



NAVIGATING THE RISK AND INSURANCE LANDSCAPE

LATIN AMERICA AND CARIBBEAN
INSURANCE MARKET REPORT 2012



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Latin America and Caribbean Insurance Market Report • 2012

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Information in this report was provided by numerous professionals throughout Marsh's risk and industry practices, coordinated by the Knowledge Management Network.

For more information about the report, please contact your Marsh client executive or local Marsh office.

PUBLISHER'S NOTE

According to a growing number of economists, investors, and business owners, Latin America is the place to be. New opportunities and growing confidence are arriving daily. Marsh Latin America Caribbean (LAC) is positioned to support the expanding opportunities through our network of owned and affiliate operations.

Our experienced team of professionals located in 25 countries throughout this geography, provide innovative and bespoke solutions for risk management issues. The insurance sector's commitment to the region complements the burgeoning growth, supplying buyers with resources and products needed to identify, manage, transfer, or absorb risk.

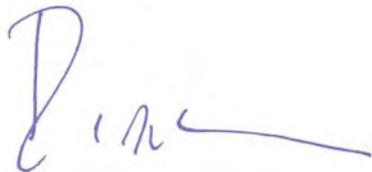
For Marsh LAC, our clients are paramount to our service offering. In addition to the large corporate client customer base, we also define, design and deliver specific risk solutions to small and medium sized customers and business owners. As our clients' exposures evolve from their growth, we use our fifty plus year presence in the region as the foundation for creating new solutions and products to address their multiple risk issues.

In 2012 we will continue to refine specific areas of specialization and address the growing demand for risk management solutions. We will continue to drive our focus on innovation and service delivery through these areas of expertise:

- Marsh 3D
- MultiLatinas and Multinationals with large operations in LAC
- Market Relationship Management
- Marsh Risk Consulting
- Product and Industry Practices with dedicated resources to address the changing risk landscape

We are pleased to provide you with the 2012 Latin American Insurance Market Report, including the Caribbean and Central America. The information contained herein is intended to support your insurance program design and placement processes. It is a reflection of the experience of Marsh insurance professionals throughout our region. We are active in the insurance market daily, negotiating on behalf of our clients throughout this geography and through our global network.

We also take this opportunity to thank you, our clients, for trusting us with your business year after year. We look forward to a 2012 year of achievement together in this dynamic environment. If you would like to discuss any part of this report in more detail, please feel free to contact your Marsh Client Executive or any other member of your Client Executive team.



Ricardo Brockmann
CEO of Marsh Latin America and Caribbean

EXECUTIVE SUMMARY

Evolving from a predominantly risk transfer culture to a risk management culture is a lengthy process. The Latin America and Caribbean (LAC) region has been doing just that for decades. Significant advancements have been made in insurance awareness now that there is greater economic stability, more foreign investment and the understanding that risk transfer is only a small part of a risk management strategy. Fueled by examples from across the globe, LAC and the insurance sector is capitalizing on the momentum and putting in place insurance products and asset protection options which live up to the expectations and needs of consumers and corporations. These are exciting times to be in the risk and insurance industry in this region. Our clients are already present with solid foundations and the need to protect and grow these and insurance companies are looking for new investment opportunities.

This report complements the advisory and consulting activities we provide to our clients and gives an overview of the insurance environments and the macro economic conditions which impact insurance buying in the many geographies we cover. We also include commentary on the Caribbean and Central America which form part of the territory serviced by Marsh LAC. Both of these added to our presence in Latin America make up the attention and resources available to our clients with interests across this geography, through a network of insurance specialists spanning 25 countries from Mexico and points south.

LATIN AMERICA OVERVIEW

Latin America represents impressive growth opportunities in all major industry sectors, now and for the foreseeable future. Investors continue to look to Latin America for the types of returns unseen in other regions. Greater stability, improved regulatory controls, diverse global trading partners, robust natural resources, and broader trade agreements beyond the U.S. are but a few of the attractions. Despite predictions to the contrary, Latin America is surviving the fluctuating global recession. Though capital inflows declined slightly during 2011,

these continue to demonstrate the sustainability of the growth pattern and confidence in the future. The International Monetary Fund (IMF) forecasts 6 percent GDP growth in Latin America and the Caribbean.

This is a phenomenal scenario for our clients and investors. One cannot discount the uncertainties this region has always lived with, but the returns on investments appear to be worth the risks. The combination of regional and foreign investor criteria has contributed to a growing awareness of and a demand for risk and insurance products across the continent.

Many large local companies continue their expansion into more countries, making regional and global acquisitions. Brazil is on the world stage, joined by other countries with equally favorable environments. Across the entire region, opportunities in the domestic consumer market are untapped, while local, regional and global investors also eagerly look to formidable opportunities with the multiple commodities available. Risky exposures are associated with every one of these, thus creating an imperative for expertise, capital and capacity to assess, manage, transfer, retain, or mitigate them.

Clients have increasing demands due to diverse high valued industrial risks requiring global capacity, modeling and engineering to cover the exposures. As they become more aware of their exposures, they require advice on maximizing their premium spend, protecting their assets, meeting corporate governance standards, and ensuring their profitability. Brokers such as Marsh have earned the confidence of their clients, working in partnership with them to define, design and deliver the necessary solutions matched to each customer's needs.

It is incumbent upon each broker to know their client's business and to understand the environment the company operates in. The broker must be aware of all facets of their clients' organization. Insurance is but one piece of a myriad of decisions that clients make in a day and how these all fit together in terms of risk is a critical component of our work at Marsh. With a deeper understanding of our client's industry, we are well positioned to anticipate the needs and changing requirements of our clients and support them in managing their risks for growth.

One area of robust activity is the cross border investments and mergers and acquisitions taking place by highly capitalized, locally owned firms. This is an important area of focus for our clients and for Marsh LAC. With our extensive network of professionals, we are providing risk consulting services to buyers who are Latin American firms investing beyond their own borders. These firms are investing globally and the owners are looking for advisory services to meet evolving and dynamic exposures across a broad geography. We use our network of offices and relationships to recommend solutions and support our clients in addressing risks faced in the context of each industry and in each geography where they operate.

Delivering comprehensive, holistic services consistently across a global or regional base requires a structure that can provide dedicated services to these Multinational (MultiLatinas) customers. Taking into consideration the operational and financial activities of each firm, our goal is to provide resources to guide clients in the regulatory, legal and labor (including workers' compensation,

The strength of the Latin America region has encouraged local and regional players to invest in other countries, prompting a cross border investment surge amongst Latin Multinationals, known as MultiLatinas.

personal lines and employee benefits) issues for each country. We look for solutions to support all of our clients in all segments and industries. Personal lines, Commercial and Consumer are areas in which Marsh brokers are consistently demonstrating their advisory skills, each of which are industry and risk specific.

Astute buyers will have an advantage in managing their risks when they select Marsh as their risk and insurance advisor, using the skills and network to negotiate the most comprehensive solutions for each client.

Central America is also benefiting from improving economies, and expanded trading partners, though the security threat is quite real and keeps buyers and business owners very vigilant.

CENTRAL AMERICA OVERVIEW

Central America is geographically condensed but culturally diverse.

The following discusses the general insurance trends in the countries of Honduras, El Salvador, Costa Rica, Guatemala and Nicaragua.

All lines of business are stable in terms of pricing and capacity/limits; one exception is those lines affected by increasing criminal activity, principally marine/inland transit and motor, due to robbery and theft. While previously this was affecting mainly Guatemala, El Salvador and Honduras, it has spread and is now impacting Costa Rica and Nicaragua as well. Gangs linked to increased “narco-cartel” activities in these countries are blamed for the decrease in security. The situation is expected to worsen, as pressure on these cartels continues in Mexico, thus causing them to move their operations to these territories. There appears to be signs of increased inland transit hijackings and in general, and a higher incidence of insecurity, also linked to drug trafficking.

Due to more insecurity in the region, many companies are investing in private security protections and this has caused some pressure on profitability. Direct foreign investment has also been impacted as investors look for more stable environments. The U.S. economic situation is also impacting the amount of funds coming into the countries, through decreases in family remittances from workers in the U.S., thus reducing retail sales and construction. Global recession is also hurting the very important tourism industry, particularly in Costa Rica, where tourism is a large component of the economy. Nicaragua and Guatemala have passed legislation to modernize and more closely supervise the insurance sector.

The opening of the Costa Rica insurance sector is a work in progress. Global companies such as ALICO (Metlife), PALIC (Panamerican Life), ASSA Panama and Aseguradora Mundial have obtained approvals to operate. These new insurers in Costa Rica have contributed to more choices for the buyer, but also more competition and lower rates, principally in the motor and life/health lines. Mapfre is now the first truly regional insurance group, and this is an important trend which will continue if the right amount of capital inflows come into the region (Central American Region). There is pressure on the local insurers to maintain their niche products but as these buyers move across borders, the regional players are seeing a tremendous advantage.

CARIBBEAN OVERVIEW

The Caribbean is known for the constant threat of natural disasters.

