

PROPERTY PRACTICE

2012 PROPERTY INSURANCE MARKET UPDATE

January 2012

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OVERVIEW

2011 was a challenging year for the Property Insurance Market:

- RMS 11.0 model was released in February 2011 and caused much consternation
- Reinsurance costs continued to rise
- Global Property losses totaled \$108 billion (Swiss Re, Dec. 2011-per Insurance Insider, December 15, 2011), which is only second to \$123 billion in 2005 as the highest annual total on record.
- The global loss experience will translate into many insurers posting combined loss ratios in excess of 100%

ACE	105%
Chartis/Lexington	115%
FM Global	121%
Munich Re	130%
Travelers	130%
XL	107%
Zurich	112%

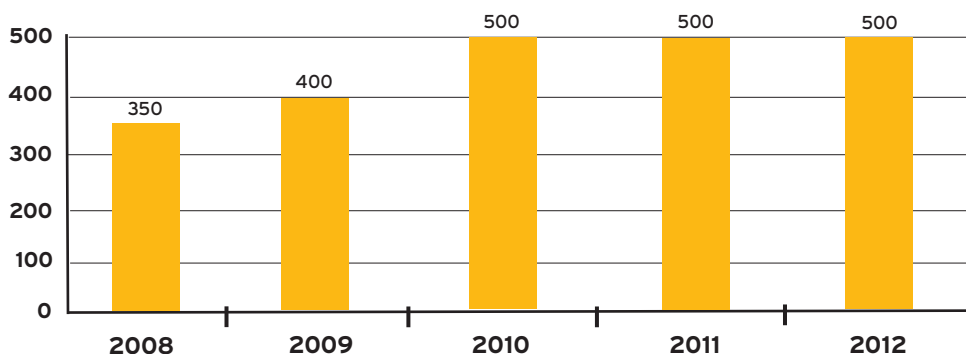


(Note: Willis NA benchmarking results for Q4 2011 were mostly in the +5% to +10% for CAT exposed accounts, but we did notice more examples of increases in the +10% to +15% range as compared to Q3 2011).

As a result of all of these factors, we are forecasting the following for Q1 2012:

TYPE OF ACCOUNT	RATE		
	Q3 2011	Q4 2011	Q1 2012
Non-CAT	-5% to -10%	-5% to Flat	-5% to Flat
CAT	Flat to +10%	+5% to +10%	+7.5% to +12.5%

"CAT" PROPERTY CAPACITY (\$Millions) ON LARGE "CAT" ACCOUNTS



2011 LOSS EXPERIENCE

Simply put, if it could happen, **then in 2011 it did!** For example:

- March 11 – As if a 9.0 magnitude earthquake in Japan is not bad enough, let’s add a tsunami that devastates the Fukushima and Miyagi prefectures of Japan. We’re not done yet because you also need to add the dangerous complication of the damage to the Fukushima nuclear power plant and its threat to the surrounding area. The industry has never seen the complexity of this type of loss before – and we hope we never will again.
- April (Tuscaloosa, AL) and May (Joplin, MO) saw two F5 tornadoes (usually rare) that caused massive damage and were a large part of the spring tornado season, which caused total insured losses of \$21.3 billion.
- August 23 – Maybe not a massive loss, but definitely an abnormal one: the Central Virginia Earthquake (5.8 magnitude) reminded us to be prepared for the unexpected. The tremors were felt in New York City, Canada and as far south as Savannah, GA.
- August-November – An unusually high level of rainfall from the monsoon season causes epic flooding in Thailand, affecting many manufacturing plants/assembly locations for the auto and computer industries. Imagine dirty flood water in buildings for 30 to 60 days. Initial insured losses estimated at \$10 billion are expected to increase to \$20 billion.
- Ongoing 2010-2011 – The original earthquake that hit Christchurch, New Zealand occurred in 2010, but that earthquake was followed by a 6.3 magnitude on February 22, 2011. Since then, numerous aftershocks continue to rock this region; insured losses are estimated between \$13 billion to \$15 billion.

Munich Re just released a report of the 2011 underwriting year. It is easy to see how losses can add up to \$108 billion when you take a look at the top five losses.

