



Munich Re expects to hit profitability targets this year despite September's catastrophe losses and will also continue a selective underwriting policy. With reinsurers focussing more on underwriting discipline than direct insurers it will be interesting to see the outcome of reinsurance treaty renewals following the Baden Baden treaty conference in October.

Catastrophe risks are an area where reinsurers are showing considerable focus, with ever more detailed models being developed to identify loss expectations for flood and earthquake. With the floods across Europe in 2002 causing considerable economic, governmental and insurance market losses, the risk of catastrophic floods will continue to give cause for concern and could be an area where premium could be adjusted on high excess layers exposed to such catastrophe exposures.

While above-average hurricane activity has been the dominating factor for August and September, territories outside the Caribbean remain unaffected with the exception of Japanese typhoon activity.

Willis Catastrophe Management Services comment that increased levels of activity are predicted to characterise Atlantic Hurricane seasons for years to come, and may translate into high levels of property damage and insured losses in the United States and the Caribbean nations for some time

#### Hurricane activity over the past century

Period	# of Years Spanned	# of Major Hurricanes making Florida landfall	# of Major Atlantic Hurricanes formed	Annual Average
1899-1925	26	4	38	1.5
1926-1970	45	14	118	2.6
1971-1994	24	1	37	1.5
1995-2003	10	6	38	3.8
2004 (to date)	1	4	5	5

## Terrorism Overview

With the continuing exclusion of terrorism cover from property programmes worldwide insurance, buyers' minds have been focused on the risk of increased terrorist attacks, and thus the market remains buoyant. There have been terrorism losses to the London market in Peru, Turkey, Spain, Colombia and most recently Jakarta. Despite this, the lack of any major losses has led to the sustained softening of the market.

Rates continue to drop even in the most difficult areas. Territories that were unable to be covered by insurance last year due to the perceived risk involved are now finding the London market more receptive. Terrorism insurance in Colombia or even Iraq that was previously unattainable or uneconomic are now real possibilities.

Capacity remains fairly static with US\$ 700m currently available at reasonable terms, plus a further US\$ 500m+ available from Berkshire Hathaway. Lloyd's underwriters such as Brit and Ascot have increased their line size to US\$ 25m and US\$ 30m respectively and Hiscox syndicate are considering doubling their line size to US\$ 100m from US\$ 50m. We anticipate others to follow.

The softening of the market has forced terrorism underwriters to be more imaginative to hit their aggressive premium income targets. The new Terrorism liability market has attracted widespread interest through Willis, with a number of deals completed already.

In each edition of Global Markets Property Update we aim to discuss the climate from within regional and key country markets. This edition looks at Asia, Bermuda, Latin America and Eastern Europe.

### Latin America

Latin America continues to be dominated by tenders on the larger accounts, both private and government. This 'commodity' approach by buyers tends to magnify the ups and downs in the cycle and limits the establishment of close relationships during hard times. Market capacity, including that for risks with large catastrophe exposure, has continued to increase.

Clients are expecting some reduction in deductibles, in addition to premium decreases, and regional markets appear to be more flexible in this respect. Rate reductions are in the range of 10%-25%, with increasing shares held by local insurers and the regional offices of international insurers/reinsurers.

Many of these regional offices are increasingly beginning to report to a regional head office, the majority of which are based in Miami.

Global Markets International (GMI) has established a presence in Miami to act as a hub for all marketing of Latin American business and is well positioned and timed to enable us to access the new decision makers of the region, and improve our strength in the territory.

### Eastern Europe

Capacity has increased steadily owing to interest from international reinsurers, as underwriters seek to grow income in new territories as a result of the softening market. This has meant that we have been able to increase policy limits without significant additional cost.

Rates have decreased by 15%-30% on like-for-like renewals with no losses. The region has not experienced any major losses. Sub-limits have increased for machinery breakdown and debris removal, though deductibles are remaining stable.

Terrorism rates are decreasing as underwriters begin to appreciate that terrorists tend to target civilians and not industrial operations.

### Bermuda

Of the world's top 35 global reinsurers, 11 of them now call Bermuda their home, according to an AM Best report on Bermuda's insurance and reinsurance industry released at the Monte Carlo Rendezvous. The report noted that in the first half of 2004 the majority of Bermuda insurers and reinsurers had enjoyed solid earnings and capital growth. However, the agency warned that the strong earnings of the Bermudan insurers and reinsurers had at least partly been due to the absence of a major catastrophe loss. The flow of primary business to Bermuda is also increasing, generally via onshore subsidiaries.

The Bermudan market is still highly competitive on both a primary and excess basis, and continue to remain on the majority of our London placements. However, with the softening market, the philosophy is to remain profitable, rather than maintain income levels.

There are some examples of underwriter discipline with instances where markets are limiting their written lines to 50% of their capacity in response to the softening market.

### Asia

Whilst the Asian market is not seeing much new business the potential for Chinese business is growing, but is limited at this stage due to the immaturity of the insurance industry, particularly where the relationship between Chinese property law and insurance is concerned. Exceptions to this are the semi conductor and specialist risk businesses, which requires more specialised markets. With the establishment of Willis in China there should be increased opportunities for the global markets.

## World Market Overview - Continued

### Asia (Continued)

Rate reductions are varied between the countries. Taiwanese business is seeing the largest rate decreases of between 20%-30%, mainly driven by its local market which now has more treaty capacity on an excess loss basis.

There have been no major losses, other than in Japan, so we are seeing 10% – 20% rate decreases across the board, combined with limit and wording expansions. Power Utility deductibles, however, are not moving to the same extent, especially the business interruption deductible.

## In Conclusion

According to a recent survey conducted by GE Insurance Solutions 85% of European insurers feel that they are well-prepared for the next market cycle, while 43% of them admitted that they had difficulty in determining when the underwriting cycle would turn. It would seem probable that with the exception of Caribbean Catastrophe cover the market will continue to soften. Managing the underwriting cycle is a top strategic issue for underwriters moving forward.

Credit ratings remain critical for buyers: S&P sub A- markets come under close scrutiny and are often restricted by clients with lenders. Credit rating over the next 12 months will be of considerable importance for the markets.

Lloyd's continues to monitor syndicate performance and place emphasis on underwriting profit and effective performance management. Franchise Performance Director Dr Rolf Tolle is responsible for working with Lloyd's syndicates to improve the overall commercial performance of the market and stamp out 'ill-disciplined' underwriting which is reflected in the fact that Lloyd's has recently been upgraded to A (Excellent) by rating agency A.M Best.

The key points to note are:

- Competitive conditions return to certain segments of the marketplace.
- Capacity has grown, but not everywhere.
- Quality of risk profile is key in negotiating terms and conditions.
- Marketplace security issues remain, although industry conditions are improving
- Caribbean Catastrophe Cover Premiums will increase with the jury still out for other catastrophe exposed territories until the final bill for 2004 hurricane losses is finally settled.

Information gathered from:  
The Tropical Meteorology Project;  
NOAA Atlantic Oceanographic and Meteorological Laboratory;  
Hurricane Research Division; US Census Bureau; NASA; CNN;  
USA Today; weatheronline; Weather Underground RMS; AIR;  
EQECAT; PCS

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