductions in excess pricing where minimum premiums have not already been reached.

Capacity for financial services firms continues to increase as commercial carriers calculate that most suits related to the credit crisis are already in.

Coverage enhancements for public companies that were first made available at a price in 2010 will be rolled into placements in 2012 at no additional premium.

The most significant product changes are in the area of investigations. Limited coverage is most often available for individual directors and officers rather than the companies.

Despite the fact that reinsurance does not play a large role in either the pricing or terms and conditions for D&O insurance, it is the most frequently cited reason for carriers refusing to write multi-year deals for for-profit companies.

As derivative and opt-out D&O claims become more common, global claim settlements grow more complex and costly.

More companies are looking at independent directors-only coverage or increasing the limits that they carry in this top-most segment of their D&O tower.

Another major D&O trend is the expansion of global programs to incorporate local placements (where non-admitted coverage is not permitted).

Buyers may be able to purchase additional limits without warranty statements or new pending and prior litigation exclusions.

### PRICE PREDICTIONS

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<tbody>
<tr>
<td>Overall</td>
<td>Flat to -10%</td>
</tr>
<tr>
<td>Large Public Company</td>
<td>Flat to -5% on primary, -5 to -15% on excess layers</td>
</tr>
<tr>
<td>Other Public companies</td>
<td>-5 to -10% on primary, -10 to -15% on excess</td>
</tr>
<tr>
<td>Private Companies</td>
<td>Flat to +/-10%</td>
</tr>
<tr>
<td>Nonprofit Entities</td>
<td>Flat to +/-10%</td>
</tr>
</tbody>
</table>

### CONTACT

John Connolly  
D&O Practice Leader  
610 254 5686  
john.a.connolly@willis.com
In the global marketplace for EPLI, Bermuda and London are most likely to offer competitive terms on larger risks.

**Soft market conditions largely follow those seen in D&O – with rates of decrease flattening.**

Capacity overall remains abundant, but at least two major carriers have announced their intention to restrict their maximum capacity on primary layers. This may, in part, be a reaction to the U.S. Supreme Court’s decision in *Dukes v. Wal-Mart*, which denied federal class action status to the nationwide class of plaintiffs – potentially leading to many more (and hence costly) state-based class actions.

**As the global credit crisis drags on, significant EPL claims are being brought outside the U.S.; this is expected to continue into 2012, potentially impacting the risk profile of multinational firms.**

**A trend to look for is policy wording addressing new media exposures.**

Carriers have little appetite for wage-and-hour claim coverage, with limited coverage available only to smaller organizations.

Strategic buyers will look for opportunities to leverage their D&O purchase with potential EPL markets, while private and nonprofit firms usually combine the purchase.

### PRICE PREDICTIONS

<table>
<thead>
<tr>
<th>Category</th>
<th>Prediction</th>
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<tbody>
<tr>
<td>Overall</td>
<td>Flat to -5%</td>
</tr>
<tr>
<td>Large Global Companies</td>
<td>Flat to -10% on primary, -5 to -15% on excess layers</td>
</tr>
<tr>
<td>Mid-Size to Large Domestic Firms</td>
<td>-5 to +10%</td>
</tr>
<tr>
<td>Private and Nonprofit Entities</td>
<td>Flat to +/-10%</td>
</tr>
<tr>
<td>Smaller Employers (fewer than 200 employees)</td>
<td>Flat to -10%</td>
</tr>
</tbody>
</table>

### PRICE CONTACT

Ann Longmore  
Product Leader  
212 915 7994  
ann.longmore@willis.com
For a range of E&O market segments, reductions are expected in Q1 2012. While reductions will depend on exposure and industry type, for many, rates will fall by up to 5%.

The market is starting to divide. Insurers with the larger market shares are increasing their effort to keep rates flat and in some instances are walking away from heated competition. However, a large section of the market is still aggressively competing for market share and is offering reductions.

Competition will remain generally strong in the middle market through 2012.

Abundant capacity continues to drive the market. New entrants keep arriving.

Authorized global E&O limits are approximately $700M. Typical insureds should be able to buy from $350M to $400M.

While wording enhancements will be a key part of competition, most insurers are 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 for Network Security and/or Privacy Liability coverage.

For several market segments – real estate, for example – large claims will make rate reductions and even flat renewals difficult to attain.
Rates will mostly remain flat, moving up or down a few points depending on the size and nature of the risk.

On paper, capacity has never been higher, but carrier appetite for primary layers on larger and complex risk has dropped off significantly. Far more companies are prepared to lead mid-sized or Fortune 1000 commercial risks than take a primary position on Fortune 500 or mid-sized to large financial institutions.

