

EUROPEAN NATURAL CATASTROPHE BULLETIN

April 2011

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WESTERN EUROPEAN NATURAL CATASTROPHE EXPOSURES

Understanding the potential effects of natural catastrophes in the U.K. and Europe is a critical component of the Willis risk management strategy for our clients. While specific catastrophes are unpredictable, analytical modelling helps us determine the potential impact of losses. We utilise a fully integrated network of European Willis offices to help manage our clients' catastrophe exposures.

According to initial estimates by Munich Re, more than 295,000 people were killed worldwide by Natural Catastrophes in 2010. The cost to Insurers is estimate to be €37 billion across the globe. By way of comparison, estimates for 2009 were €14 billion.

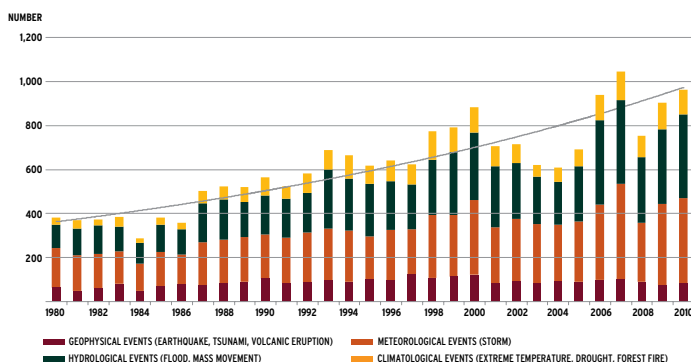
THE MOST COSTLY INSURED EUROPEAN LOSSES IN 2009/2010

INSURED LOSSES (IN € M)	DATE (START)	EVENT	REGION
2,854	27.2.2010	Winter Storm Xynthia – High Winds – Heavy Rain	– Portugal – Spain – France
2,361	24.01.2009	Winter storm Klaus; – Winds up to 170 kmh – Heavy rain	– France – Spain
833	23.07.2009	Hail storm Wolfgang – Hail – Thunderstorms – Damage to buildings and some crops	– Switzerland – Austria – Poland – Czech Rep.
579	26.5.2009	Hail storm Felix – Hail – Thunderstorms	– France – Germany – Belgium
382	6.4.2009	– Earthquake	– Italy

NATURAL CATASTROPHE FACTS

- 2010 saw the second highest number of Natural Catastrophe events since 1980.
- There is an ever increasing trend of the frequency of Natural Catastrophes with 2010 being in the top 5 costliest for direct losses since 1980.
- €25 billion insured losses – 35% due to earthquakes.

NATURAL CATASTROPHES WORLDWIDE, 1980 - 2010 NUMBER OF EVENTS WITH TREND



Graph taken from Munich Re Natural Catastrophe Year in Review 2010 – January 10, 2011
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NATURAL CATASTROPHES, 2010