DATE	REGION	EVENT	FATALITIES	OVERALL LOSSES U.S.\$ M	INSURED LOSSES U.S.\$ M
March 11, 2011	Japan	Earthquake, tsunami	15,840	210,000	35,000-40,000
February 22, 2011	New Zealand	Earthquake	181	16,000	13,000
August 1 to November 15, 2011	Thailand	Floods, landslides	813	40,000	10,000
April 22 to April 28, 2011	U.S.	Severe storms/ tornadoes	350	15,000	7,300
August 22 to September 2, 2011	U.S. Caribbean	Hurricane Irene	55	15,000	7,000

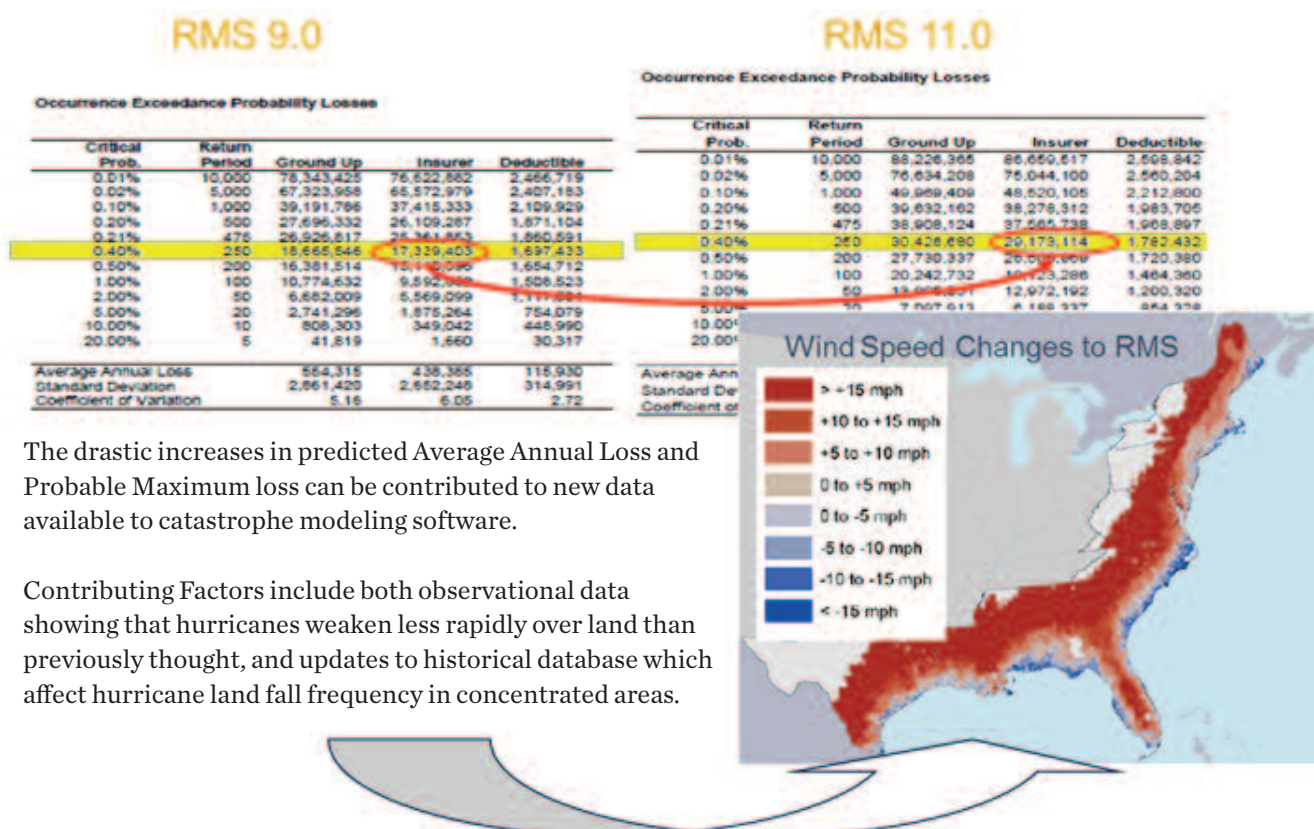
Source: Munich Re NatCat Service, Dec. 2011

RMS 11.0

The new model was released in February. Most of the property insurers began implementing it by the start of the third quarter. The new loss projections for windstorm and storm surge increased by 40% to 60% (and sometimes even higher) for exposure in many coastal areas, from New Jersey to Texas. As a result, underwriters were forced to either increase the price for their windstorm capacity or reduce the amount of capacity they were providing.