Interest in the excess market for both commercial and financial institution accounts, however, remains exceedingly high. Expect this trend to continue into 2012.

The most notable trend in the Fidelity market is the willingness of most Commercial Crime underwriters to offer a discovery policy form vs. the traditional loss sustained contract used for decades. Mid-sized to Fortune 1000 clients should press for the discovery form, which affords material advantages.

Most underwriters have improved general terms and conditions on crime and FI Bonds over the past several years and we do not anticipate any retraction in 2012.

Poor financial results continue for many of the leading markets. Unfortunately for many of these companies, loss ratios have been marginal to poor for several years.

For stock brokers, FINRA Rule 4360 (effective 1/1/12) will require that their FI Bonds cover each and every loss limit (i.e., no aggregate) and that coverage for court costs will fall outside the limit of liability. Carrier responses to the new requirement has been mixed, but most agree they will be hard pressed to afford these terms for larger firms. FINRA will require those firms that are not able to meet the new requirement to produce a letter of declination from two carriers stating they are not eligible for this new coverage.

**PRICE PREDICTIONS**

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<tbody>
<tr>
<td>Overall</td>
<td>Flat to +/-5%</td>
</tr>
<tr>
<td><strong>Comprehensive Crime:</strong></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Middle market and Fortune 1000</td>
<td>Flat to -5%</td>
</tr>
<tr>
<td>Fortune 500</td>
<td>Flat to +5%</td>
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<tr>
<td><strong>Financial Institution Bonds:</strong></td>
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<td></td>
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<tr>
<td>Middle market and Fortune 1000</td>
<td>Flat to -5%</td>
</tr>
<tr>
<td>Fortune 500</td>
<td>Flat to +5%</td>
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</table>

**CONTACT**

Stephen Leggett  
National Fidelity Product Leader  
212 915 7901  
stephen.leggett@willis.com
Rate decreases are beginning to flatten out on both primary and excess layers, as minimum pricing levels are approached on some of the largest placements.

Capacity remains constant, with no new entrants into the marketplace.

Expensive ERISA tagalong litigation will continue and suits involving cash balance plans are still making their way through the courts.

The ongoing financial crisis continues to afflict pensions. Hardship withdrawals are compounding the impact of depressed asset values at some funds.

Uncertainty about the national health care agenda and potential changes in the definition of “fiduciary” in the health care context are not yet reflected in the marketplace.

The migration of recent D&O coverage enhancements into Fiduciary policies is expected to continue throughout 2012. This can include affirmation wording relating to (presumptive) indemnification and advancement of defense costs as well as expanded coverage for investigations.

### PRICE PREDICTIONS

<table>
<thead>
<tr>
<th>Category</th>
<th>Price Prediction</th>
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<tbody>
<tr>
<td>Overall</td>
<td>Flat to -10%</td>
</tr>
<tr>
<td>Companies with Large Concentrations of their Stock in their Employee Benefits plans</td>
<td>Flat to -10% on primary, -5 to -15% on excess layers</td>
</tr>
<tr>
<td>Companies without company stock in their plans</td>
<td>Flat to -5/+10% on primary, with -10 to -15% on excess</td>
</tr>
<tr>
<td>ESOP-Owned Firms</td>
<td>Flat to +/-15%</td>
</tr>
<tr>
<td>Private and Nonprofit Entities</td>
<td>Flat to +/-15%</td>
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### CONTACT

Ann Longmore  
Product Leader  
212 915 7994  
ann.longmore@willis.com
The Health Care Professional Liability (HPL) market will remain soft through the first half of 2012.

Pricing will depend on jurisdiction, loss experience and layer of coverage, but rate reductions for now will average in the low single digits.

Loss frequency remains at historically low levels while severity has moderated and is actuarially predictable.

Health Care Reform (PPACA) will continue to shape malpractice risk and underwriter response as we get ready for the 2012 Accountable Care Organization (ACO) implementation. Many primary policies will need to adjust terms and conditions to include response for cyber-related diagnosis and transmission failure, inter-related provider contracting and a new world of pay-for-performance.

HPL is the most profitable P&C insurance line with a combined ratio well below 100 for an unprecedented five consecutive years and hence is also one of the most competitive, with excess capacity chasing a shrinking pool of insureds, as health care industry consolidation accelerates and the larger health care organizations assume more risk, particularly physician risk.

Consolidation of insurers in the HPL industry will also continue, particularly among the physician insurers.