OVERVIEW AND COMPARISON WITH PREVIOUS YEARS

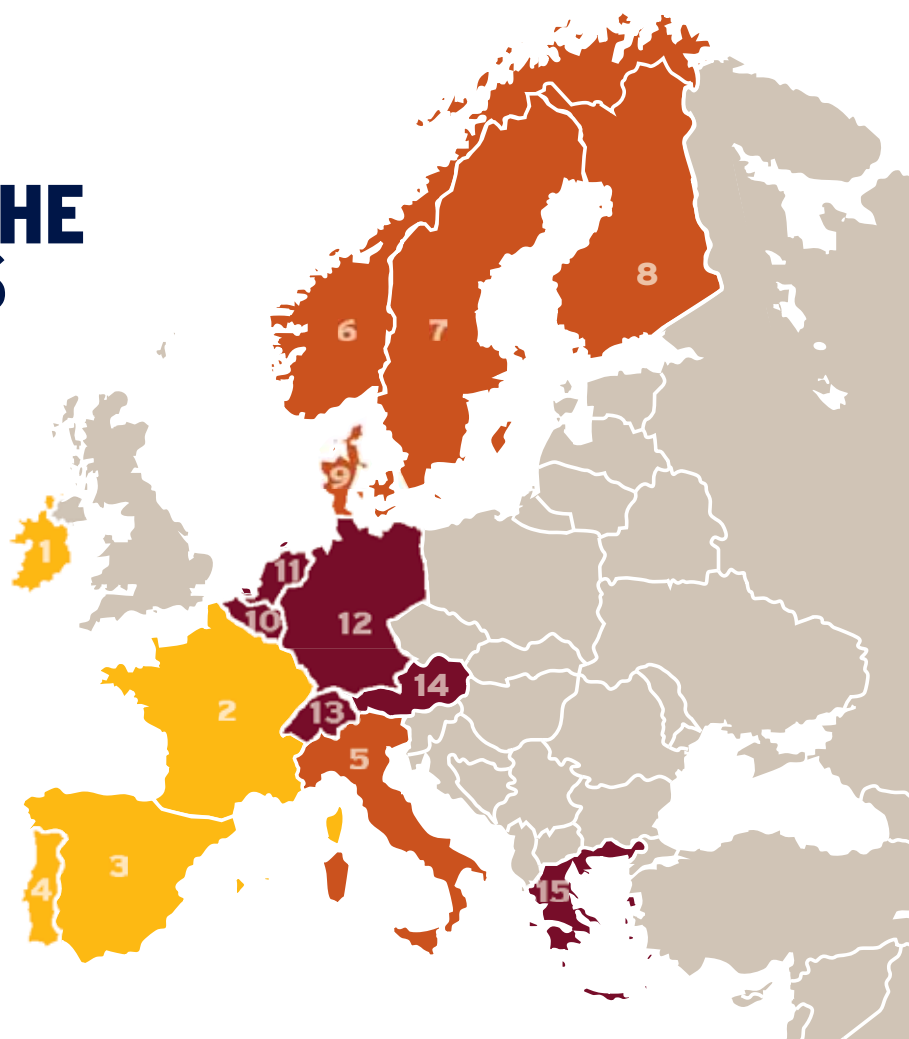
	2010	2009	AVERAGE OF THE LAST 10 YEARS 2000 - 2009	AVERAGE OF THE LAST 30 YEARS 1980 - 2009
Number of events	950	900	785	615
Overall Losses (in € M)	89,790	41,443	75,980	65,605
Insured Losses (in € M)	25,546	15,189	24,165	15,883
Fatalities	295,000	11,000	77,000	66,000

As demonstrated in the graph above, in recent times insured losses have shown a rising trend due mainly to weather-related catastrophes. This also reflects an increasing concentration of property values and urban encroachment into highly exposed regions.

Going forward, the effects of global warming are likely to aggravate the loss situation. Climatologists assume that shifting climate zones could lead to weather events that have hitherto been restricted to extreme regions. Insurers have modified their catastrophe simulation models, where appropriate, to bring them into line with higher levels of expected damage, especially in what appears to be an increasingly volatile climate. This places greater emphasis on ensuring the catastrophe risks are correctly insured.

Willis is at the forefront of innovative insurance programme design and placement to help cater for our clients' increasing exposure to European natural catastrophe risks.

WESTERN EUROPEAN NATURAL CATASTROPHE EXPOSURES



Country	Potential High Exposure to:				Taxes (as at April 2011):		
	Earthquake	Flood	Storm	Snow Pressure	MD	BI	POL
1. Republic of Ireland	No	Yes	Yes	No	3%	3%	3%
2. France	No	Yes	No	Yes	7%	7%	9%
3. Spain	No	Yes	No	No	8.65%	6.15%	6.15%
4. Portugal	Yes	Yes	No	No	12.9%	12.9%	9%
5. Italy	Yes	Yes	Yes	Yes	22.25%	22.25%	22.25%
6. Norway	No	No	Yes	Yes	0%	0%	0%
7. Sweden	No	Yes	Yes	Yes	0%	0%	0%
8. Finland	No	No	No	Yes	23%	23%	23%
9. Denmark	No	Yes	Yes	No	0%	0%	0%
10. Belgium	No	Yes	Yes	No	15.75%	15.75%	9.25%
11. Netherlands	No	Yes	Yes	No	9%	9%	9%
12. Germany	No	Yes	Yes	No	19%	19%	19%
13. Switzerland	No	No	No	Yes	5%	5%	5%
14. Austria	No	Yes	No	Yes	15%	15%	11%
15. Greece	Yes	No	No	No	20%*	10%	10%

* Greece MD Tax Rate 20% where cover includes earthquake and terrorism or 10% if earthquake and terrorism are excluded.