Earthquakes, volcanoes, windstorms, floods, are all active throughout these islands. These are huge exposures in a concentrated area. There are growing economies, a dependence on tourism, geographic proximity to the US, and abundant natural resources, which also contributes to the diverse types of exposures and need for flexible insurance products to cater for the developing countries. The dynamics of this evolving landscape are vast in that the customs and cultures vary significantly, plus the low penetration of insurance as a percentage of GDP provides a tremendous opportunity for growth.

Most insurance is provided by local insurers, insurance and financial groups, who also may own insurance agencies. A heavy dependence on reinsurance for the catastrophe or speciality exposures, means that many local risks are placed overseas Lloyds is frequently used and is registered in most of the islands and they are a good alternative to local capacity. For many years the region has discussed the possibility of creating a common market similar to Europe (CARICOM), however the individuality of the islands and the unique needs and economic differences for each have made regulatory issues a challenge. Within the private sector, there are cross border investments which have done well, and the insurance industry is no exception, with major financial groups such as Sagicor, Guardian, Royal Star, Island Heritage all having important positions and presence throughout the region.

The economic outlook for the Caribbean is generally positive, but varies per island causing many of the difficulties in arriving at a common agreements. The extreme differences between socio economic status by island as well as education levels, country by country has impacted the development. There is some concern for economic growth in some of the islands, where financial services industries continue to challenge the rating agencies to maintain solid credit ratings.

There are several countries in the Caribbean which could become major centers for captive and financial services, but they have not developed due to lack of stability and transparency. Exceptions to this are Bahamas and Barbados, in addition to Cayman and Bermuda, where strong financial centers have developed. Many countries are completely dependent on tourism and a few, such as Trinidad and Tobago and Dominican Republic, have also benefitted from strong energy related sectors, mining and oil in particular. Insurance needs arising from the opportunities in the hospitality, financial services, and all the natural resources are quite attractive. The options available for insurers, buyers and brokers are growing and cross border investments between conglomerates is becoming more common, along with investments from overseas or foreign (outside of the Caribbean) groups.

In terms of rates, the environment is heavily influenced by the supply and demand of property catastrophe capacity. The availability of this coverage in cost effective terms can vary depending on the amount of global catastrophes. Cat modeling has become a routine part of insurance underwriting in the last few years. Other emerging trends include the need for more sophisticated general and specific liability products as well some financial products.

It is important to have reliable partners and representation in these islands in order to provide the best service to our clients, both in terms of regulatory as well as coverage issues. We are fortunate to have a rigorous and thorough network of companies who work jointly with us on behalf of our clients.

Significant trade across the entire Caribbean is taking place, encouraging the need for more options in risk management products and transfer.

INSURANCE MARKET REPORT BY COUNTRY



Navigation app interface on a tablet. The screen displays a map with a red route line. At the bottom, a blue bar shows the distance '5,3 km' and the estimated time '0,47 h'. The map includes various icons such as a car, a person, and a building. The background is a blurred city street with modern buildings.

INSURANCE MARKET REPORT BY COUNTRY

HIGHLIGHTS

- Regulatory changes impacting purchase of reinsurance from abroad.
 - Increased capacity by global insurers with local operations plus strongly capitalized local insurers is creating aggressive competition between insurers in most products.
 - Employers Liability coverage is rarely available in local markets. Marsh is working with insurers to create a facility.
 - Potential changes to the workers' compensation laws are possible.
-

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ARGENTINA

OVERVIEW

An economic slowdown beginning in 2010 continued through 2011 and inflation remained at 2010 levels. Unemployment dropped from 10 to 8 percent. Private investments were made principally by local investment groups. Foreign investment fell significantly compared to 2010. The crisis in Europe has affected exports, leaving a commercial imbalance, however, the insurance industry continues to grow and there are many opportunities moving into 2012. In 2011 the Government reduced investment in large infrastructure projects but is expected to re visit these for 2012.

A number of regulatory changes took place during 2011 within the insurance sector. Driven by Argentina's measures to comply with GAFI regulations regarding money laundering, and the non admitted insurance regulation, the Insurance Superintendent (SSN) established the new Reinsurance Regulatory Framework, followed by additional clarifications and changes. These are available in detail from your Marsh broker, and are summarized here briefly:

1. From inception date of the new resolutions through September 1, 2011:
 - Contracts in force are to expire naturally, and are not affected by this regulation;
 - Multi-year or continuous contracts must be adapted to comply with the new regulation by January 1, 2012.
2. The new resolution eliminates the purchasing of reinsurance abroad except for a few cases, thus impacting international reinsurance programs. The regulations also provide a framework applicable to reinsurers who set up branches located in other MERCOSUR countries; including minimum retention requirements; exceptions for reinsurance transactions from the foreign reinsurers' country of origin when there is no capacity for the type of risk in domestic reinsurance market, also establishes provisions regarding retrocession, requirements for minimum capital, cessions between affiliated companies or between companies under the same financial holding group, outlines required characteristics of reinsurers or market groups.

Many insurers have taken advantage of this and increased their treaty capacity. This excess capacity, coupled with insurers' aggressive growth budgets has generated significant price competition. The estimate is that this will continue until mid 2012 when insurers renew their treaties in accordance with the new reinsurance legislation. Despite price competition and as a result of stronger

capital and good loss records, Argentine insurers have been able to maintain profitable results. Insurers have more products and more options available for buyers.

Range of Typical Rate Change Q4 2011 by Product Line

| | |
|---|---|
| General Liability | Rates: Decreased 10% to 20% |
| <p>Trends and Development: Highly competitive. Insurers' are aggressively pursuing this line of business. International insurers' capacity (US\$ 10M), some with US\$ 50M capacity, combined with the local domestic markets added expertise and options for our clients. Most clients purchase an average limit between US\$ 500,000- and US\$ 1M. Railways and Toll Roads are the most complex activities to cover. Product Recall capacity is obtained through international market.</p> | |
| <p>Looking Ahead: Increased demand for products, additional capacity available, leading to aggressive insurers, both local and international. During the halfway point in 2012, there may be some adjustments depending on overall market loss record and cost of reinsurance protections.</p> | |
| Motor/Auto | Rates: Increased 10% to 20% |
| <p>Trends and Development: Cost increases due to inflation and values of the automobiles.</p> | |
| <p>Looking Ahead: Due to the increased values, insurers are issuing monthly policies in order to keep values current.</p> | |
| Workers' Compensation | Rates: Stable |
| <p>Trends and Development: The workers' compensation (WC) industry is stable to reducing, due to aggressive budgets from new markets. The loss record for some companies is poor and they have tried to increase rates, but there is extreme competition. employers liability/workers' compensation is regulated by Law 24557. This insurance is compulsory for all companies (public and private). Business is handled by insurers known as ARTs (Aseguradoras del Riesgo del Trabajo). There is no local capacity for employers liability (EL) stand alone coverage except for some ARTs that subscribe EL for their WC clients only—Marsh is working with international markets to obtain a dedicated facility for EL coverage on a DIL/DIC basis. EL insurance is rarely available in the local market, mostly taken by multinational companies through their global programs.</p> | |
| <p>Looking Ahead: The SSN sanctioned a resolution to enable the creation of mutual companies. If this occurs, it would impact costs directly and would also mean a reduction in the current demand for customers and prospects. It is also likely that during 2012 the change in the legislation (partial or total) will apply to workers' compensation law. For EL, modifications in the law are not expected and will remain as is for 2012.</p> | |
| Property Non Cat | Non-energy rates: decreased 10% to 20% |
| | Energy rates: increased 0 to 10% |
| <p>Trends and Development: These are divided between energy and non-energy accounts/clients. In non-energy, buyers may experience a decrease of 10 to 20 percent; for energy, an increase of 0 to 10 percent. In non-energy, as a result of changes in legislation related to reinsurance, local insurers have significantly increased their treaty capacity. In addition, insurers appear to have larger growth budgets. This is causing fierce competition, which in some cases has impacted rates by as much as 40 percent. Additional treaty capacity also reduced the requirement to buy facultative reinsurance. Over US\$250M local market capacity based on PML and good local market appetite which varies depending on the type of risk and activity. Construction: Over US\$320M based on TCV. Except for energy business, rates are between 0.40percento and 1. Forty percento (per mille) and 1,20 percento up to 5 percento (per mille) in construction. Terrorism: May be provided by local markets via a separate policy but coverage is not routinely sought by local buyers. Multinational companies may purchase if required by their corporate governance procedures. A new law was just passed which defines terrorism according to the international definition. Coverage is not mandatory, and limits can be purchased in both the local and international markets. Machinery breakdown: This type of coverage is normally included within the all risks policy (US\$3M limit). Energy: expected that costs will increase due to new reinsurance legislation.</p> | |
| <p>Looking Ahead: Non-energy: Highly competitive market will continue during the 1st and 2nd quarter of the year. Market trending towards lower premiums of approximately 10 to 20 percent except for those risks which do not meet protection measures required by insurance companies. This scenario may change after mid 2012 when most insurers will renew their treaties according to the new reinsurance legislation. There are growth opportunities in Construction due to government sponsored infrastructure plans, postponed in 2011. Terrorism: Remain stable. Energy: Due to the new reinsurance legislation increase in costs should be expected.</p> | |