Some insurers worry that “integrated occurrences” (i.e., related acts or batch coverage) have expanded to the point where almost any group of incidents can be aggregated and presented as a single loss (and therefore subject to only one retention or deductible). This issue can be divisive for insured and insurer as well as among insurers.

Despite a few recent court decisions, there is no clear trend towards overturning the malpractice reform legislation enacted in many states in the last decade.

Observers continue to express concern that a rising volume of patients seeking primary care services will overburden the health care delivery system and compromise care.

The rapid adoption of the electronic medical record may present significant liability exposure while potentially reducing claims through better communication.

**PRICE PREDICTIONS**

Flat to -5%

**CONTACT**

Marcia Richardson
Knowledge Manager
Willis North America Health Care Practice
615 872 3319
marcia.richardson@willis.com
Rates are falling but with airline exposure growth, premiums are largely holding at current levels.

Market appetite for airline risks varies significantly, resulting in dramatically different renewal results.

Economies of scale will improve results for the largest programs.

The Aerospace sector continues to see softening market conditions.

Corporate Aviation continues to see competition driving down premium volumes and bringing improvements in coverage.

Excess capacity is available across all sectors. New entrants are adding small lines to this already competitive sector.

Industry and program consolidation in all sectors continues to erode premium levels.

With airline losses at a five-year low, 2011 should be a profitable year for underwriters.

No losses involving large numbers of fatalities have occurred for over two years.

### PRICE PREDICTIONS

<table>
<thead>
<tr>
<th>Industry</th>
<th>Prediction</th>
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<tbody>
<tr>
<td>Airline</td>
<td>+/- 10%</td>
</tr>
<tr>
<td>Premium</td>
<td>Flat to -20%</td>
</tr>
<tr>
<td>Rates</td>
<td>+5% to +15%</td>
</tr>
<tr>
<td>Exposures</td>
<td></td>
</tr>
<tr>
<td>Aerospace</td>
<td>Flat to -5%</td>
</tr>
<tr>
<td>Corporate Aviation</td>
<td>-10%+</td>
</tr>
</tbody>
</table>

### CONTACT

**Steve Doyle**
Business Development and Sales Director, Willis Aerospace
+44 203 124 7208
steve.doyle@willis.com
While marketplace competition combined with a slow economy continue to produce a buyer’s market, markets are increasingly focused on rate increases, and we expect to see this trend continue in 2012.

New business is still attracting interest from virtually all carriers.

Claim disputes continue to rise, inciting vigorous debate on coverage interpretation, particularly in General Liability and Builders Risk.

Markets continue to demonstrate more flexibility on underwriting job-specific wrap-ups for General Liability. This is a key concern for many contractors, given the recent changes in anti-indemnity statutes in some states.

Overall, construction remains slow with the exception of a few niches, such as health care, higher education, heavy civil work and public-private initiatives.

We are seeing some increase in certain parts of the U.S. on private building and residential construction.

The recent federal stimulus proposal includes direct construction spending of nearly $100B, but it appears unlikely to pass.

International and domestic catastrophes in 2011 have not had the impact on the market that many feared, but latest carrier results indicate that impact was notable and could push rates upward.

### PRICE PREDICTIONS

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Liability</td>
<td>Flat to +10%</td>
</tr>
<tr>
<td>Excess Liability</td>
<td>Flat to +10%</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>Flat to +10%, State by state increases could be higher</td>
</tr>
<tr>
<td>Builders Risk</td>
<td>Flat to +10%, higher in high catastrophe areas</td>
</tr>
<tr>
<td>Project Insurance (Wrap-Ups)</td>
<td>Primary and excess rates remain flat with significant variation depending on job size, type of work and location.</td>
</tr>
</tbody>
</table>

### CONTACT

Tim McGinnis  
SVP, National Construction Practice  
972 715 5263  
tim.mcginnis@willis.com
DOWNSTREAM

- The market remains in limbo, as increased capacity is offset by the impact of recent losses.
- Three basic scenarios may develop:
  - If no further losses occur and no capacitywithdraws, insurers will be forced to compete once more to maintain or enhance market share.
  - If significant losses materialize, yielding further increases in reinsurance rates, management could conclude that this class is unsustainable. Major capacity withdrawals could trigger the onset of a truly hard market.
  - If losses are modest, existing markets may continue to participate but reduce overall lines and capacities to allow for increased reinsurance costs. The result would be decreased capacity for 2012, but the effect of a price upswing would be limited.

