



JARDINE LLOYD THOMPSON

PRESS RELEASE

JLT reports that insurance market will remain soft

Locally and globally, the insurance market continues to be highly competitive, but are things about to change?

14 March 2008, Sydney – Jardine Lloyd Thompson Pty Ltd (JLT) has released a report on the Australia insurance market conditions. The report reveals that in the Australian insurance market, underwriters remain aggressive in their desire to grow market share in all major commercial classes. In comparison to what has been achieved in recent years, there is a view that insurance premium rate reductions in 2008 will be modest.

“Insurance rates are now at 1997 levels which were the lowest over the past 35 years,” said John Donnelly, Executive Director, JLT. “It is not that the market is without losses – the Hunter Valley floods, the summer storms in Sydney, together with other major weather events in Northern NSW, South East Queensland and severe flooding in Central Queensland, have resulted in claims in excess of A\$2 billion.”

The results of major listed insurers have been affected by these losses. A leading insurance company recently announced that foreshadowed premium increases for domestic classes of insurance, whilst other industry leaders are beginning to talk about increasing commercial rates.

“The international economies are providing some potential challenges for the insurance market. The sub prime mortgage crisis will undoubtedly bring significant claims to the insurance market. Already we have seen some underwriters reporting losses due to their own exposure to the credit market. XL Capital reported a US\$1.5bn after tax charge in their Q4 2007 results; Swiss Re, the world’s largest reinsurer, has reported a CHF1.2bn pre tax loss,” cited John.

The sub prime mortgage crisis will bring claims against banks and financial institutions, the real estate industry, property valuers, financial advisors and the like. The Professional Liability market will bear the brunt of these claims.

The equity and capital markets are also experiencing turbulence which will impact the insurance market. In the last 2 years, underwriters have seen their loss ratios increase due to declining premium rates. Their investment returns have been increasing which has enabled them to post record profits despite a softening insurance market. In 2008, investment returns are likely to be much lower with not only the stock market steadying but the USA Federal Reserve reducing official interest rates. The investment 'guru', Warren Buffet, warned recently at the Berkshire Hathaway results announcement that "the party is over" and "the insurance industry profit margins will fall significantly in 2008."

During the last decade, the capital markets have been quick to respond to the insurance market's need for replacement capital following major losses. As recently as 2005, in response to the massive insurance losses from Hurricanes Katrina, Wilma and Rita, the capital markets provided in excess of US\$50 billion of replacement and strategic new venture capital.

"Globally, there is a squeeze on capital. Also, there is some doubt as to whether the capital markets are in a position to respond to the market's need for replacement capital due to increasing loss ratios or from a major catastrophe event. If rates continue to decline, underwriters' capital bases will decline from attrition losses and reduced capital will impact their ability to write new business. Customer demand may begin to exceed supply, at which point we will see an upward movement in insurance rates."

There is some pressure in the Directors & Officers' Liability insurance market with a number of large class action suits underway. These large claims are forcing underwriters to reassess their underwriting guidelines. We are seeing some underwriters showing more caution in accepting high profile clients. Capacity will tighten and there may be an upward movement in premiums in the second half of 2008.

We continue to see aggressive strategies from underwriters of Small Medium Enterprise and Middle Market Property and Casualty lines. With all the talk in the market about an upward movement in late 2008, or early

2009, underwriters are positioning themselves to take advantage of improved market conditions. Those with the market share will be better rewarded.

There is less competition in the major corporate market, as many of the accounts have been tested in the market during the last 5 years. The desire by underwriters to lock in clients with long term agreements is increasing and JLT are recommending, to several clients, they now consider this hedging mechanism.

The major corporate market is heavily impacted by Merger & Acquisition activity; underwriters who are “on the losing end” of a transaction are keen to replace lost income, but the opportunities to do this with new client wins are diminishing.

The London insurance market continues to be active in Australian business. Lloyd’s Syndicates have opened their own offices here and in Singapore and are adapting to the local market conditions. Lloyd’s also continue to support numerous underwriting agencies here writing Property and Casualty business.

The largest and/or more complex risks still rely on participation from London and European insurers and reinsurers. The underwriters in those markets are pushing for greater market share in the top end market which is comforting to clients in this sector.

Whilst JLT is not anticipating the same premium reductions in 2008 as we have seen in recent years, we do envisage underwriters will seek to offer broader policy coverage in order to differentiate from their competitors. With the predicted change in market conditions within the next 12 months, JLT is advising organisations to review their risk exposures in detail with a qualified insurance broker. “2008 is the ideal time to ensure the policy coverage is totally reflective of their needs,” stressed John.

About Jardine Lloyd Thompson Pty Limited (JLT) Australia:

Jardine Lloyd Thompson Pty Limited (JLT) Australia is a wholly owned subsidiary of Jardine Lloyd Thompson Group plc which is quoted on the London Stock Exchange and is the largest European headquartered company providing broking, risk management and consultancy services in more than 30 countries worldwide.

JLT Australia operates out of more than 15 offices across all states and territories and employs more than 700 industry professionals. Backed by its global risk groups, JLT Australia is uniquely structured to provide innovative insurance and other risk solutions to companies and individuals in Australia.

Enquiries:

Jardine Lloyd Thompson Pty Limited
Level 11, 66 Clarence Street
Sydney NSW 2000

André Louw

Managing Director, ProEx
Tel no: (02) 9290 6741
Email: louwa@jlta.com.au

www.jlta.com.au