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Benchmarking analysis

**MARSH**



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# Risk and reward

Liability Insurance Buyers Report – Europe 2007

## Limits Of Liability Survey 2007

Country/region	number of responses	minimum limits (€ millions)	maximum limits (€ millions)	median limits (€ millions)	average limits (€ millions)	average price per million	average cost per €1,000 revenue
Ireland	42	1	100	13	18	8,901	0.11
UK	480	0.8	1,484	30	71	6,762	0.30
NW EUROPE	522	0.8	1,484	30	67	6,777	0.28
Austria	8	2	30	11	12	21,125	1.10
Belgium	130	0.3	800	8	40	11,214	0.44
France	162	0.5	475	15	48	16,537	0.30
Germany	371	2	1,050	10	26	12,409	0.57
Netherlands	184	1	340	5	18	7,944	0.22
Switzerland	120	3	194	32	35	8,693	0.48
C&W EUROPE	975	0.3	1,050	10	31	12,274	0.39
Greece	24	0.1	750	2	34	2,952	0.23
Italy	464	0.3	1,500	5	29	14,058	0.45
Portugal	19	1	200	10	28	5,850	0.18
Spain	269	0.3	308	5	15	14,509	0.62
Turkey	67	< 0.1	76	1	3	9,994	0.14
So EUROPE	843	< 0.1	1,500	5	23	13,384	0.46
Croatia	5	3	12	7	7	36,054	0.38
Czech Republic	29	< 0.1	192	2	15	7,051	0.72
Estonia	19	< 0.1	39	1	5	6,394	0.45
Hungary	46	0.1	50	1	4	6,447	0.08
Latvia	16	0.2	59	1	8	2,382	0.36
Lithuania	17	0.3	5.0	1	1	9,055	0.11
Poland	32	0.3	10	0.5	1	8,372	0.07
Romania	3	0.8	2	1	1	9,565	0.05
Russia	8	0.5	115	11	25	6,695	0.64
Slovakia	9	1	50	5	11	8,768	0.15
Slovenia	3	0.5	1	1	1	78,605	0.99
E EUROPE	187	< 0.1	192	1	7	7,598	0.06
Denmark	50	0.9	758	13	56	9,711	0.60
Finland	39	1	125	10	24	7,242	0.15
Norway	29	1	50	2	7	7,607	0.11
Sweden	104	1	500	11	33	10,379	0.47
NORDIC	222	0.9	758	10	33	9,881	0.41
Egypt	6	0.7	5	2	2	7,392	0.70
Israel	24	2	80	10	21	5,805	0.60
Saudi Arabia	21	0.2	76	1	7	2,757	0.17
MIDDLE EAST	51	0.2	80	6	13	5,123	0.45
AFRICA	22	0.5	340	73	125	2,243	0.03
<b>EMEA totals</b>	<b>2,822</b>	<b>&lt; 0.1</b>	<b>1,500</b>	<b>10</b>	<b>34</b>	<b>9,965</b>	<b>0.32</b>

Figure 1

The table above lists all the participating European, Middle East and African countries in Marsh's 2007 global liability benchmarking survey.

All figures in the above table are given in Euros.

# Risk and reward



In last year's introduction I noted how companies which understood their risk exposures, and had in place rigorous processes to ensure those risks were properly managed, achieved greater stability in their business and recognised greater return on investment from their risk financing.

Common sense, you might say. But reaping the rewards of well managed risk is still eluding a great many organisations.

In our 2007 report, we identify four major risk areas that are increasing in complexity and scale, while the insurance markets continue to undercut their rivals by offering reduced premiums. These four areas are pandemics, terrorism, the environment, and new technology – nanotechnology in particular.

Marsh recently researched over 750 corporate clients in Europe. We found that almost three quarters of the executives we spoke to have increased the proportion of capital they allocate to risk management relative to insurance buying – an interesting finding, given the general reduction in insurance costs. It tells us that more companies are focusing energies and resources on longer-term and sustainable risk management strategies, thus leaving them less exposed to the vagaries of the insurance market cycle, and more able to see a return on their risk mitigation investments.

These companies believe that well managed risk leads to reward: competing with more confidence, innovating with greater certainty and a firm ability to grow in accordance with the ambition set out by the board.

Companies will always transfer at least some of their risks to insurers: when they are required to by law, or when it is financially prudent to do so. When the markets are the best solution, our liability benchmarking should help companies determine exactly how much they should be buying, and at what price.

As risks become more complex, it is inevitable that the management of these risks also becomes more complex. But for those companies that get it right, the rewards are very real.

## **Alex Moczarski**

CEO, Marsh Europe, Middle East, Africa

## Methodology

### Data:

Marsh surveyed over 7,500 companies about their product and general liability insurance programmes, including data on limits purchased, premiums, attachment points, and five-year history of claims of US\$5 million or more. In Europe, we collected data from 2,822 companies.

We analyse the data in two ways. First, we compare the raw numbers of the full survey population through the first quarter of 2007 to last year's survey, providing a broad view of limits purchased. Second, we examine the purchasing trends for the basket of companies for which we have consecutive years of data. Because the basket is so large, the comparison shows the patterns that emerge when looking at the same group of companies over time.