1. REPUBLIC OF IRELAND

Insurance Taxes: MD/BI/POL = 3%

Main Exposures: Windstorm and flood are the only substantial risks and flooding is generally localised in the Midlands and West of the country, but in recent years both Dublin and Cork City have been affected by serious damage.

There is a potential for severe storms in the winter. Small earthquakes/tremors are felt occasionally but the country is not on a fault line.

2. FRANCE

Insurance Taxes: MD = 7%, BI = 7%, POL = 9%

Main Exposures: There is annual experience in Central, Eastern and South East France of flood damage to agricultural and residential property. The South East of France has the highest earthquake sensitivity. Windstorm occurrence is generally one per year and mainly in Western and Southern France.

Natural Catastrophes: Perils insured: floods and/or mudslides, earthquakes, landslides, subsidence, tidal waves, flows of water, mud or lava, moving masses of ice or snow, etc.

3. SPAIN

Insurance Taxes: MD = 8.65%, BI = 6.15%, POL = 6.15%

Main Exposures: There are earthquake sensitive areas along the eastern border with Portugal and in the South. Inland flooding in Alicante, Barcelona, Basque Country, and tidal wave activity along Southern Mediterranean.

Conсорcio (Terrorism & Natural Catastrophe Coverage): This is a compulsory national scheme in which all local insurers are entered. It is regulated by the Insurance Compensation Pool (“Conсорcio de Compensacion de Seguros”). The scheme provides cover for terrorism risks and certain natural catastrophes. For non admitted policies issued in an ECC country covering a risk located in Spain, the Conсорcio premium is still charged.

Furthermore, the Conсорcio premium must be paid within one month of renewal for existing coverage and prior to inception for new coverage. The premium payment terms are non-negotiable and if these are not met, then cover is not provided. The general conditions of all applicable policies include a clause stating that the “Pool” covers the Conсорcio defined perils. Fire, Theft, Auto, Accidents, Machinery Breakdown are required by law (Regulation 16 12.54 Decree 29 8.86) to cover direct property loss caused by some catastrophic or extraordinary perils.

Before Insureds can register their claims the “Conсорcio” must first declare that an occurrence falls within the definition of perils insured. Property damage occurrences which may be allowed as claims are:

- Acts of political and social unrest, riots civil commotion, intervention of military force in peace time, but not war damage.
- Earthquake and any other seismic or meteorological phenomena, such as landslides which cause damage of an extraordinary nature.
- Flood (to qualify must exceed various criteria) in certain areas. Terrain flooding and sea battering is included in flood coverage.
- Volcanic eruption.
- Windstorm (to qualify must exceed various criteria). A storm is considered extraordinary when there are winds every three seconds of 135 KM/hour or more.
- Extraordinary and unusual contingencies not normally otherwise insurable.
- Conсорcio endorsement coverage is not effective until 30 days after the property policy premium is paid and signed.

4. PORTUGAL

Insurance Taxes: MD/BI = 12.9%, POL = 9%

Main Exposures: Earthquake sensitivity Mercali scale VI and VII for most of the country. Mercali VIII in Lisbon area and 50 mile band south from Lisbon to the Coast. Earthquake coverage is often sub-limited in the South of the Country and top-up cover from the UK can be procured. There is a tidal wave exposure along southwest coast from Lisbon and entire south coast. Flooding is also a prevalent hazard.

5. ITALY

Insurance Taxes: MD/BI/POL = 22.25%

Main Exposures:

Earthquake: There are varying levels of seismic activity in Italy. Restrictions on the level of cover afforded to Earthquake apply in the majority of areas. Top up cover to full values can be procured under the master DIC/DIL policy in the UK or the Lloyd's market. Seismicity is mainly concentrated in the Alps, along the Appennines and in Quaternary, as well as certain active volcanic areas such as Etna and Vesuvius. The areas immediately east of Rome (Aquila), south-east of Rome (Benevento and Avellino), the southernmost tip (Calabria), and the east and north-eastern edges of Sicily (Messina, Catania and Syracuse) are generally regarded as the higher risk areas. Cover is usually only offered to commercial and industrial insureds and is granted as an extension to fire policies, usually with a first loss sum insured in the region of 50% of total property values. Cover includes fire following earthquake shock but volcanic eruption, seaquake, inundation and theft are excluded. There is no state pool or catastrophe fund.