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| Environmental | Rates: Stable |
| <p>Trends and Development: The General Environment Act regulates compulsory insurance against pollution for hazardous industries. Any person or entity (public or private) performing risky activities in the environment is required to purchase a bond to cover against potential damages to the environment. Prudencia Seguros and Nación Seguros (local insurers) were the first companies to offer this surety. There is no liability policy that covers the provisions of the Law. One company has offered some protection however due to lack of approval from the Secretary of Environment and Sustainable Development, few have been sold. Insurers in general are reluctant to offer coverage because limits and scope of coverage are still too broad.</p> | |
| <p>Looking Ahead: No changes are expected in this law for 2012 and therefore limited insurance will be available.</p> | |
| Directors and Officers Liability | Rates: Decreased 0 to 10% |
| <p>Trends and Development: Market trend is showing premium reductions due to greater competition and more awareness of products and exposures. This scenario might change from June 30, 2012 as most insurers will renew their treaties according to Argentina's new reinsurance legislation.</p> | |
| <p>Looking Ahead: The exposures for D&O have not increased necessarily, but the awareness of potential losses and the need for protection, plus corporate governance standards and potential personal liability exposures are causing a rise in D&O protections.</p> | |
| Financial Institutions | Rates: Decreased 0 to 10% |
| <p>Trends and Development: Market trend is for lower premiums due to increased competition, however this also may change after mid 2012 due to treaty renewals and Argentina's new reinsurance legislation.</p> | |
| <p>Looking Ahead: This will continue to be stable.</p> | |
| Professional Liability | Rates: Stable |
| <p>Trends and Development: Market trend shows stable premiums as there are not many insurers that specialize in this risk; nevertheless, we expect that this scenario might change from June 30, 2012 as most insurers will renew their treaties according to Argentina's new reinsurance legislation.</p> | |
| <p>Looking Ahead: We foresee that the number of new clients will rise as E&O opportunities are growing due to new contract requirements and an increasing consciousness of professional liability.</p> | |
| Medical Malpractice | Rates: Stable |
| <p>Trends and Development: In Argentina there are only a few local markets for this type of coverage. The prices among Insurers are similar, both in terms and conditions. The main Insurers are local, except for clinical trials that are underwritten by international carriers (Chubb, Allianz, Ace) The standard limits are between US\$500,000 up to US\$1M.</p> | |
| <p>Looking Ahead: Argentina is an emerging country with an expanding economy. We expect more attention in this area. Marsh Argentina is well versed in the options available to our clients and have the support of the international and local insurance companies.</p> | |
| Marine | Rates: Stable |
| <p>Trends and Development: The local market continues to be competitive due to a growth in options and capacity for the last two years. Insurers have high capacity to place different types of business for our clients and offer solutions to the different exposures they are facing.</p> | |
| <p>Looking Ahead: Rates are decreasing.</p> | |
| Aviation | Rates: Stable |
| <p>Trends and Development: Strong for industrial aid.</p> | |
| <p>Looking Ahead: Stable barring any unforeseen events.</p> | |

BRAZIL

OVERVIEW

During 2011 Brazil continued to enjoy the spotlight from the international community. A stable economy, strong internal market, and execution on planned investments are beginning to bear fruit. Infrastructure improvements are visible.

Petrobras, the state-controlled oil company, has confirmed plans to double its oil production by 2020, which means opportunities for local and foreign private sector companies to participate. The 2014 World Cup and the 2016 Olympics are playing an important role in the economic opportunities.

Foreign investments continue, the Real is strong and there is a strong domestic market poised for growth. Brazil is now one of the most creditworthy and attractive markets in the region, enabling them to tap the international capital markets under more favorable terms than in the past. Inflation has increased to 6.7 percent annually, which is due to the increase in commodities prices and the vigorous domestic demand. This is coupled with a limited local industrial capacity and pressure on prices and/or increases in imports. Brazil will maintain the policy of high interest rates for the next several years, at least until the infrastructure and industrial capacity can support the internal demand. Loan extensions to households and businesses have doubled in GDP terms since 2003 to a current 46 percent, and there is still room for growth. Imports from China have also impacted the local industry, leading many to think that China is as much a rival as a partner.

The insurance industry is growing. Total premium volume placed in the market at mid 2011 was US\$34.2 Billion. Local markets are still adjusting strategy and products as a result of the resolutions 224 and 225/232 postponed to take effect March 31st, 2012.

The CNSP (Conselho Nacional de Seguros Privados) which controls all insurance affairs in Brazil, has clarified that risks not accepted by the local reinsurers, the insurers are authorized to place the risk with admitted and eventual reinsurers. Non licensed international reinsurers can be used if no licensed market accepts a risk. The number of local reinsurers has doubled in 2011, supporting the government approach to have a mandatory 40 percent cession to local reinsurers (Resolution 225).

The following are the local reinsurers: (premium shown first half 2011)

1. IRB Re.—US\$509.1 M
2. Munich Re.—US\$187.5 M
3. Mapfre Re.—US\$62.3 M
4. J Malucelli Re.—US\$61.2 M
5. Ace Re—R\$54.0 M
6. XL Re—R\$39.9 M

Chartis Re. and Austral Re. received licenses in September 2011. Terra Brasilis, Swiss Re, Zurich and Alterra are in the final stage to get their license. AGCS is also planning to open their local reinsurer.

HIGHLIGHTS

- Robust economy bodes well for the insurance industry.
- Construction and Infrastructure industries are growing exponentially.
- Regulations 224 and 225/232 will take effect in March 2012, therefore full effects of these will not be known until later in the year.
- Growing registration of insurance companies. The number of locally registered reinsurers has also grown since 2010.

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Range of Typical Rate Change Q4 2011 by Product Line

| | |
|--|------------------------------------|
| General Liability | Rates: Decreased 20% to 30% |
| Trends and Development: Market continues to soften due to the international trend and new markets building their portfolios. | |
| Looking Ahead: Growing awareness and litigation may offset softening with limits being increased and purchase of new coverage. These are being studied by brokers and markets exploring the best coverage for buyers. | |
| Motor/Auto | Rates: Stable |
| Trends and Development: The market is very competitive considering passenger vehicles but very restrictive for trucks and other types of vehicles. Rates reflect the loss ratio of the fleet. There are no new products available in the market. | |
| Looking Ahead: Situation is expected to continue. | |
| Workers' Compensation | Rates: Decreased 20% to 30% |
| Trends and Development: Workers' compensation is handled by the government in Brazil. Employer's liability follows the liability market conditions (market continues to soften due to the international trend and new players entering the market trying to build portfolio). | |
| Looking Ahead: Litigation potential is increasing and with this a growing awareness of the need for adequate protection. There are new coverages being studied and increased limits being reviewed to ensure adequate protections to meet potential exposures. | |
| Property Non Cat | Rates: Stable |
| Trends and Development: Market still softening for non basic industries but hardening on a daily basis for specialty and risky industries such as wood, plastic, chemical, cotton, warehouses etc. Highly protected risks are being targeted by the insurers and prices have been the key differentiator. Local Brazilian capacity from the largest insurers (Bradesco, Itau Unibanco, Allianz, ACE, Mapfre, RSA, Zurich, Tokio Marine) provide significant capacity through their property treaties. Average is US\$100M. Use of coinsurance amongst the local insurers is increasing due to more favorable pricing than the international facultative market. | |
| Looking Ahead: While there is significant capacity available, the markets are also being quite strict about the protections and therefore it is imperative that buyers continue to invest in these protections and security systems, loss control measures and also improve the quality of underwriting information provided to the market. | |
| The new resolutions were postponed to March 2012. Markets (especially the international markets) are still discussing adjustments/clarifications to the resolutions. The lack of clarity on how the market will work after Marsh 2012 prevails. International carriers are working in parallel to provide alternatives for multinational clients' programs. | |
| Environmental | Rates: Decreased 0 to 10% |
| Trends and Development: Sustainability momentum, media and new legislation provisions towards insurance may create demand, though the demand is not significant at this time. The market is small but new players are entering. | |
| Looking Ahead: More visibility of environmental issues over the local infrastructure government plans are drawing attention to the risk exposures. Increasing law enforcement. New players in the market may create more supply options and prices may drop. | |
| Directors and Officers | Rates: Decreased 20% to 30% |
| Trends and Development: Demand for D&O coverage across the large industrial firms is well known and common, and now is expanding to the commercial segment. There are several options for buyers. | |
| Looking Ahead: Buyers are shopping around in this product space. This is keeping costs low, however may be a blessing and a curse. Should there be any claims, this could impact the recovery and availability in the future. | |
| Financial Institutions | Rates: Decreased 20% to 30% |
| Trends and Development: Sophisticated clients seeking blended coverages. Standalone BBB and FIP market place under development. | |
| Looking Ahead: Demand for higher limits with prices going down. | |

Professional Liability**Rates: Decreased 0 to 10%**

Trends and Development: PI still experiencing a hard market, while demand begins to increase, motivated by new exposures including those related to outsourcing and contractual requirements. Also building awareness of the exposures and the solutions is necessary, but there is little in the way of advertising in this area by insurers.