### Commentary:

Marsh asked Taylor-made Communication to research the key risk issues facing EMEA organisations. They achieved this using desk research and through interviewing Marsh experts and client managers around the region. Forty Marsh employees provided responses to questions from Taylor-made.

## Europe – Distribution of firms by revenue class (€ millions)

Revenue	2007
<b>0-100</b>	1,318
<b>101-200</b>	441
<b>201-500</b>	405
<b>501-1,000</b>	223
<b>1,001-5,000</b>	235
<b>5,001-10,000</b>	59
<b>10,000+</b>	46
<b>All</b>	<b>2,822</b>

Figure 2

## Distribution of firms by activity

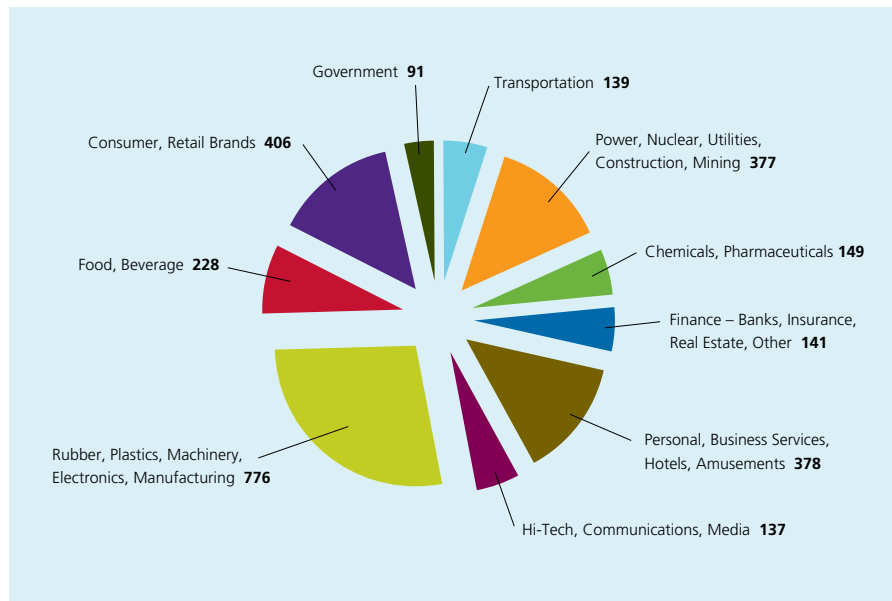


Figure 3

## Danger in a soft market: the changing of the cycle

### EMEA – Average price per €1million of coverage – by revenue class

Revenue	2007	2006	2007 v 2006 Change
<b>0-100</b>	6,501	6,665	-2.5%
<b>101-200</b>	7,770	6,596	17.8%
<b>201-500</b>	10,934	13,458	-18.7%
<b>501-1,000</b>	7,895	8,358	-5.5%
<b>1,001-5,000</b>	14,043	14,179	-1.0%
<b>5,001-10,000</b>	15,161	16,919	-10.4%
<b>10,000+</b>	19,606	19,566	0.2%
<b>All</b>	<b>11,520</b>	<b>11,906</b>	<b>-3.2%</b>

Figure 4

Hurricane Katrina wrought devastation in New Orleans in 2005 – killing almost 2,000 people and wreaking damage worth around €60bn, leading to huge insured losses and a serious loss of windstorm capacity. This dearth of capacity pushed prices up, making the market attractive to new entrants and therefore creating fresh windstorm capacity. Overtime, these new entities have also begun to enter the liability arena.

Thus, it could be said that the post-Katrina hard market for first-party insurance has to some extent, contributed to the softening of the liability market, with lower prices, broader cover and insurers increasingly ready to increase sublimits for specific risks such as product recall and professional indemnity. This is the fifth soft year in a row for most types of liability insurance – countering the often received wisdom that insurance markets are subject to three-year cycles.

This increase in the market's capacity is particularly noticeable for larger policies. Less than a year ago, a primary insurance policy for a major client with a limit of €50m would normally have been co-insured between several insurers; now there are several markets ready and willing to assume it 100%

The growth in capacity seems set to continue: hardly a month goes by without a new insurance vehicle being launched in Lloyd's, or an announcement of a new investor in the liability insurance market. In fact, capacity is likely to continue to increase – and prices to fall – until the next catastrophe dampens investors enthusiasm.

There are very few trends running against this general current of falling prices. In the Lloyd's market there is, of course, the control imposed by the Lloyd's Franchise Board, whose approval is compulsory for all new Lloyd's entrants.

In the continental European marketplace the purchase of Gerling by HDI at the end of 2006 could be significant. Both companies were very important insurers of large industrial clients and therefore any overall reduction in the previously separate capacity could act to slow the softening market. However, this would mainly be relevant to the largest and most exposed clients and could be nullified by new capacity joining the marketplace or existing players increasing their capacity to improve their market share.