Windstorm/Hailstorm: Generally full value cover is granted for this peril, but if restrictions apply, top-up cover can easily be procured in the UK insurance market. Italy can be divided into three distinct regions for windstorm purposes (and there is no state pool or catastrophe fund); The north (Venice and northwards), is a low-risk region generally, as it is protected by the Alps and consequently normally unaffected by these perils. The central region (between Venice and Naples) is susceptible to windstorm, particularly towards the end of the year (November and December) and constitutes a relatively high-risk area. The south (Naples and southwards) is rarely affected, but does not have any natural protection and represents a medium-risk area.

Floods: Cover can be restricted locally, but top-up cover is easily procured in the UK. Flood represents a serious potential hazard in many parts of Italy, particularly areas of the Po and Arno valleys and their

tributaries. The most exposed regions are those of Piedmont, Lombardy, Emilio Romagna, Veneto, Tuscany, Umbria, Latium, Liguria and Calabria. Flash floods can occur throughout the country as a result of heavy summer rains and the mountainous nature of the country. Coverage is usually effected with a first loss sum insured in the region of 50% of total property values. There is no state pool or catastrophe fund.

6. NORWAY

Insurance Taxes: MD/BI/POL = 0%

Main Exposures: Wind and storm in coastal areas with cover provided by the Norwegian Natural Perils Pool. For Property insurance, there must be compliance with the regulations of the Norwegian Natural Perils Pool, which requires that all property insured against fire also is covered by the Norwegian Natural Perils Pool. The premium related to this is 0.11 per mille of the value of the property insured.

7. SWEDEN

Insurance Taxes: MD/BI/POL = 0%

Main Exposures: Storm, landslide, avalanche, failure of dike are prevalent exposures. Earthquake and volcanic eruption are very limited with no real exposure. Flood is an exposure in low lying areas of Gotland and Svealand. Windstorm in Southwest region.

8. FINLAND

Insurance Taxes: MD/BI/POL = 23%

Main Exposures: There are no major catastrophe exposures in Finland. Snow pressure can be sub-limited locally and top up cover procured in the UK.

9. DENMARK

Insurance Taxes: MD/BI/POL = 0%

Main Exposures: Windstorm in the winter months and flood in low lying and coastal areas are major exposures. Denmark has a coastal climate and a coast line of 7.314 km. The ocean has an influence on the weather and is very changeable. There are no predetermined flood zones but when storm or flooding occurs the Storm Counsel (Stormrådet) evaluates if damages from a storm and flood can be covered according to the Danish legislation and if damages should be paid to claimants.

10. BELGIUM

Insurance Taxes: MD/BI = 15.75%, POL = 9.25%

Main Exposures: There is low earthquake sensitivity. Flood risk is principally in the Ardennes Forest region and along the river "Maas". Hail/windstorm is the most frequent catastrophe exposure in Belgium.

11. NETHERLANDS

Insurance Taxes: MD/BI/POL = 9%

Main Exposures: Windstorm, Earthquake and Flood. Flood is by far the most significant exposure with 25% of the land mass below sea-level. Inner limits on the flood peril exist under all standard insurance policies. There is no local Government pool available to purchase top up cover, but UK insurers and the Lloyd's market will provide extra cover for the right price.

12. GERMANY

Insurance Taxes: MD/BI/POL = 19%

Main Exposures: There is an Earthquake sensitive area in the South/West of Germany, but there has been little history of seismic disturbance. Windstorm average one per year particularly in the northern coastal areas. Hail and flood in many areas. Landslide, subsidence and snow impact are prevalent.

The area at the basin of the River Rhine is particularly susceptible to Storm Surge, where high winds combined with low pressure cause water surges higher than normal sea level. It rises in the Swiss Alps issuing from the Rheinwaldhorn Glacier 3,353 m above sea level. It flows generally north, passing through or bordering on Switzerland, Liechtenstein, Austria, Germany, France, and the Netherlands before emptying into the North Sea at Rotterdam. Its important tributaries are the Aare, Neckar, Main, Moselle, and Ruhr rivers. All property insurers impose an inner limit (usually between €1m and €10m) on the Storm Surge peril. Top up cover to full value can be sought.