Looking Ahead: Insurers are looking to compensate the reducing D&O premium with the increasing PI portfolio, supported by advertising efforts, thus slight PI price reduction may be seen.

Medical Malpractice**Rates: Increased 0% to 10%**

Trends and Development: Health care inflation rates are growing and the premium trend is for rates to increase.

Looking Ahead: It is foreseen that the new changes in the health care legislation may bring increased premiums and new lines of coverage lines during 2012.

Marine**Rates: Increased 0 to 10%**

Trends and Development: Insurers writing trucking companies will maintain a relevant market share (premium volume) in 2012 (approximately 45 percent). Applicability of the new reinsurance resolutions effective in Q1 2012 would impact renewal rates for multinational programs. Losses concentrated on robbery and truck accidents are the main cause for rate increases. Few markets also provide capacity through Fac reinsurance via "stock throughput" programs.

Looking Ahead: Marine insurers tend to be more aggressive for clients who are more conscientious in risk management procedures and loss control. Economic facts are pointing more towards increase in the number of declarations in foreign trade and the market will be more competitive in marine cargo segment for those clients with positive loss ratio history and small to medium sized risks. There may also be increased activity in Brazil, and with this, the inland transit segment has a very high exposure to robbery and the need for strong loss control provisions.

Aviation**Rates: Decreased 0 to 10%**

Trends and Development: There is not much of a change in the local market (i.e., SulAmérica, Itaú and Bradesco still retain around 80 percent market share). Commercial aviation is still placed almost 100 percent in London markets through specialized brokers.

Looking Ahead: No expectation of changes in the current scenario for the near future.

HIGHLIGHTS

- 2011 was dedicated to recovery and renewal following the 2010 earthquake.
- Economy is strong and has an expected GDP growth of 4.5%.
- Chile is an attractive business environment and considered one of the top “business friendly” environments in the world. Their reputation for transparency has served them well in creating business partners worldwide.
- The insurance industry is part of the attractive business environment and the high level of trained professionals and transparent regulations contribute to stable business climate.

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CHILE

OVERVIEW

2011 was a year of reconstruction for Chile after the 8.8 Magnitude earthquake of February 27, 2010. During 2011 the country faced other challenges in the form of activist groups mobilizing for educational reforms and against the construction of both hydro and coal fired power stations. Public opinion and civil demands are now on the agenda as part of the social unrest.

There is cautious optimism for the economic stability in 2012. There is the potential for a GDP growth of 4.5 percent which would come from lower demand for Chilean exports mainly to China and Europe together with lower prices for exported commodities caused by the European debt crisis and a deceleration of growth in China. Despite these scenarios, investment is expected to continue. Alternatively, there is a school of thought that says GDP growth may only reach 1.5 percent, due to the same factors plus a deceleration in investment projects and a reduction in domestic consumption caused by a worldwide recession due to the European Union, China issues, and political disputes in the US.

These economic conditions impact the insurance industry and in the small Chilean market, these impacts are felt mainly in growth opportunities.

Range of Typical Rate Change Q4 2011 by Product Line

General Liability

Rates: Increased 0 to 10%

Trends and Development: Main markets are Ace, Chartis, Zurich and Chubb. Total capacity is US\$50M. Employers liability limits up to US\$300K per employee. Appetite for all risks except underground works, chemicals, pharmaceuticals and use of explosives. Energy, pharmaceuticals, clinical trials and railways require fac support.

Looking Ahead: Slight rate increases as companies become larger and more complex.

Property Cat

Rates: Increased 0 to 10%

Trends and Development: Main markets: Chartis, RSA, Ace, Zurich, Mapfre, Liberty and Penta. Total capacity: US\$120M PML. Earthquake capacity: US\$120M. Appetite for all risks except plastic, textile, pulp and paper, T&D, paints, oil and gas, ports, underground, offshore and explosives where FAC reinsurance is required. Mining risks are showing up to 20 percent rate increases. Other risks are flat or decreasing up to 10 percent with good claims history. Insurers/reinsurers performing more risk surveys and follow-up of recommendations. Two percent of insured values per location with no cap deductible for EQ is being extended to other cat perils.

Looking Ahead: Rate increases, coverage restrictions and earthquake deductible increases seen after the February 27, 2010 earthquake are here to stay. Some rate increases and higher deductibles are expected for cat exposed risks.

Environmental

Rates: Stable

Trends and Development: Ace and Chartis offering environmental impact liability (EIL) and contractors' pollution liability (CPL). Coverage for gradual and sudden and accidental pollution in owned premises and third party premises. Capacity is US\$10M.

Looking Ahead: Increased demand as environmental law is further enforced. New mining closure law to be approved by year end which will require financial guarantees.

Directors and Officers

Rates: Stable

Trends and Development: Premiums are low (rate on line approx. 0.5 percent). Main markets: Chartis (50 percent), Chubb, Ace and Zurich. Total capacity: US\$25M. There are approximately 150 D&O policies in Chile. Limits go from US\$5 to 25M. Chubb has suffered two losses that have consumed the policy limits.

Looking Ahead: Interest in the policy has increased and we expect that more policies are contracted during 2012.

| | |
|---|----------------------------------|
| Professional Liability | Rates: Increased 0 to 10% |
| Trends and Development: Insurers are Ace, Chartis, Zurich and Chubb. Coverage available for architects and engineers and for miscellaneous activities. Market capacity up to US\$5M. | |
| Looking Ahead: Growing demand as consumer law is enforced and class actions increase. | |
| Medical Malpractice | Rates: Increased 0 to 10% |
| Trends and Development: Cover for clinical trials. | |
| Marine | Rates: Stable |
| Trends and Development: Main markets: Chartis, RSA, Ace and Mapfre. Local capacity: US\$5 M. Additional capacity up to US\$30M supported by insurers' parent company or reinsurance. Appetite for all risks, especially mining, communications, wood, household, fish meal and fish oil. Clauses for frozen food is difficult to obtain and only through the German market. Higher demand for cargo DSU. | |
| Looking Ahead: Stable market conditions envisaged. | |
| Aviation | Rates: Stable |
| Trends and Development: Purely facultative reinsurance. | |
| Looking Ahead: Follows the international market. | |

COLOMBIA

OVERVIEW

The Colombian insurance market is a mature market with 32 insurers (national and international) writing life and non-life programs with premiums of USD 6.2 billion. These companies provide risk transfer solutions for most traditional lines. 59 percent of them are multiline carriers and the other 41 percent are specialized in specific lines such as credit insurance, surety, workers' compensation and life.

During 2011, the insurance market grew 16 percent overall, reflecting positive economic activity. Non-life is showing a 15 percent growth whilst life and social security (workers' compensation) have grown 16 percent and 17 percent respectively. Premium growth has been boosted mainly by the oil and gas and infrastructure sectors. The market is divided 49 percent non-life and 51 percent life.

Although 2011 has been a good year in terms of premium growth, the market has suffered significant losses in some property and casualty classes. This is the effect of "la niña" phenomenon in the first and fourth quarters, which caused damages of more than US\$500M (insured losses) affecting the property (62 percent loss ratio). Surety has also been affected by severe losses especially due to non-compliance of some large public contracts (37 percent loss ratio). The loss ratios for motor, marine cargo and financial lines are stable. Colombian insurers do rely on investment income to boost profitability, since the technical result is negative in most lines of business. The importance of the insurers automatic protections continues to be a driver for pricing and reinsurers continue to show interest in investing in Colombia and because of this, 2012 will be stable with some minor increases for specialized risks or those with poor loss history.

HIGHLIGHTS

- Substantial premium growth over prior year mainly due to growth in oil and infrastructure sectors.
- Economy is strong with natural resources leading the way for foreign investment in an improved political climate.
- Impact from "La Niña" has caused tremendous spike in loss ratios, as most companies write a multiple lines portfolio.
- Rates in 2012 are expected to be stable except for those suffering direct losses from floods of 2011.