In some circumstances, the nuances of a specific country act to deter some new entrants. For example, in France wordings written on a 'reclamation' basis, which is equivalent to claims made, must by law include a 5 year extended reporting clause where the cover is cancelled or expires. As a result, some insurance companies are reluctant to write French risks. For very large risks, this shrinks the pool of potential insurers sufficiently to make a difference to the prices and conditions on offer.

#### Against the grain: countering the fall in insurance prices

Country and number of responses	Average limits (€)	Average price per € million	Average cost per €1,000 revenue
UK 480	71	6,762	0.30
Belgium 130	40	11,214	0.44
France 162	48	16,537	0.30
Germany 371	26	12,409	0.57
Netherlands 184	18	7,944	0.22
Switzerland 120	35	8,693	0.48
Italy 464	29	14,058	0.45
Spain 269	15	14,509	0.62
Sweden 104	33	10,379	0.47

Figure 5: Summary analysis for countries in the EMEA region where we collected more than 100 client data sets.

# Business is growing more risky

## Global risks and changing debates

Industry group and number of responses	Minimum limits (€ millions)	Maximum limits (€ millions)	Median limits (€ millions)	Average limits (€ millions)	Average price per € million	Average cost per €1,000 revenue
Transportation <b>139</b>	0.1	1,484	11	94	3,861	0.53
Power, Nuclear, Utilities, Construction, Mining <b>377</b>	0.2	1,017	15	57	9,837	0.34
Chemicals, Pharmaceuticals <b>149</b>	0.4	1,050	12	52	18,282	1.13
Finance - Banks, Insurance, Real Estate, Other <b>141</b>	0.1	297	13	36	3,270	0.03
Personal, Business Services, Hotels, Amusements <b>378</b>	0.1	769	8	31	13,348	0.83
Hi-Tech, Communications, Media <b>137</b>	0.3	550	7	30	5,986	0.15
Rubber, Plastics, Machinery, Electronics, Manufacturing <b>776</b>	0.1	1,500	10	24	11,374	0.31
Food, Beverage <b>228</b>	0.1	371	8	22	6,421	0.24
Consumer, Retail Brands <b>406</b>	0.1	500	5	19	9,793	0.23
Government <b>91</b>	0.6	260	5	17	15,319	0.45
<b>All 2,822</b>	<b>0.1</b>	<b>1,500</b>	<b>10</b>	<b>34</b>	<b>9,965</b>	<b>0.32</b>

Figure 6: Summary analysis for the main industry groups in the EMEA region based on the total 2007 survey population.

Global Risks 2007, a report which Marsh worked on in collaboration with Citigroup, Swiss Re and Wharton School Risk Center for the World Economic Forum, concluded that 'levels of risk are rising in almost all of the 23 risks on which the Global Risk Network has been focused over the last year'. The four global risks that it focuses on – oil-price shocks, international terrorism, climate change and pandemic – have quickly moved up the business agenda in recent years. Potential sources of liability emerge from these risks, and sometimes recede, as the debate changes.

### Nanotechnology

We need only look at nanotechnology to see how debates can change. In 2004 it was the subject of a great deal of press attention, after a speech by the Prince of Wales. Attention focused on the hypothesis that nanoscale self-replicating robots could reduce the whole planet to 'grey goo'. The author of that hypothesis, Eric Drexler (in a 1986 book), has since said that he wishes he had never used the term.

The debate has now moved on to more plausible and mundane scenarios, such as the risks arising from 'nanomaterials': the very small particles that could be produced by nanotechnology.

Materials at the nanoscale often have very different properties than in their bulk form – copper, for instance, is considered a super-hard material at the nanoscale. In the US, the Environmental Protection Agency has asked manufacturers of 'nanosilver', which is used to kill bacteria, to conduct studies to prove that these miniscule silver particles won't harm humans or the environment. And the European Commission has said<sup>1</sup> that 'substances in the nanoscale fall under the scope of REACH<sup>2</sup>' – which would compel manufacturers to prove that their nanomaterials are not harmful.

Although it is too early for specific nanotechnology exclusions in liability insurance, the technology is developing so rapidly that the debate – and insurers – may find it difficult to keep up. Swiss Re projects that nanotechnology will be a US\$1tr industry by 2015, up from around US\$32bn today. By then public perceptions are likely to have altered beyond recognition – a European survey in 2004, before the Prince's pronouncement, showed that only 29% of Europeans had heard of nanotechnology, and 80% of those could offer no description, correct or not, of what it was.

**Average Limits Purchased by Revenue Class over two years for the same group of EMEA companies (in millions)**

Revenue (€ millions)	2007	2006	2007 v 2006 Change
0-100	12	12	1.0%
101-200	21	21	0.2%
201-500	32	29	11.6%
501-1,000	56	51	9.1%
1,001-5,000	79	85	-7.7%
5,001-10,000	122	104	17.2%
10,000+	202	193	4.2%
All	32	31	5.5%

Figure 7: Trend data for 2006/2007

**Pandemic**

Pandemic – another issue working its way up the risk agenda – is also not specifically excluded from liability insurance contracts at the moment. The perception of the threat has changed a great deal over the last year, partly as a result of research into its likely effects. A study by Swiss Re<sup>3</sup> calculated that a pandemic was less probable than had previously been thought.