13. SWITZERLAND

Insurance Taxes: MD/BI/POL = 5%

Main Exposures: Thunderstorm, hail, avalanche, ice and snow load. Flood and winter storm are the highest frequency exposures. Earthquake potential is weak with one shock every 50-100 years.

Overview: Switzerland is a Federation of 26 Cantons, each with its own parliament, laws, courts, etc. Each Canton has its own specific insurance requirements. Federal laws apply to the whole country. The Federal Court is the highest court.

14. AUSTRIA

Insurance Taxes: MD/BI = 15%, POL = 11%

Main Exposures: Southern Austria (Alps region) is prone to earthquake Mercali scale VIII once every 50 years. The rest of the country is estimated at Mercali VII and below. Snow load, avalanches and landslides can sometimes be a problem in mountainous areas. Flood is a periodic exposure in the Danube River basin. Storm and hail are an increasing problem due to climate change, but are limited to small areas.

15. GREECE

Insurance Taxes: MD = 10% or 20%, BI = 10%, POL = 10% (20% rate applicable when cover includes damage by earthquake and terrorism, or 10% where these covers are excluded)

Main Exposures: Significant earthquake potential. Greece is divided in to three earthquake zones. The last major incident in September 1999 in Athens was rated 5.9 on the Richter Scale. Some insurers impose total exclusions on earthquake coverage in Greece. Top up cover from the UK can be purchased. Possible tsunami and volcanic exposure.

CASE STUDIES

SCANDINAVIAN SNOW PRESSURE

THE ISSUE

A new property investment fund bought a portfolio of properties in Sweden and Finland. The finance deal required full value 'All Risks' cover to be purchased. The local policy sub-limited cover for 'snow pressure' to € 1m limit of indemnity. The client had to procure full value cover for snow pressure otherwise they would be in breach of their banking covenants.

SOLUTION

Willis undertook an exercise to determine the average seasonal weather patterns in Sweden and Finland. The results demonstrated that the assets in question were not situated within the higher risk areas. An appropriate level of premium for the actual risk presented to insurers was agreed for full value coverage at each location.

WILLIS VALUE

Willis analytical experts presented catastrophe modelling data that was able to predict the worst case scenario and average scenario situations at each location. This allowed us to pin-point the exact exposure hot-spots and negotiate the appropriate level of premium on a per asset basis. The client was happy with this methodology because the data allowed the client to justify the level of premium charged when arranging collection from the property's tenants via the service charge.

ITALIAN EARTHQUAKE

THE ISSUE

A European REIT client purchased a large asset South-East of Rome that was situated in one of the higher risk Earthquake zones. Cover was restricted locally to 50% of the asset's reinstatement value leaving the client with an uninsured loss exposure for any damage over 50% of value.

SOLUTION

Willis arranged excess earthquake coverage with Lloyd's of London that tied in with the coverage obtained under the primary policy and provided the extra 50% to increase cover to full value.

WILLIS VALUE

Willis has instant access to the Lloyd's of London market via a team of dedicated Lloyd's brokers. With capacity and pricing for European Catastrophe risks expected to rise in the short to medium term, the Willis Lloyd's brokers are well placed to negotiate the best possible coverage and most competitive premium possible.

GERMAN STORM SURGE

THE ISSUE

A client bought a portfolio of German properties located within the basin of the River Rhine. The local insurance policy limited the flood exposure to €1m. This was not sufficient to cover the total asset value per location.

SOLUTION

Following consultation with the Willis Frankfurt Office, who were able to provide knowledge of similar situations faced by their own clients and guidance on which Insurers were best placed to assist, we were able to successfully increase the local limit with the local Insurers to €5m. This was sufficient to provide full value cover per asset and per location.

WILLIS VALUE

We have a team of European property specialists located within each local Willis office who understand the needs of a European Property Investor. Our extensive network of European offices allows easy access to every local insurance market in Europe and delivers local knowledge to London in real time.

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