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Range of Typical Rate Change Q4 2011 by Product Line

| General Liability | Rates: Stable |
|---|----------------------|
| <p>Trends and Development: Insured limits are between US\$1 and US\$10M for most industries. Oil and gas related companies and big infrastructure projects buy higher limits up to US\$200M. Capacity for underground mining is difficult and expensive to obtain. Insurer's automatic capacities are modest (between US\$500K and US\$2M). Chartis, Ace, Chubb and Allianz Colseguros are the most active ones and can write bigger lines as high as US\$10M locally. There is a market 43 percent loss ratio in this line of business, but rates are stable. Premium increase is driven by increasing sales figures of the buyers. The loss record is clean for this line of business.</p> | |
| <p>Looking Ahead: No rate increases are expected in 2012 for clients with a clean loss record, however they should be prepared for possible increase in premiums should their sales figures increase substantially. Insurance consciousness has grown among the insureds' however policy limits remains low for the exposure. Consideration should be given to buying higher limits. Limits above US\$10M must be obtained in the facultative market where the rates are higher. As always, full underwriting information is required. An underwriting report is recommended for clients who engage in hazardous activities.</p> | |
| Motor/Automobile | Rates: Stable |
| <p>Trends and Development: Due to growth in vehicle sales in Colombia, auto insurers have received a significant amount of new premium, and a reduction in rate of claims by 3 percentage points. There are new laws being studied and these will impact the pricing as more exclusions may be introduced. These will also impact the market loss record. Some insurers such as ACE and Chubb have offered financial products that protect the insured loss due to the depreciation of the vehicle in each of the lifetimes.</p> | |
| <p>Looking Ahead: In 2012, auto insurers will maintain rates to protect their market share and provide added values that satisfy the legal requirements. This will include vehicle inspection, driver tests, and commercial license tests. With the new trade agreement signed between U.S. and Colombia, vehicle values are declining which represents a significant financial risk for both the banking sector and car buyers.</p> | |
| Workers' Compensation/ARP | Rates: Stable |
| <p>Trends and Development: The workers' compensation rates in Colombia are regulated by social security law. The premiums are increasing according with the overall economic activity of the country.</p> | |
| <p>Looking Ahead: Legislative changes are being discussed, but finalizing this will be subject to government timing ties.</p> | |
| Property | Rates: Stable |
| <p>Trends and Development: In the last 18 months Colombia has been hit by "la niña" phenomenon 3 times. After fourth quarter 2010 and first quarter 2011, the third rainy season impacted 70 percent of the country, with severe flooding. Insured losses are still being calculated but they already have exceeded US\$600M. The loss ratio for fire and allied perils is above 62 percent. The biggest loss in the history of the Colombian insurance history for a single location is now being settled. (US\$76M flood of a thermoelectric power generation plant). Due to the above, flood coverage is being capped and deductibles increased for those risks exposed to this peril.</p> | |
| <p>Automatic capacity is between US\$7.5M and US\$50M. Insurance companies have partial or absolute exclusions for some activities such as oil and gas, mining, petrochemicals and plastics. A facultative reinsurance solution is needed for these cases and the rates are normally higher (20 to 30 percent) than the ones provided by the local market. Some smaller carriers are renewing their treaties and increasing their automatic capacity, allowing them to participate in bigger accounts. Some insurers are increasing their local capacity and looking to triple the written premium in the next five years.</p> | |
| <p>An increase in the fire brigade tax paid by the carriers will be passed on to the insured's which in turn will increase rates. Colombian insurance regulator (Superintendencia Financiera) may implement a new regulation for CAT reserves that could increase the cost of CAT protections for the insurance companies.</p> | |
| <p>Looking Ahead: Despite the losses to the market a hard market is not expected in 2012. However, a more strict underwriting position from insurers will occur and the insured should be prepared to provide more complete information in order to negotiate the best terms. Also for 2012, we are recommending that insurable values be accurately calculated as per the policy text. Heretofore, in some industries the insured value does not correspond to the replacement cost value which is the valuation basis stated by the policy. This could cause a difference in loss recovery due to the application of the coinsurance clause. Rates may increase (5 to 15 percent) for risks with losses or hazardous activities (mining, plastics, petrochemicals, fertilizers etc). For companies in these industries we recommend a risk assessment and management report in order to present to underwriters.</p> | |

Environmental**Rates: Increase 0 to 10%**

Trends and Development: This type of coverage is very new in the Colombian market and is available to clients with very high exposure. The cost is high and a legislative initiative is needed in order to make this product more competitive. Loss record is good in Colombia, as there are not many clients who purchase this, though globally this is a risky activity. Due to the loss record globally, rates will increase even in Colombia. The international market capacity is very limited and there are no local carriers offering any capacity but they are willing to front the policy. A full proposal is required by the reinsurance market in order to quote.

Looking Ahead: Due to the severe loss potential as evidenced by global loss experience, we recommend clients with this exposure should consider this coverage. We are prepared to advise our clients in order to obtain the best coverage from the market. There is still limited awareness about the loss potentials in this line, and really require further education of customers on the potential exposures.

FINPRO Directors and Officers Liability**Rates: Decrease 0 to 10%**

Trends and Development: There are more buyers in this class due to choice, more awareness, of the risk potential. The loss trend is stable except for shopping malls where a new tax regulation impacted owners of these malls and many directors. Currently the market for this exposure is soft, with a lot of capacity and many companies such as Coleseguros, Chartis, Chubb, Ace, Mapfre, Colpatría offering competitive terms.

Looking Ahead: Absent any significant losses, the market will continue to be stable or softening for this class.

FINPRO Financial Institutions**Rates: Increase 0 to 10%**

Trends and Development: The international market is softer than the local market. This is due to local capacity use of automatic protections which must be according to the treaty terms and conditions versus the international facultative market (mainly London) where more capacity per risk is available for this type of risk.

There is a very high loss record globally for crime and Colombia is no exception. The local market is not really interested in this type of business and this impacts the capacity available.

Looking Ahead: It is unclear how this will play out for this line of business. The capacities keep fluctuating between local and international markets. Trends will depend heavily on how the loss activity develops.

FINPRO Professional Liability**Rates: Stable**

Trends and Development: For medical malpractice there is a need for this coverage and an awareness of the product, however for professional liability the demand is low.

The loss record is very good, for the number of claims submitted. The number of events is not recorded, and the culture is not accustomed to suing for these types of events.

Products are available, and insurers are writing this business.

Looking Ahead: The demand for these types of products are growing and much of this is coming from demand by buyers who are investing in Colombia with expectations of coverages similar to their previous experience in other countries or in their own country.

Marine**Rates: Decrease 10% to 20%**

Trends and Development: Marine insurance for both hull and cargo has developed positively. Insurers are offering good products to support the buyers. The claims records have been favourable in both hull and liability, and the loss ratio is a very favourable 35 percent. This has led to increased competition—more than ten insurance companies offer cargo insurance and five companies offer hull insurance. In the last two years the market has been in the process of adopting clauses A, B, C, of the Institute Cargo clauses of London, but to date, only 4 of the insurers have adopted these. The trend in rates: cargo insurance between 0.02 percent and 0.10 percent and hull insurance from 1.20 percent and 3 percent.

Looking Ahead: The cargo insurance market is expected to continue to offer good products at competitive prices, and including discounts of between 5 percent and 15 percent. This is also significant since as of September 2011 there was a significant increase in the amount of cargo moved over the same period in 2012. For hull insurance there are two main drivers currently increasing the demand: a) expansive mining activities and b) many construction projects throughout the country.

HIGHLIGHTS

- Stable economic growth somewhat slowed due to Euro Zone economic issues as well as energy prices in 2011.
- Insurance as a percentage of GDP is still very low and leaves open large opportunities for the insurance industry.
- Risk transfer options are the norm but buyers are trending towards risk mitigation and prevention now as well.
- Local capacity in most classes is abundant with large amounts per company and as coinsurance.

LOOKING AHEAD

Buyers are changing their thinking and looking seriously at the risk mitigation options to invest in preservation of assets and despite a very price conscious environment, are becoming more aware of the need for insurance and the benefits of adequate protection to counter the volatility. Many local insurers are offering large capacity in order to grow, especially in the non catastrophe areas, and there is a soft market trend in some lines of business.

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MEXICO

OVERVIEW

During 2011 Mexico continued to meet economic expectations with solid economic performances. GDP grew 4 percent, credit is available, and there continues to be substantial foreign investment, especially in the domestic banking sector. Economic stability at the end of 2010 laid the foundation for a strong 2011, and this has been maintained throughout the year. This is not without issues which have impacted more steady growth such as the rising energy prices, the impact of the European Union economic issues, and the well publicized rising crime levels which are taking a toll not only on the citizens but also on the economy and the investor expectations and impressions of security.

Mexico is the second largest insurance market in Latin America but is still underdeveloped, with a ranking of No. 11 in terms of percentage of GDP (1.8 percent). There is plenty of room for growth in the insurance market over the next few years especially in Life and also personal lines. Prices are stable, but buyers do challenge the costs in order to preserve their profit margins. This is a very cost conscious culture. Fueling the challenges of this environment is also the fact that Mexico is a country with tremendous exposure to natural disasters. Earthquakes, volcanoes, hurricanes, flooding make for a very volatile environment for residents, investors and insurers.

Range of Typical Rate Change Q4 2011 by Product Line

General Liability

Rates: Decreased 0 to 10%

Trends and Development: Due to the increase of capacity, competition is fierce in all lines of business, except for Products Liability where capacity has decreased. To obtain support it is necessary to approach the international markets, particularly for those risks requiring limits above US\$ 5M and up to US\$ 60M. For Oil and Gas certain companies are more strict in underwriting these kind of risks and capacity can be limited and also necessitate the use of international reinsurance markets.