Something on the scale of the Spanish Influenza outbreak of 1918 is estimated to have a probability of 0.002, which means it would be expected to happen roughly once every 500 years. The same study estimates a fatality rate around 2.5 times lower than in 1918 – roughly consistent with previous projections. This would still be very significant. When around 15-20,000 people died in the French heat wave of 2003, the result was panic, with full morgues forcing the authorities to store bodies in supermarket fridges. In a pandemic, the projected fatality rate would lead to around 120,000 deaths in a population the size of France's.

But although the estimated probability of a pandemic has fallen, the projected effects on businesses and the economy are likely to be much worse than was previously thought. People would postpone non-essential purchases, travel would become more difficult and public gatherings would be banned. As a result, most companies would suffer a reduction in their income of 30-50%, and some would have to cease all activity for the eight to twelve weeks that a pandemic is likely to last. Very few businesses could survive this.

The remoteness of the event means that many companies are not preparing for it. But without preparation, a pandemic would be catastrophic for any company. The potential liabilities are twofold: failing to exercise a duty of care to employees and clients, and failing to fulfil contracts – because pandemic is foreseeable, force majeure would not apply. However, even the best liability insurance would be of no use if the company had gone out of business because of lack of revenue.

Marsh has been consulted by various governments about this issue, and its Asian, EMEA and American divisions co-ordinate their work on it. Their recommendation is for companies to start medium-term planning work in a way that they could accelerate in response to the early signs of pandemic. The focus of this planning should be on keeping the company going. That means keeping employees healthy and working, and minimising the reduction in income and its effects.

**Terrorism**

While liability insurance is a secondary issue in managing the risks of a pandemic, it is becoming a more important issue in connection with terrorism. Relatives of those killed and injured in the terror attack on an international hotel in Egypt, have brought a class-action suit against the hotel's New York owners, claiming that it had failed to take preventive action. It is unlikely to be the last such case. And, since those affected by acts of terror can be of any nationality, there is the potential for any lawsuit to be brought in the US, where the costs of defending are much higher than elsewhere, and juries are able to levy potentially very high punitive damage awards.

One of the allegations of this particular claim is that the hotel had failed to comply with the corporation's global security protocol. Better risk-management and corporate governance processes ought to have spotted and remedied this. However, even with good risk management, the chances of a successful lawsuit cannot be eliminated. The companies in most danger – from attacks and liability claims – include hotels, food producers, transport operators and global corporations. However, the availability of terrorism liability insurance, and the requirement to have it, vary considerably from country to country. While some local markets offer dedicated terrorism insurance, the more common approach is to remain silent i.e. not to specifically exclude it.

<sup>1</sup><http://ec.europa.eu/environment/chemicals/reach/qa.htm>

<sup>2</sup>REACH is a new EC regulation standing for 'Registration, Evaluation, Authorisation and Restriction of Chemicals'

<sup>3</sup>'Influenza Pandemics: Time for a reality check?' Swiss Re, 2007

# Terrorism, liability and risk: the expert view



Interview with Chris Parker, Political Risk team, Marsh.

## Is there really a threat to companies?

This year's terror attacks in the UK (London and Glasgow) and other foiled attacks around Europe highlight the increased risk of terrorism. In the UK incidents, the physical damage caused would not have been very great, instead the tactic was to kill as many people as possible. But while many companies are insured against the physical damage caused by terror attacks, far fewer have protected themselves against the liabilities that arise. We are likely to see more claims of this sort in future.

## What can companies do to protect their customers?

A company may be liable for the effects of a terrorist attack if it didn't do enough to protect the people who use the environments for which a company is responsible. A theatre, for example, that did not check customers' bags could be liable in the event of an attack. For many businesses, the extra safety produced by taking anti-terrorist measures has to be set against the effect they have on customers.

Hotels in Egypt, for example, need to erect concrete barriers to shield them from car bombs while also remaining accessible and attractive to the public. The amount of inconvenience people are prepared to suffer in order to be kept safer varies.

## How are the insurance markets responding?

Although not many insurers offer terrorism liability policies at the moment, more are entering the market, and because the insurance market in general is so soft, it is likely that more will be drawn into this area as they search for more profitable products. Capacity is growing and for excess layers, limits of up to \$150 million are available for a stand-alone policy. In fact, stand-alone policies are available in every country, though in some countries, companies in some sectors may find that they are faced with high deductibles or punitive prices.

## What advice can you give to companies?

Silence in an insurance policy hasn't been tested in court and so should not be relied on.<sup>4</sup>

Look at your emergency business continuity plans and work with an advisor to evaluate your current security measures, balancing safety against the effect on your business's day-to-day operations. Terrorists go for high-profile targets, but they will also take the path of least resistance. Find out what other companies in your area or your industry do, and follow the best practice. It's important to look at the whole range of ways of mitigating risks. While this may include insurance, many companies may find it more cost-effective to mitigate the liability risk in other ways, such as following general best practice for their industry and area, and reacting to any warnings of impending attacks.

<sup>4</sup> Silence means when a policy is vague around descriptions of insured risks. For example, a policy that covers damage caused by fire, might not cover damage from fire caused by a terrorist act. The policy is not explicit in the cause of the fire, so it is silent.