Renewals during the first half of 2012 will feel the effects of the model, since most of these accounts missed it in 2011.

We saw increased modeled results for the accounts we place, as evidenced in the following exhibits:



- The drastic increases in predicted Average Annual Loss and Probable Maximum loss can be contributed to new data available to catastrophe modeling software.
- Contributing Factors include both observational data showing that hurricanes weaken less rapidly over land than previously thought, and updates to historical database which affect hurricane land fall frequency in concentrated areas.

RMS 9.0 VS RMS 11.0

ACTUAL RESULTS (% CHANGE - SAME DATA POINTS)

CLIENT	MODEL VERSION	100 YEAR WIND PML	% CHANGE	250 YEAR WIND PML	% CHANGE	500 YEAR WIND PML	% CHANGE
State	RMS 9.0 RMS 11.0	\$77,842,969 \$256,021,944	228%	\$146,672,639 \$499,981,762	327%	\$210,780,730 \$780,030,063	270%
Real Estate Management	RMS 9.0 RMS 11.0	\$11,153,505 \$23,363,687	109%	\$21,308,356 \$44,331,966	108%	\$30,899,628 \$64,910,657	110%
Academic Institute	RMS 9.0 RMS 11.0	\$227,780,274 \$485,651,081	113%	\$390,468,355 \$835,285,185	114%	\$555,861,620 \$1,160,294,560	109%
Hotel Gaming and Casino	RMS 9.0 RMS 11.0	\$33,995,256 \$45,177,317	32%	\$62,605,792 \$104,228,478	66%	\$90,670,458 \$159,337,139	76%

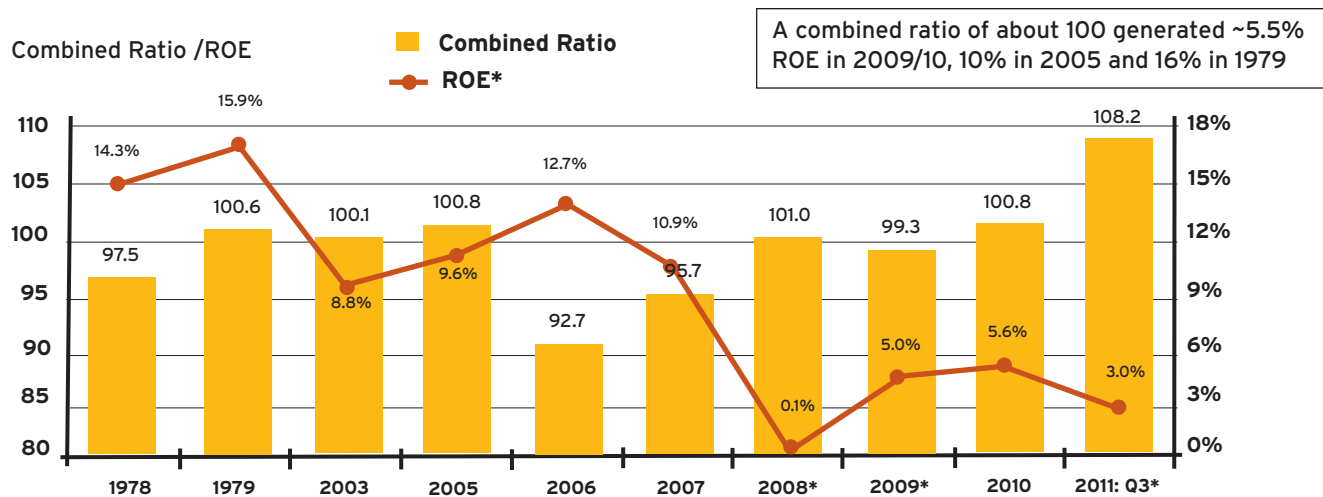
FINANCIAL RESULTS

If it were not for the abundant capacity in the property insurance market and the continuing weak economy, many believe property rates for CAT capacity would be firming even more.