Looking Ahead: Based on needs expressed by our clients, we are developing new products to support the general liability exposures and working with our markets to improve the limits and meet the sum insured requirements.

Motor/Auto

Rates: Increased 10% to 20%

Trends and Development: Some autos are highly exposed to theft and these are causing an increasing trend in the local market for purchasing additional coverage. This is also forcing higher deductibles to be imposed in all automobile physical damage policies.

Looking Ahead: The increased theft exposure is leading to the installation of security equipment in automobiles, and thus providing additional prevention tools for the clients.

Property Cat

Rates: Stable

Trends and Development: Capacity is available in the local market, especially for accounts with non-CAT exposure, generating strong competition. Insurers may not have achieved their annual budgets either and this is also an influencing factor. For the CAT-exposed risks, the capacity is more limited and obtaining facultative support from the international markets is necessary. Accounts with poor loss records are also impacted and receive higher quoted rates. For coastal properties, insurers are increasing premiums/deductibles.

Looking Ahead: We may see a hardening due to poor results in 2011 and/or reduced pressure for the budget achievements.

Environmental **Rates: Stable**

Trends and Development: This coverage is usually provided with general liability as a sublimit and is not mandatory except in the cargo program of some specific products.

Looking Ahead: Limited need for this coverage in the short term.

Medical Malpractice **Rates: No Market**

Trends and Development: Although there is no local solution, there are some off-shore solutions linked to medical inflation rates, and therefore an increase from 10 to 20 percent is expected. Currently there are off shore products for health care and long-term care but not often used commercially in Mexico.

Looking Ahead: There is a potential for those solutions but limited to "A" segment of population.

Marine **Rates: Stable**

Trends and Development: Due the increase in robberies and assaults in the country, some insurers have had poor results. They are increasing requirements for security measures and reducing their capacity. The local marine (hulls and liabilities) market is stable, with no significant developments in the last 12 months. The 2011 hurricane season did not impact the country and rates and conditions are expected to remain the same for 2012.

Looking Ahead: Insurers are offering loss control services in order to control the security measures for many of their largest clients. 2012 forecast is uncertain, there are no internal issues (loss ratio, legislation) that could harden or soften conditions but the overall economic downturn could mean less premium to be placed and lower investment returns could force more strict underwriting as companies look for a technical positive return on their portfolios.

Aviation **Rates: Decreased 10% to 20%**

Trends and Development: The following comments are for local placements only. The general aviation market in Mexico is seeing a continuous softening of rates, the local capacities are competing for premium business resulting in dramatic rate decreases. Commercial aviation is placed almost 100 percent in the facultative foreign market.

Looking Ahead: F2012 will probably see a slowing down of the rate of decreases, as rates now are near to what underwriters believe is the bottom. Nevertheless, if there are no significant losses then there is no pressure to bring rates up.

HIGHLIGHTS

- At the close of 2011 Peru had grown their premium income approximately 40% over prior year.
- Several potential insurers seek to establish operations in Peru to take advantage of the great amount of natural resources throughout the country.
- Risk Management is still evolving and insurers and reinsurers opt for purchasing substantial amounts of additional protection to boost capacity.
- Economic and Political stability is expected to continue in 2012 and investment from the region and globally will continue to create demand for adequate insurance products.

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PERU

OVERVIEW

In line with the sustained growth and despite the current global crisis, the Peruvian Insurance industry continues to show an upward trend in terms of written premiums. In 2010 the industry reported a 38 percent growth compared to the previous year. Also, year-to-date figures as of September 31, 2011 suggest a 16 percent increase compared to premiums written during the first three quarters of 2010.

Peru has an abundance of natural resources contributing to the economic development of the country, which has signed multiple Free Trade Agreements with several trading partners such as the U.S., Chile, China, Mexico, Colombia and Canada. Once again, the demand for these natural resources continues to grow and investments in mining, energy and infrastructure have increased as a result.

Overall, the local insurance market remains relatively small, with RIMAC and PACIFICO leading the ranking. In view of the increasing amount of foreign direct investment being injected into the economy, insurance companies continue to develop new products, although there is still a large dependence on the international market for the most complex risks.

CHARTIS has recently announced its interest in opening an office in Peru.

Range of Typical Rate Change Q4 2011 by Product Line

General Liability

Rates: Decreased 0 to 10%

Trends and Development: There is capacity in the local market. PACIFICO US\$4M; RIMAC US\$5M; ACE US\$50M; MAPFRE US\$1.5M; LA POSITIVA US\$2.5M. Activities with complex liability exposures that require higher limits are quoted by international markets.

Premiums have increased as much as 50 percent during the last two years. Depending on the activity of the insured, a liability policy with a limit of US\$1M could cost as low as US\$2,500.

Average Deductible: between US\$5,000 and US\$10,000.

Looking Ahead:

Motor Vehicle Liability

Rates: Decreased 0 to 10%

Trends and Development: This coverage is usually offered in conjunction with property damage coverage. Premiums have remained unchanged. Property damage to vehicles. Rates have stabilized. For pick up vehicles rates are in the 4.5 to 6.5 percent range. Minimum premiums remained unchanged, and there is still a difference between vehicles/trucks (US\$300) and pick ups (US\$400).

The list of high-risk vehicles is increasing. New and up to 3-year-old vehicles require a GPS device to qualify for total theft coverage.

Looking Ahead:

Workers' Compensation (Compulsory Pension and Health Insurance for High-risk Activities)

Rates: Increased 10% to 20%

Trends and Development: Compulsory only for high risk activities. Main markets are PACIFICO and RIMAC. For the risks of mining, construction and metalworking, premiums have remained stable. For moderate risks, where professional exposure is low, rates have decreased 10 percent.

Markets are very selective. Local capacity is still limited for underground mining risks. There are several activities with high loss ratios and/or exposures, and these are placed through the government system known as ONP (National Prevision Office), which manages public pension plans.

Looking Ahead: The current trends are expected to continue in this highly selective and demanding type of coverage.

Property**Rates: Stable**

Trends and Development: Despite the catastrophic losses experienced by global reinsurers (i.e., Japan, Chile), rates have remained unchanged. For risks with moderate exposure, rates are experiencing a slight reduction.

During the last year, companies have become more selective in that their underwriters are now purchasing more facultative reinsurance for the hazardous risks (i.e., mining, textiles, energy, etc). Risk managers have made big steps towards minimizing risk exposures, especially in the mining and energy sectors.

Main markets and capacity for all lines of business have not changed drastically. RIMAC and PACIFICO still control 70 percent of market share: RIMAC has recently increased their maximum share per risk from US\$50M to US\$60M. PACIFICO has also increased its previous US\$40M capacity, presumably in the US\$50M—US\$60M range.

Additional Capacity: ACE US\$150M/Energy US\$50M; MAPFRE US\$25M; LA POSITIVA US\$15M/ Underground mining US\$7M. PACIFICO and RIMAC continue to lead market figures. Both companies write almost 68 percent of the Peruvian market premium volume.

Looking Ahead: Local markets have imposed more restrictive underwriting guidelines to risks such as mines, textiles, power, and utilities. These risks are being placed in the international facultative market. Local insurance companies continue to impose more control on the earthquake aggregates in the Lima and Callao zones.

Terrorism**Rates: Varies**

Trends and Development: Coverage is available from the local market: PACIFICO, RIMAC, ACE, MAPFRE and LA POSITIVA. Contrary to property risks, which are often written on a “first loss” basis, Terrorism is offered on an “annual aggregate” basis. Local markets can easily write limits of up to US\$10M. Higher limits are written in the international market, generally by Lloyds.

Looking Ahead: We do not foresee any change to the way this coverage and exposure is handled. Coverage will be available from the international markets.

Environmental**Rates: No Market**

Trends and Development: Sudden and/or accidental contamination/pollution is usually included in local liability programs, with sub-limits and other restrictive conditions.

Looking Ahead: The clients are becoming increasingly aware of the exposures, mainly due to the incoming investments who are bringing with them the expectations of environmental conscientiousness. This means that additional coverages will be considered in the future and insurers will be looking to introduce more of these products. Marsh is working with insurers to develop adequately tailored programs to support the gradual demand.

FINPRO—Directors and Officers**Rates: Decreased 0 to 10%**

Trends and Development: There has been an increasing demand for these products. Most of the local carriers, except for ACE, use facultative markets to support these risks. ACE usually provides competitive conditions.

Looking Ahead: We anticipate additional coverage being purchased as awareness increases for this exposure.

Marine**Rates: Not Available**

Trends and Development: PACIFICO US\$6M; RIMAC US\$6.5M; MAPFRE US\$5M (Restricted); LA POSITIVA FAC reinsurance only.

Looking Ahead: Upward trend in premiums, except for those accounts with no losses. Although markets are very selective, they do have an appetite for Hull and Machinery for fishing vessels.

PACIFICO US\$ 15M; RIMAC US\$ 10M; ACE US\$ 150M; MAPFRE US\$ 1.5M; LA POSITIVA US\$ 2.5M.