### The environment – a hotter issue

The environment in general and global warming in particular are rapidly moving up business agendas. One sign of this is the Carbon Disclosure Project, backed by 225 institutional investors, representing \$US31.5tr of funds. The Project asks for detailed information on emissions and attitudes to climate change from 2,100 companies, including the FT500. The proportion of companies that have responded to the Project's request has increased each year, from 47% in the first year to 72% in 2006, its fourth year. In every year, Europe has had the highest response rate of any region – with 86% of companies supplying information, compared with just 66% in North America. And in the most recent survey, 87% of respondents said that climate change presented “commercial risks and/or opportunities”.

Hurricane Katrina's benevolent effect on liability premiums shows how difficult it is to forecast the effects of climate change on business. At the moment the indirect effects of climate change are, for business, far more potent than the direct ones. Chief among these indirect effects are new regulations and legislation designed to minimise climate change and reduce harm to the environment. Of companies that participated in the Carbon Disclosure Project this year, 36% said climate change was a source of regulatory risk – although this varied from 0% of banks to 100% of companies in the construction materials and building products industries.

The EU's new Environmental Directive<sup>5</sup> is the most important of the new regulatory responses to environmental issues. It is part of a marked development in the legal framework over the past five years. During this time, the UK, Germany, Spain, Italy and France have all brought in new environmental laws, often in response to a particular incident. In 2001, there was an explosion at a fertiliser factory in Toulouse which killed 31 people and injured almost 2,500. By 2003, France had a revolutionary new environment law, the Loi Bachelot. It joined the Nouvelles Régulations Économiques (NRE), introduced in 2001, which compelled all companies on the stock exchange to disclose their environmental impact and liabilities. This connection between environmental laws and financial reporting is another factor making environmental issues more strategically important for companies.

As the regulations have grown, so the liability insurance market has developed. A new approach has emerged from the three main models described below:

#### 1. Germany

In Germany, environmental insurance was attached to general liability insurance, and all industrial activities were automatically covered. No country buys more environmental insurance than Germany.

#### 2. France, Italy, Spain, the Netherlands

In each of these countries the insurers co-operated to create insurance pools, which means that only one product was available. For this reason, and because environmental insurance is not automatically attached as it is in Germany, far fewer companies have it.

### 3. The UK

The UK took the same approach as the US, and all the specialist US environmental insurers have come to London. Here the focus was more on mergers and acquisitions than on pollution and ongoing business risks, so policies were not renewable – they were bought to cover transactional risk in a particular deal.

In Germany and the rest of Europe, the focus has been on future risk, and past liabilities have been excluded. In contrast, the UK (and the US) have focused almost exclusively on past liabilities, because they are most relevant to mergers and acquisitions – in which the acquiring company takes on the other's environmental liabilities.

These approaches are converging just as the Environmental Directive arrives. This makes damaging the environment a criminal offence throughout all the countries of the EU – introducing for the first time in Europe the concept of liability for non-owned property. This is likely to be used mainly by NGOs to push member states' environment agencies to take action against offending companies. Fortunately, these developments coincide with the building up of environmental insurance markets in Paris and London offering coverage for past and future activities, including liability arising from the Directive.

#### The effects of the directive

Although many believe that the Environmental Directive is not retroactive, only pollution that emerged before April 2007 is excluded. If pre-existing pollution emerged in May 2007, then the company responsible would be liable for it under the Directive. As time goes on, it will become more difficult to prove that pollution emerged before April 2007. As a result, companies will need to rethink their environmental risk exposure. They will need to assess pre-existing pollution and analyse how new claims might affect their income.

The environmental insurance market has been proactive, developing policies in anticipation of the Directive, and they have a good idea of how it will be implemented in national law. Insurers believe that most companies are underinsured environmentally, which means that the market is seen as offering good opportunities for growth. In order to achieve this growth the insurers have taken some risks in developing new products.

In introducing the concept of liability towards non-owned property, the Directive follows the US's Natural Resource Damage Law. Marsh has applied its experience with that law to forecast the impact of the Directive. Liabilities will emerge in three main areas:

1. Soil
2. Groundwater
3. Biodiversity

<sup>5</sup> 2004/35/CE

Companies should take advice from specialist consultants in each of these areas. The consultants will examine, for example, the distance from the company's sites to the nearest water sources, nature parks, etc. They will then be able to analyse the environmental impact of the company's activities from a risk and insurance point of view in light of the Environment Directive. Fortunately, new insurance products are now available to cover the risks that are identified, though companies should understand that models vary a great deal between markets and that the products they select must be adapted to their risk exposure.

In general, most environmental risk is not insured today. People are now beginning to find ways to insure it. The result has been a huge increase in business over the past 6-8 months, and Marsh predicts that the value of environmental insurance sold will triple over the next five years. In ten years' time, the market will be unrecognisable.

Marsh has been discussing the strategic implications of environmental risk much more with its clients. Whereas previously environmental issues were treated as part of general risk, international companies now have worldwide environmental risk-management programmes. Marsh is also developing tailor-made programmes for individual companies in high-risk businesses, such as real-estate companies developing sites close to cities. These real-estate companies tend to be very conservative in their approach to insurance, yet now even they are buying environmental insurance to cover long-term liabilities.