PRICE PREDICTIONS

| Generally flat |

UPSTREAM

- The underlying softening of recent years has been undermined by:
  - Natural catastrophe losses
  - The “Gryphon A” incident – a significant loss caused by a simple moorings break
  - The potential for more expensive reinsurance in 2012
  - Increased management pressure
- A post-Macondo market within a market remains for stand-alone Operators Extra Expense (OEE) and Marine cover.
- Markets are tightening on Floating Production and Storage Offshore units (FPSOs) – particularly for Business Interruption (BI).
- Competition could resume later in the year, as no significant energy windstorm losses have occurred so far in 2011.

PRICE PREDICTIONS

| Generally flat |

CONTACT

Robin Somerville
Global Communications Director
+44 20 3124 6546/somervillersomerville@willis.com
The market appears to have peaked for the moment, with 30+ carriers focused on environmental underwriting. Some have either dropped certain coverage lines or pulled out of the market altogether.

Competitive terms and pricing continue with respect to the base coverage forms of Contractors Pollution Liability and site-specific Pollution Legal Liability insurance. However, prices are up for select risks.

Frequent changes in personnel among and between the various markets raise questions of depth of expertise and bench strength, which can create issues with respect to responsiveness and service.

Breadth of product offerings, capacity and underwriting appetite differ dramatically from market to market. In some cases, new forms are being developed or coverages are being added to existing pollution policies; in others, coverage terms are being limited.

Certain product lines continue to move toward commoditization (e.g., Contractors Pollution Liability), while others are being “re-underwritten” by some carriers (e.g., Underground Storage Tanks). Some products have become extremely difficult to procure (e.g., Cleanup Cost Cap).

Given the plentiful capacity in the market, many insureds are implementing layered program structures.

Long-term policies are less available. One- to three-year terms are preferred for operational coverage. Ten-year terms are still available for project-specific applications and for historical protection – most often relevant to transactional placements. In some cases, Contractors Pollution Liability project terms plus completed operations coverage may be available for as many 15 to 17 years.

Increased writings and the development of longer term policies placed in prior years continue to drive an increase in claim activity among the various product lines.

### PRICE PREDICTIONS

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Price Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractors Pollution Liability</td>
<td>-15% to +5%</td>
</tr>
<tr>
<td>Pollution Legal Liability (including combined GL/PLL)</td>
<td>-10% to +5%</td>
</tr>
<tr>
<td>Environmental Professional Liability (including CPL)</td>
<td>-5% to +5%</td>
</tr>
<tr>
<td>Financial Assurance Instruments (USTs, Closure, Performance Bonds)</td>
<td>Flat to +5%</td>
</tr>
<tr>
<td>Cleanup Cost Cap</td>
<td>+10% to +20% (if available)</td>
</tr>
</tbody>
</table>

### CONTACT

**Rich Sheldon**
National Placement Leader
North American Environmental Practice
610 254 5625
richard.sheldon@willis.com
The U.S. Special Risks (Kidnap & Ransom) market is firmer with respect to rates than in recent years, the result of losses in Mexico, Venezuela, Nigeria, Pakistan and North Africa.

With respect to Mexico, some carriers are placing sub-limits on basic coverage.

Due to the political turmoil in North Africa and the Middle East, carriers are reducing limits for Emergency Political Repatriation and Relocation coverage. In some cases, country exclusions are appearing for Libya, Syria, Egypt, Bahrain and Yemen.

Buyers with exposures in the U.S. and low-risk overseas locations can expect flat renewals.

**PRICE PREDICTIONS**

| Flat to +10% |

**CONTACT**

**Todd Cranche**  
SVP, Special Contingency Risks – North America  
212 915 8217  
todd.cranche@scr-ltd.co.uk
Market stability remains after a period of active claims in 2009-2010 and early 2011 when Political Risk products were vigorously tested and delivered their intended value.

In the Middle East we have seen an increase in claim activity.

Premium rates rose in 2011, but the market has flattened somewhat and rates even decreased in certain countries (e.g., Brazil, Turkey, Russia, Argentina).

The premium base for the rest of 2011 and 2012 is expected to be around $1.4 billion, with losses at less than 100% of that amount.

New underwriters continue to enter the market after one significant carrier stopped writing new business in June 2010 despite extremely low claim experience.

Resource nationalism in Venezuela and Bolivia, etc. and the Arab Spring have focused attention on Expropriation cover.

Sub-sovereign risks have proved to be problematic as the sovereigns sitting behind these risks have not supported these companies when they have run into financial problems. Underwriters are looking for more sovereign business and less subsovereign risk (municipalities, states, or quasi-government companies).

Losses remain concentrated in Ukraine, Kazakhstan, Brazil, Bahrain, Indonesia and Libya.

Reinsurance capacity seems to be buoyant for the 2011-12 renewal season.