Regarding inland transit, due to poor loss record, (thefts) insurers are requiring GPS devices in every vehicle.

HIGHLIGHTS

- Local industries challenged by the slow, no growth, economic environment.
- This continues to impact insurance industry as new business and new projects await financing and a resurgence of confidence.
- The insurance industry continues to provide capacity and capital to business at highly competitive rates.

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PUERTO RICO

OVERVIEW

The insurance market in Puerto Rico comprises more than 10 insurers, including various U.S. national carriers with branches on the island such as Chartis, Ace and Liberty. Five consecutive years of decelerated economic growth have impacted the local economy and the construction and banking industries have suffered the most. Insurers have weathered the storm of this economic environment well and are offering large capacities and products to give consumers a wide choice. The heavy catastrophe exposure drives the property rating, however the absence of any major events and the stagnant economy has kept rating very low. The regulatory environment in Puerto Rico is strict and insurers and reinsurers must be registered to trade in the island.

Range of Typical Rate Change Q4 2011 by Product Line**General Liability****Rates: Stable**

Trends and Development: Local insurance market has good capacity and appetite. The market is more restricted for hospitality, health care institutions and pharmaceuticals operations. Rates also vary according to insured's three or five years loss experiences, but generally the rates are stable.

Looking Ahead: For 2012 the market should remain stable for this line of business. There are new emerging risks such as green energy projects and recycling plants for which available local insurance market is actually very limited but we are looking ahead for insurance companies to become more familiarized with the underwriting of these risks.

Motor/Auto**Rates: Stable**

Trends and Development: In Puerto Rico almost all insurance companies are very aggressive for this line of business. Depending on client's developed loss experience, rate reductions can be obtained for every renewal.

Looking Ahead: For year 2012 we expect the rates remain very competitive and aggressive.

Workers' Compensation**Rates: Stable**

Trends and Development: Puerto Rico is a monopolistic state, so the majority of the workers' compensation business is provided by the government. Other insurance companies provide workers' compensation coverage for those projects in federal territory and abroad. Rates and premiums depend on operations, classifications and premium basis (payroll).

Looking Ahead: No changes expected.

Property Cat**Rates: Increased 0 to 10%**

Trends and Development: In Puerto Rico property rates have decreased significantly for the last three years due to soft market conditions. During the first three quarters of 2011 the property rates remained stable and flat renewals. In the last quarter rates have been increasing for high insured values accounts and adverse loss experience accounts. Property insurance market's capacity has not been affected. The property market capacity ranges from US\$10M to a maximum of US\$50M per company/per risk. The market appetite is very good, although rates vary depending on total insurable values, types of construction, operations, location and occupation. Capacity and alternatives for beachfront properties is limited, and rates are high.

Looking Ahead: A transition market from soft to hard is expected for 2012. Rates will continue to increase and available capacity is expected to be reduced. Insurance programs must be reviewed to include various alternatives such as first loss limits and quota shares for accounts with high property exposed values.

Environmental**Rates: Decreased 0 to 10%**

Trends and Development: The environmental market in Puerto Rico consists of four major carriers: Ace, Chartis, Liberty and XL Environmental. Capacity ranges from US\$1M up to US\$50M per risk with minimum deductible of US\$10,000. Available coverages consist of pollution legal liability, transportation, contractors pollution liability, storage tank liability, and closure/post-closure financial responsibility. Underwriters will aggressively quote new accounts and renewals provided that the required underwriting information is submitted on a timely basis. However minimum premium levels established by type of risk will be observed.

Looking Ahead: The environmental market will continue to stabilize and a possible increase in premium should occur during the year 2012. Based on recent PLL claims underwriters will be more selective on risk selection and adequate rating.

Directors and Officers**Rates: Decreased 0 to 10%**

Trends and Development: We are still able to negotiate premium discounts in private company D&O although the percentage decrease has lessened. There is an increase in claims frequency when D&O is combined with employment practices liability but little change in severity. D&O coverage for public companies especially in the financial sector is tighter with stable or increasing premiums directly tied to financial condition, stock price fluctuation and claims experience. In private company D&O with good experience, savings can be negotiated.

Looking Ahead: We do not anticipate any major change in the market's underwriting guidelines. While they would like to increase premiums, competition and market capacity provides stability.

Financial Institutions**Rates: Increased 0 to 10%**

Trends and Development: Limited capacity from authorized carriers for primary policies has led to stable premiums when financial condition and claims experience are good. Notable adverse experience, financial condition and fluctuations in stock prices of public companies are factors that impact pricing. We have successfully negotiated renewals with up to 10 percent discounts in Bond while further improving terms and conditions. Capacity is limited for lenders liability and broker dealer coverage extensions. Particularly with regard to broker dealers, there has been adverse experience in the market and there has been a pricing and deductible realignment for Insureds where claims have been paid.

Looking Ahead: We do not anticipate any changes in the near future.

Professional Liability**Rates: Decreased 0 to 10%**

Trends and Development: Capacity is good with multiple carriers offering professional liability coverage providing leverage to negotiate premiums and terms/conditions. Rates are stable and frequently reflect a discount at renewal.

Looking Ahead: We do not anticipate any changes in the near future.

Medical Malpractice**Rates: Stable**

Trends and Development: The tendencies in the area of health care have not suffered major changes in the last two years; the renewals are based on the experience developed in each account and the appetite of the markets. The increases in premiums for some clients is the result of poor loss experience. Recently, an increase in the frequency and severity of loss activity has been seen. Despite this, rates have remained stable and the market appetite varies depending on the customer. Insurers writing this type of business are limited and we are looking to expand the options for our clients.

Looking Ahead: We expect that the trend that we have experienced in the last twelve months will continue in 2012.

Marine**Rates: Decreased 0 to 10%**

Trends and Development: Capacity is good for inland marine and ocean marine lines with almost all local carriers offering these coverages providing leverage to negotiate premiums and terms/conditions. For inland marine, rates have remained stable and decreasing for clients with good loss experience. In ocean marine—due to high competition levels with some new carriers coming into the market such as Replacement Lens, Optima, and XL—some accounts have obtained up to 50 percent premium discounts for renewals. Also we have obtained very competitive quotes for stock throughput and shore risks coverage for warehouses and distributors with high stock insured values.

Looking Ahead: We do not anticipate any changes in the near future.

Aviation**Rates: Stable**

Trends and Development: There are some insurance carriers that write this coverage in the island such as Chartis, MAPFRE, Global Aerospace, Ace and Lloyds. Rates have remained stable, and vary depending on aircrafts make and model, year, usage (private or business), pilot's ratings and experience, and previous years insurance loss experience. Insurers are very selective, especially with pilot's experience, trainings and flight hours.

This is a \$286 Million market in Puerto Rico. The appetite of this type of insurance is growing but for voluntary programs where employees contribute 100 percent of premium. Overall claim trend is 9 percent. Puerto Rico market offers have been shrinking due to insurance companies mergers and acquisitions, operations closing or leaving the market. This might be affecting future renewals.

Looking Ahead: We do not anticipate any major changes for 2012. Upcoming PPACA mandates will be impacting processes and costs. The largest insurance company in Puerto Rico (MCS) has been affected by the loss of its government contract and federal investigations. This will have a future impact in premiums charged.

HIGHLIGHTS

- Political instability dominates the issues impacting Venezuela. Presidential elections to be held in 2012 and the outcome will be significant considering the importance of Hugo Chavez role as head of state.
- All eyes, businesses and the general population are looking towards the outcome of this election, as a benchmark for the future.
- The economy is slow and the insurance industry is concentrating on employee benefits and personal lines. Very little foreign investment coupled with many government owned industrial operations has created limited opportunities for independent insurers and brokers.

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VENEZUELA**OVERVIEW**

The government has maintained its intentions to control the main activities of the economy through nationalizations and policies that drive production, distribution, pricing of raw materials, goods and services.

In 2012 Presidential elections will be held and therefore no improvement in the private sector economic activity is expected. However there will be much higher government spending focused on social activities. One factor of unknown impact in 2012 is the outcome of the elections paired with President Chavez's health issues.

The insurance industry has been impacted by tighter controls from the insurance law which is part of a highly regulated environment that provides more authority of insurance governing bodies, now able to intervene in insurance matters. The government is taking more control over premiums, commissions and scrutinizing the commercial practices of insurance companies and brokers. Insurers are moving cautiously, as the new laws give them more responsibilities with less freedom to innovate through new products or services. Foreign investment remains very limited, premium growth is stagnant in property and casualty, however there is growth in employee benefits and personal lines. Pricing in these classes are rising, due in part to inflationary pressures. The lack of imports is affecting the supply of spare parts, which in turn has an effect on the claims settlement process. Another major problem affecting the insurers' capacity is related to the control over access to foreign currencies in the country. Many of the large global insurance companies are present but focusing on local business, where they can be paid locally. Regulatory controls make access to the international market a cumbersome process and therefore many risks are being placed locally. Foreign remittance is an issue as all accounts must be handled in local currency.