#### The US: an overlooked risk factor

Often the most obvious risk can be overlooked. Despite fears of a pandemic or terrorist attack, for European businesses the single most important source of increased risks is simply doing business in the US. More and more European companies are

expanding and investing in the US, where the risk of litigation is far higher than in Europe, and many of them fail to take this fully into account in their risk-management strategies.

These companies have always focused on Europe, so when they begin to do business in the US – often in a small way at first – they do not appreciate how different the legal environment is there. Almost any lawsuit is potentially a terminal event, as the defence costs can be enormous. Any company that is licensed in the US or has assets anywhere in the country is vulnerable, but the long arm of America's courts is reaching ever further. David Carruthers, CEO of BetOnSports.com, was arrested by the FBI last year, following an indictment in his absence by a Missouri court. He was changing planes in Texas, en route from his house in Britain to the company's base in Costa Rica – in both of which locations gambling is legal.

Once a suit is brought, not defending is never an option, as the plaintiff can ask for a summary order in the defendant's absence. Consequently, it becomes necessary to retain legal teams in each state, as the law differs from one to another and US citizens will usually attempt to bring the trial in their home state if at all possible. Managing and co-ordinating the various legal teams can then take up a great deal of management time. This is in addition to the time spent dealing with public reactions to the case, as incidents that would hardly be newsworthy in Europe can create a storm of negative publicity in the US. Finally, damages in US courts tend to be far higher than in their European counterparts. This is because punitive – rather than straightforwardly compensatory – damages are allowed, and the amount is decided by the jury rather than the judge, making it much less predictable.

For all these reasons, any European company with interests in the US should buy much larger liability insurance limits than it would have considered sufficient for its European business.

#### EMEA – Companies with/without North American Operations

Region*	With North American Operations		Without North American Operations	
	Average Limits (€ millions)	Price per € million	Average Limits (€ millions)	Price per € million
Northwestern Europe	102	9,666	53	4,462
Central & Western Europe	53	14,130	19	9,877
Southern Europe	31	11,969	18	13,881
Eastern Europe	10	9,727	6	7,491
Nordic	48	12,000	25	7,238
Middle East	7	8,426	16	4,378
Africa	38	8,809	139	1,959
<b>EMEA Total</b>	<b>50</b>	<b>12,155</b>	<b>26</b>	<b>7,786</b>

Figure 8: \*Countries in each region are listed in Figure 1, inside front cover

### Influence of North American operations

As expected, companies headquartered in Europe with operations in North America purchased higher limits, on average, than those that did not have a significant presence there. The more litigious nature of the United States undoubtedly accounts for much of the difference.

The Marsh survey for European companies found that:

- those with significant North American operations purchased average limits of €50 million in 2007, compared to €26 million for companies without such operations. This is almost a 20% increase over 2006, reversing the trend from 2005 / 2006. However, in 2007 companies in central and western Europe purchased less than half the average limits purchased for this group in 2006.
- those without North American operations purchased €26 million in average limits in 2007, up on the 2006 figure of €21 million
- on average, companies with North American operations paid slightly more per €1 million of coverage in 2007 compared to 2006, while companies without paid considerably less.