Low interest rates limit insurers' ability to generate investment income and force insurers to make a profit on their pure underwriting results – **most of the property insurers failed to do so in 2011**. The broader Property/Casualty market was following the trend of the Property market through Q3 2011 with a 108% combined ratio. Net income was \$7.9 billion for Q3 2011, compared to \$34.6 billion Q3 2010. The estimated results for Q4 2011 are not expected to improve the picture because the Thailand Flood loss will be recorded in Q4 2011.

(see financial exhibits provided by Insurance Information Institute (www.iii.org))

A 100 COMBINED RATIO ISN'T WHAT IT ONCE WAS: INVESTMENT IMPACT ON ROEs

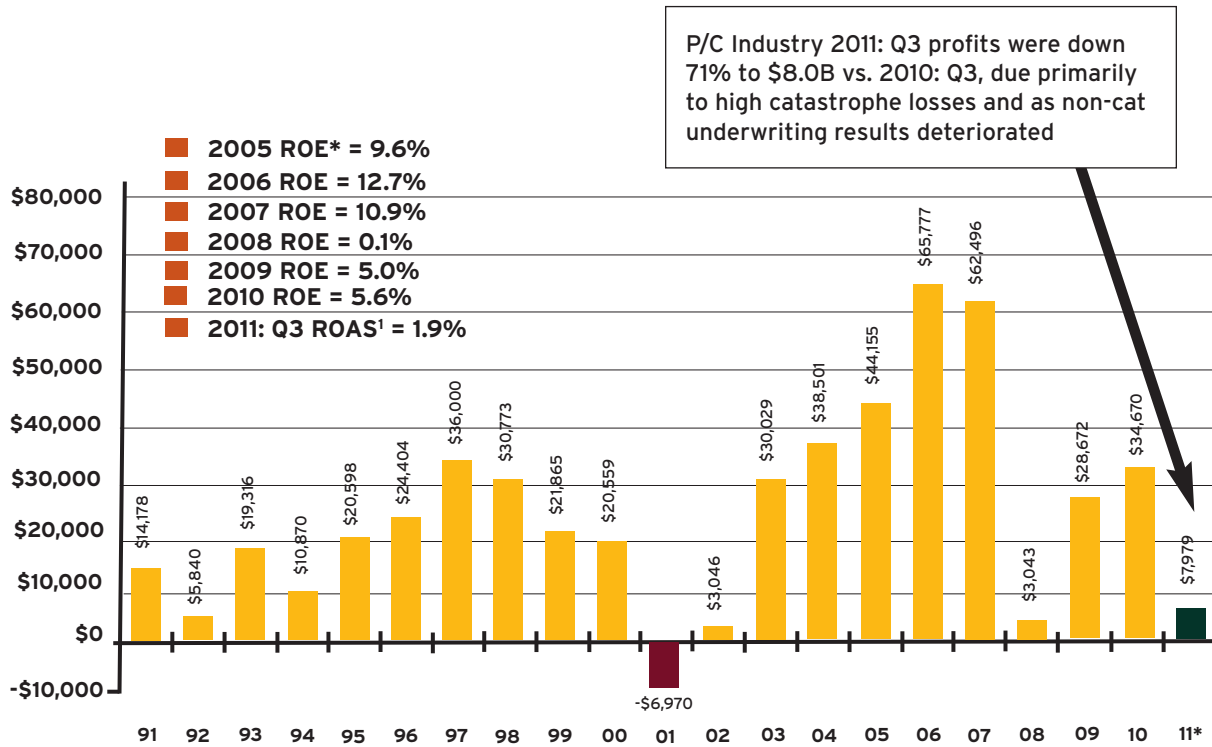


Combined Ratios Must Be Lower In Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

*2011 figure is return on average statutory surplus. 2008-2011 figures exclude mortgage and financial guaranty insurers. 2011: Q3 combined ratio including M&FG insurers is 109.9, ROAS=1.9%

Source: Insurance Information Institute from A.M. Best and ISO data.

P/C NET INCOME AFTER TAXES 1991 - 2011: Q3 (\$ Millions)



*ROE figures are GAAP; Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 3.0% ROAS for 2011: Q3, 7.5% for 2010 and 7.4% for 2009.

Source: A.M. Best, ISO, Insurance Information Institute

CONCLUSION

We will continue to monitor these factors affecting the market as we move into 2012. Hopefully, 2012 will be a much quieter year on the loss side and, if so, we can see the insurers return an underwriting profit on the property side. That would help put a halt to the continuing rise in rates.

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