Range of Typical Rate Change Q4 2011 by Product Line**General Liability****Rates: Stable**

Trends and Development: Coverage is available from local insurers with limits between US\$1M and US\$5M. This is sufficient for most buyers unless they have corporate mandates to purchase higher limits. Products liability coverage is also available.

Looking Ahead: We expect this trend to continue, the coverage is readily available within the limits of the local insurance companies and this appears to be sufficient.

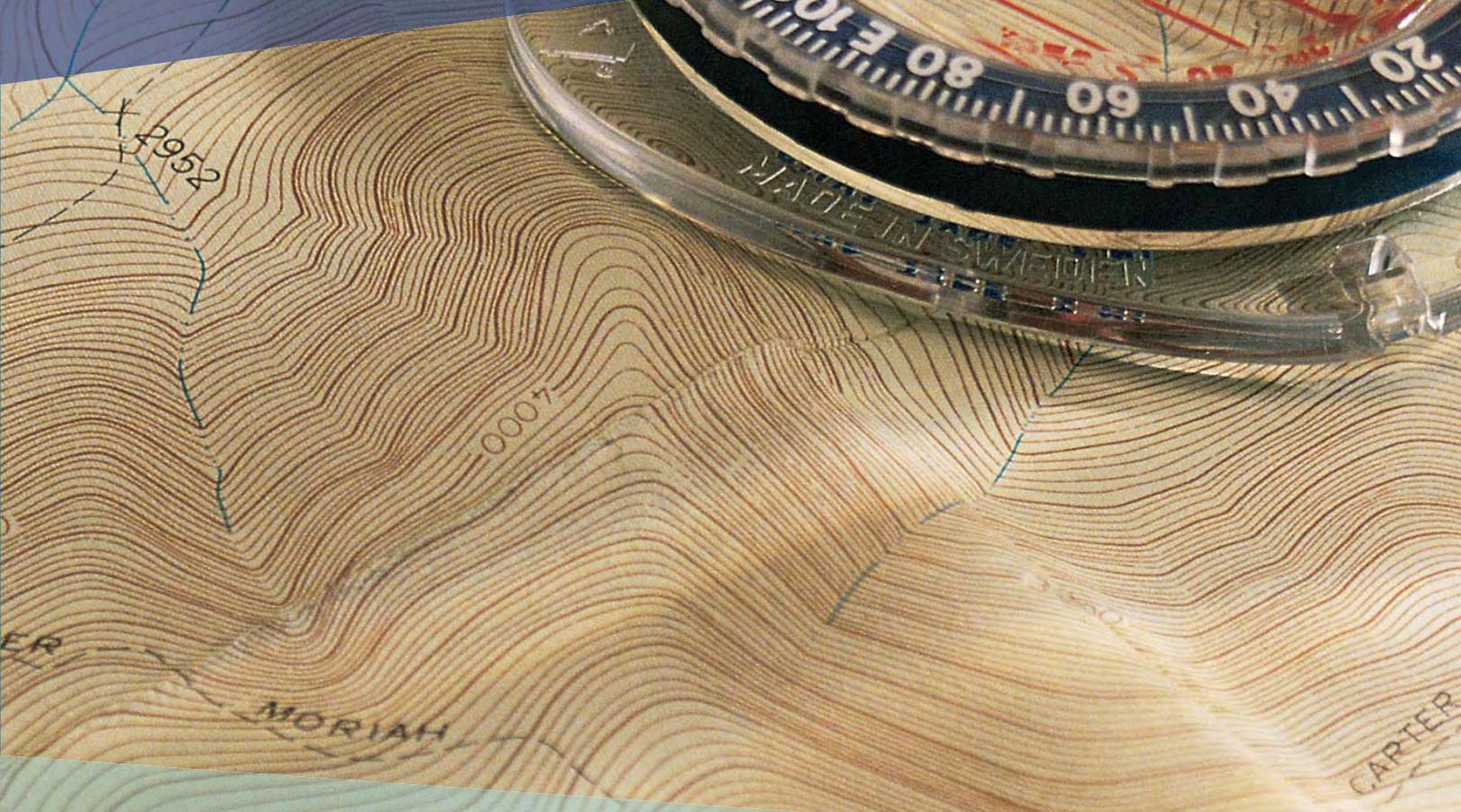
Property Including Construction**Rates: Increased 0 to 10%**

Trends and Development: Appetite for all risks, except plastic, textile and others, according to their security and where the reinsurance placement is required. Terrorism is excluded from local policies. Fronted policies may be included in the master, all risk property policy is negotiated on a global basis by the head office of the client. The capacity is between US\$15 and US\$50M.

Coinsurance is used to achieve local capacity for large accounts. The reinsurance placement is customary. Specific deductibles for earthquake, riot, strike and malicious mischief, as per local tariff are in place. Some occupancies are difficult to cover due to capacity being combined between local treaties, coinsurance and facultative. In some cases it is necessary to obtain permission and special acceptance from the reinsurer to cede additional exposure to the treaty and this can drive the cost up or limit capacity.

Looking Ahead: Continued uncertainty until the election results are known; potential impacts from new regulations if a new or existing administration is elected. The local insurers will continue to handle small and medium sized businesses and there will continue to be a concentration of activity in the local market as new business opportunities are slow to emerge. New products and coverages are unlikely in the near term.

SPECIALTY AND INDUSTRY LINES



EMPLOYEE BENEFITS

HIGHLIGHTS

- Health care issues and solutions are on the minds of employers in spite of economic challenges.
 - Emphasis on maximizing spending and reducing expenses is foremost on their minds.
 - Wellness and Prevention programs are taking hold in the region and becoming more common. This is one way in which employers are trying to control costs and mitigate expense fluctuation.
 - Regulatory changes in various countries are impacting providers and it is important to stay ahead of government sponsored changes in order to minimize the affect on products and services.
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RISK TRENDS

In recent years the insurance market in Latin America has continued to grow, weathering the global recession better than in other regions.

Health care issues are high on companies' agendas as costs continue to increase. While medical trend factors used to price health care vary by country around the world, the trend is advancing everywhere, and typically exceeds inflation. This creates significant affordability challenges for employers and employees alike. Many employers are embracing new approaches to benefits management that have the potential to fundamentally transform current workforce strategies.

- The economic instability has intensified employers' focus on maximizing their employee benefits spend and minimizing expenses. Employers affected by the economic environment and rising health care costs are searching for a strategy to help better manage costs and control plan design. Employers also increasingly rely on their insurance brokers and consultants to administer employee benefits plans thereby reducing their human resources and administrative expenses.
- Regulatory changes are dramatically altering the marketplace. Venezuela, for example, recently created, La Bolivariana, a state-run insurer. Once it is fully functional it is expected to take considerable business from the private insurers particularly in health care, the largest class of business. Brazilian ANS (National Health Agency) recently created a new group of compulsory health care coverages, which will have an impact on pricing, and also established rules for post-retirement health care coverage, which may have an impact on employers' future liabilities.
- The fast growing small to medium size enterprise (SME) segment is positively affecting employee benefits plan design. Product design, underwriting, pricing, e-services, communication tools about benefit plans, and more efficient distribution considerations are driving change.
- Shortages of human capital in some countries increasingly demand that employers review their benefits packages in order to attract and retain talent.
- Some companies are now applying an Enterprise Risk Management approach to health management, enabling them to identify all risks and health-related costs with a single tool. As result of this, wellness and prevention programs have been identified as an effective way to motivate employees to take responsibility for their own health, resulting in increased productivity and reduced health care costs in the long run.

- Life Insurance revenue and penetration rates are increasing in many Latin American countries. Controlled inflation in some countries, like Brazil, is helping develop life insurance awareness and culture. The development of micro-insurance and low cost products are also a result, and will bring affordable security to those on small incomes.
- With a significant presence of international insurers now operating in Mexico, the market is becoming more sophisticated and more adept at developing customer-focused services.
- As mergers and acquisitions pick up around the region, there is growing demand for consultative work around benchmarking, plan redesign, and understanding liabilities associated with Employee Benefits programs.

LOOKING AHEAD

The war for talent will increasingly make employers adjust their focus and be concerned about talent retention and employee loyalty. Product based solutions in employee benefits strategies can assist companies to reduce the strain on their human resources administration, improve employee satisfaction and productivity, and rebuild employee loyalty.

Global economic instability, coupled with rising health care costs, will continue to influence the way companies look at and manage their employee benefits programs. Further changes are likely to develop as employers and employees adjust to the changing marketplace:

- Renewed appetite for approaches that enhance benefits while controlling costs. Expense control will remain a key focus for employers, increasing demand for even more techniques to improve benefits plan options while enriching workforce loyalty.
- Heightened focus on benefit communication strategies likely. Benefits plans with effective and relevant communications strategies will become a larger focus for employers.
- Increased demand for web enabled IT applications to allow employers better access to their employee benefits data and expedite connectivity to insurance carriers, providers and consultants.

Employers are searching for more control over plan design and compliance and have a heightened focus on cost control options. Innovative employee benefits solutions that are more flexible and responsive are more likely in the future to meet the needs of employers and their employees.

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