### EMEA – Average limits purchasing for companies with North American Operations

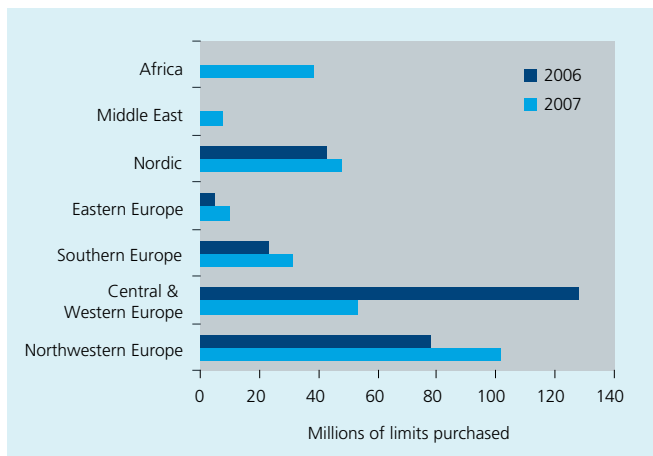


Figure 9

### EMEA – Average price paid per million limits for companies with North American Operations

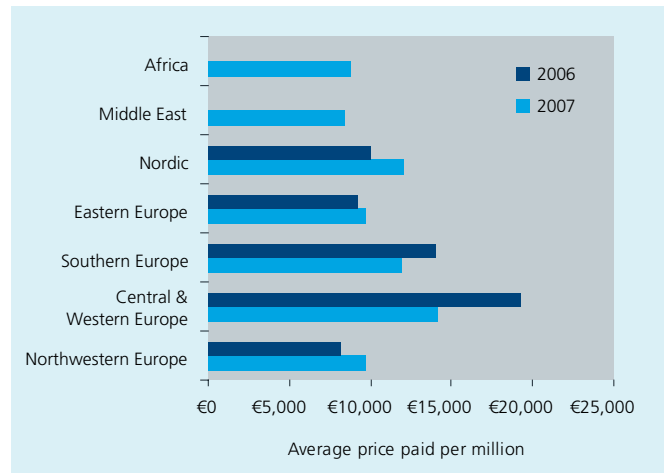


Figure 10

### Is your risk financing optimised?

In order to maximise the return on capital employed on risk transfer and risk finance, companies need to follow a robust process, including not only a review of existing and required insurances, but a wider review of all business risks, the adequacy of existing controls and the optimum use of capital to finance those risks. Typically this process is about coordinating the activities of existing functions and individuals, while overlaying more rigorous financial analysis on which to base management decisions. We call this process Risk Transfer optimization, and most of the clients we work with find this actually creates efficiencies and cost-savings in process rationalisation alone, even before the longer-term risk financing benefits materialise.

Risk transfer optimisation describes the strategic process undertaken by a growing number of firms in order to make balanced and objective decisions around the allocation of capital to risk. Its fundamental principles are:

- (i) It considers the purchasing of insurance as only one of a number of tactics that can be deployed, as part of a broader, often more long-term risk management and financing strategy. Risk transfer optimisation is about more than the limits and deductibles of an insurance policy, although this often forms part of a company's considerations.

Figure 11

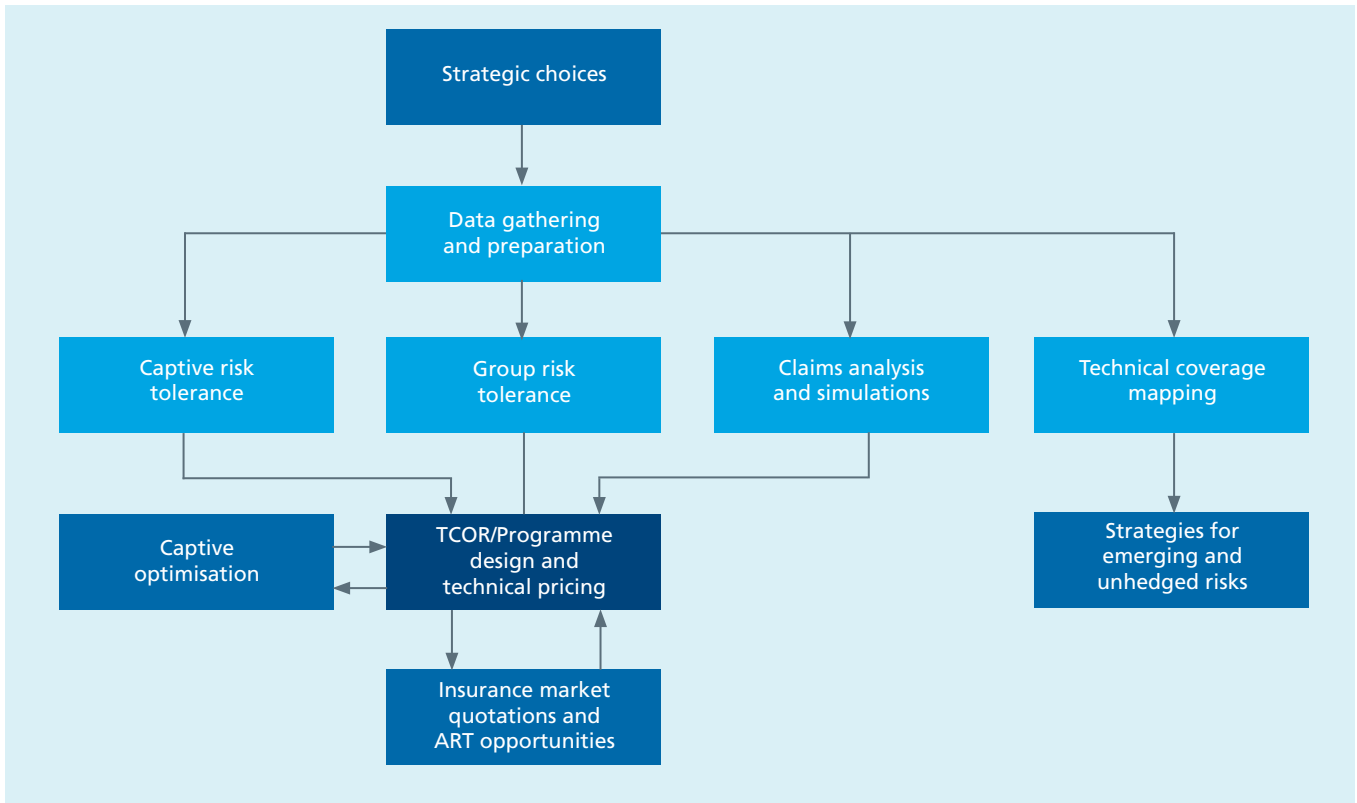


Figure 11

(ii) It treats insurance and risk financing spend as form of capital allocation, with the potential to work harder for a company and deliver a higher return when allocated in a more optimal way.