Reinsurers continue to impose certain restrictions and, as a result, some underwriters are more conservative in their underwriting.

In the year ahead, we anticipate several trends:
- Moderation of upward pressure on premium rates
- Increased underwriter due diligence and increased focus on structure and security
- Policies above $30M needing to be syndicated
- More risk sharing between underwriters and insureds (carriers’ preferred indemnity levels will be 60-75%)

**PRICE PREDICTIONS**

Flat to +10%

**PRICE CONTACT**

John Lavelle
North America Political Risk Practice Leader
212 915 8256
john.lavelle@willis.com
The Surety and Fidelity Association of America (SFAA) continues to report exceptional loss ratios. The most recent reports are helping to fuel the continuation of aggressive growth strategies. Insurance companies’ desire for sureties to increase revenues in the face of a sluggish economy has further increased competition among sureties. We are seeing expansion of capacity and a willingness to provide larger bonds to qualified contractors. At the same time, there is growing evidence of surety loss development, and reinsurers have reported an increase in payment bond loss activity across the country. No doubt this activity will drive tougher underwriting in areas such as contractors’ liquidity, composition of working capital and leverage.

As public private partnerships, long common outside of the U.S., finally take root here, plans for projects in excess of $1B are no longer uncommon. In the recent past, single bonds rarely exceeded $250M; now, some sureties are advertising the ability to provide single bonds in excess of $1B. The overall amount of work available, however, still seems to be diminishing. Increased single bonds limits and increased aggregate limits will still be possible for better risks but less available for contractors with weakening financials.

Until the published loss ratios deteriorate further, we anticipate the surety market will remain competitive for good accounts and tougher underwriting tactics will be directed at financially stressed buyers, with concentration in the subcontractor market.

**PRICE PREDICTIONS**

| Moderate Fluctuation |

**CONTACT**

**John Phinney**  
National Surety Practice  
973 829 2947  
john.phinney@willis.com
Rates for stand-alone terrorism continue to be flat and may be declining slightly for risks outside of major metropolitan areas. The market may harden, however, as reinsurers reevaluate loss positions following political upheaval in 2011.

Terrorism capacity is now estimated at a maximum of $2.5B per risk; this can be significantly reduced in highly aggregated areas, such as major cities.

Insureds continue to form captives to cover otherwise uninsurable terrorism exposures. Existing captives are adding capital and expanding scope.

Doubt over the extension of the Terrorism Risk Insurance Protection Reauthorization Act in 2014 could impact the market as early as 2012. The complacency created by the absence of successful terrorism attacks on U.S. targets may be replaced by worry if Congress does not authorize a further extension of the federal backstop for terrorism loss.

The outbreak of politically motivated violence has pushed multinational companies to reevaluate their terrorism and political violence protection.

The rapid deterioration of operational environments in previously secure global markets has compelled multinational companies to broaden conventional terrorism policies to include acts of political violence, including civil and cross-border war.

Despite some market availability, buyers show little interest in coverage for nuclear, biological, chemical and radiological terrorism (except in the case of captive insurers).

**TERRORISM CAPACITY ($MILLION)**

**PRICE PREDICTIONS**

-5% to +5%

**CONTACT**

**Wendy A. Peters**
Terrorism Practice Leader
610 254 7288/wendy.peters@willis.com
Despite unstable economic and political conditions worldwide, Trade Credit insurance rates and capacity remain aggressive, **offering significant opportunities for corporations wishing to transfer the risk of non-payment of receivables.**

- **Rates are down 20-30% from historic 2008 highs.**
- If the economy slips back into recession, however, a swift and sharp increase in premium rates and contraction in available capacity should be expected.
- Reinsurance capacity remains plentiful for Trade Credit markets.
- The record volume of claims paid during the financial crunch validated the product as a means of mitigating the risk of losses due to bad debt. In 2010, and through the first three quarters of 2011, carriers saw a reduction in the frequency and average size of claims from the highs experienced in 2008 and 2009. At the same time, claim activity remains above prerecession levels in terms of frequency.

### PRICE PREDICTIONS

| Flat to -10% |

### CONTACTS

**Scott Ettien**  
East Coast  
212 915 7960  
scott.ettien@willis.com

**Vanessa De La Cruz**  
West Coast  
213 607 6282  
vanessa.delacruz@willis.com

**Brian Brown**  
East Coast  
212 915 8254  
brian.w.brown@willis.com

**Scott Pales**  
Midwest  
312 288 7735  
scott.pales@willis.com

**Damion Walker**  
West Coast  
949 930 1776  
damion.walker@willis.com