(iii) Ultimately it describes the matching of a company’s buying style with its appetite to take risk, the losses it is likely to sustain and the cost of capital associated with its various financing options.

A company that previously treated risk transfer as no more than a series of annualised insurance transactions may wish to re-evaluate this position for financial, business or professional reasons.

**Managing risks over the next 12 months**

Our survey focused on insurance buying, but it is important to remember that insurance is not the whole picture. Companies can reduce their need for insurance by retaining risks over which they have some control, or by mitigating or managing risks. The right strategy will be different for every company, but getting to that strategy involves going through proper risk management processes.

At the time of writing, the world’s financial markets were beginning to feel the impact of the sub-prime lending crises in the US. It could be that over the next year financial institutions will require even more rigorous assessment of the risks and opportunities they are being presented with. The response from companies trying to access capital, or trade risk, should be to embed robust, thorough and integrated risk management processes, and to present a case that clearly identifies, quantifies and mitigates total risk exposures.

The burgeoning environmental consciousness is helping to drive the need for insurance solutions for environmental risk. Marsh predicts that the amount of environmental insurance sold annually will triple over the next five years, but the reputational damage to a company that causes harm to the environment is unquantifiable in financial terms and potentially catastrophic. Any environmental risk mitigation strategy should utilise the insurance market as just one strand of an integrated set of tools.

## Using limits benchmarking

This report's information about pricing and limits purchasing provides a basic quantitative benchmark for liability limits decision making. For example, it appears that in general, organisations have taken advantage of the drop in pricing and have increased their limits in 2007 by around 10% over 2006.

One of the most notable points made by the data is the apparent willingness of companies that have suffered a large loss in the recent past to buy higher limits than those that have not suffered such a loss. These companies understand that liability purchasing decisions are based on more than just price.

### EMEA Companies with / without large loss experience

Region	With large loss (€)	Without large loss (€)
Northwestern Europe	83	75
Central & Western Europe	202	28
Southern Europe	139	21
Eastern Europe	n/a	7
Nordic	103	32

Figure 12

As a general point, companies buying lower limits than our benchmark for their peer group could be using other risk mitigation strategies to minimize the impact of unforeseen events, and may therefore not be so reliant on insurance markets. Or they could be under-insured.

Equally, firms that are paying more per million than our benchmark averages, may not be doing enough to demonstrate their efforts to mitigate risk to underwriters. Or they might be paying too much.

The benchmarks presented in this report should be used as a starting point for a discussion about an organisation's approach to setting and buying limits. The benchmarks themselves should not be taken and applied in isolation, as the risk profile of every business is different.

The goal of every company should be to ensure that as far as possible, their risk financing investment is optimised.<sup>6</sup>

When making decisions about liability insurance purchasing, companies should be able to answer the following two questions with confidence, having evidence to back up the answers:

1. Are you buying the correct amount of liability insurance for your business?
2. Are you paying the best rate possible for your liability insurance?

Unless the answer in both cases is a confident yes, the suggestions below might help to establish the correct risk profile for the business (and so the correct liability exposure), and help negotiate the best price.

There is no simple formula to use in putting all of the information in this report together to come up with the "right" limit for a given company. Instead, it should serve only to help companies make better informed decisions about their own unique circumstances.

The following suggestions have been drawn from our experiences:

- Evaluate and prioritise exposures regularly
- Examine minor accidents and near misses with an eye toward what could have happened if something else had gone wrong – what was the worst case scenario?
- Do not shrug off exposures that seem unlikely – especially if a peer in your industry, region, or other grouping has experienced a related loss
- Keep in mind the impact inflation will have on potential awards in court cases that may take five or more years to resolve
- Keep an eye on developments in the legal arena but do not pin false hopes on them. Do not underestimate the ability of plaintiffs' attorneys to develop new avenues of attack
- Remember that although insurance prices tend to move in cycles, loss trends do not
- It is not prudent to base limits-purchasing decisions solely on price
- Consider a range of options in structuring your liability limits. It may be wiser to retain more risk in a primary layer and spend the premium savings on purchasing higher excess limits.

<sup>6</sup> For further reading, "Optimising return on capital employed on risk transfer"  
A Marsh white paper

## About Marsh

Marsh, the world's leading insurance broker and risk advisor, has 26,000 employees and provides advice and transactional capabilities to clients in over 100 countries. Marsh is a unit of Marsh & McLennan Companies (MMC), a global professional services firm with approximately 54,000 employees and approximately \$10.5 billion of annual revenues. MMC is also the parent company of Guy Carpenter, the risk and reinsurance specialist; Kroll, the risk consulting firm; Mercer Human Resource Consulting, the provider of HR and related financial advice and services; and Oliver Wyman, the management consultancy.



795.09  
NY  
707.89  
778.33  
Tokyo

4.83  
-0.54  
-0.01  
1.34

48%  
27%  
0.03%  
0.00%  
0.17%

1472.41  
2755.65  
1541.97  
1795.09  
767.89  
778.33

London

5.63  
-6.89

0.23%  
0.06%

2043.13  
2436.60

FTSE

0.70

0.05%

1112.21

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