MARSH

Liability Insurance: Data Summary

Industry group	Minimum limits (€ millions)	Maximum limits (€ millions)	Average limits (€ millions)	Average cost per €1million limits	Average cost per €1,000 revenue
Transportation (34)	7	566	107	6,531	0.66
Power, Nuclear, Utilities, Construction, Mining (46)	1	884	106	8,736	0.67
Chemicals, Pharmaceuticals (17)	1	283	83	7,763	0.14
Finance--Banks, Insurance, Real Estate, Other (17)	1	170	56	2,244	0.08
Government (14)	14	99	51	10,705	0.55
Rubber, Plastics, Machinery, Electronics, Manufacturing (85)	0.4	283	47	10,076	0.77
Hi-Tech, Communications, Media (40)	1	283	47	6,310	0.150
Personal, Business Services, Hotels, Amusements (75)	1	283	35	6,612	0.65
Retail, Consumer Brands (56)	1	141	32	5,774	0.147
Food, Beverage (30)	1	346	18	7,333	0.32
ALL	**0.4**	**884**	**60**	**7,748**	**0.45**

**Numbers in brackets indicate total number of organisations surveyed in the UK*

Annual revenues (millions)	Minimum limits (€ millions)	Maximum limits (€ millions)	Average limits (€ millions)	Average cost per €1million limits	Average cost per €1,000 revenue
0-200 (247)	0.4	566	35	4,250	1.71
201-500 (82)	0.8	249	56	7,265	1.29
501-1,000 (32)	7	226	71	11,683	1.18
1,001-5,000 (47)	1	884	141	8,985	0.54
5,001-10,000 (14)	15	283	130	16,947	0.36
10,000+ (9)	4	594	198	7,184	0.07
ALL	**0.4**	**884**	**60**	**7,748**	**0.45**

**Numbers in brackets indicate total number of organisations surveyed in the UK*

State of the General Liability market

- The liability market is rapidly softening in the UK. According to Marsh data, the average price per €1m of coverage decreased by 17per cent, from €9608 in 2004 to €7975 in 2005.*

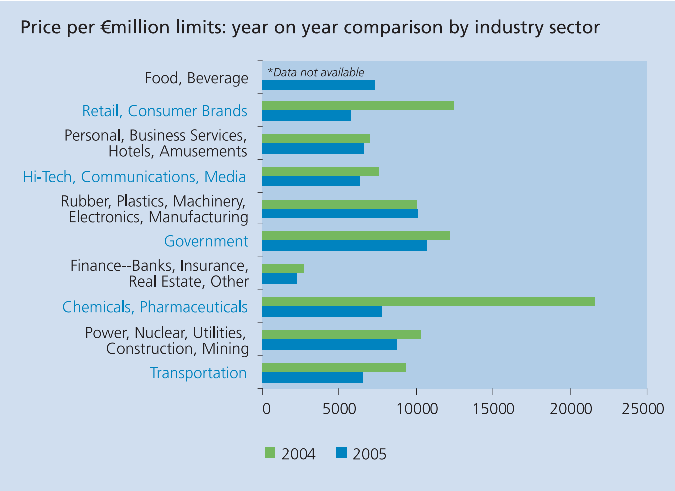
- The year on year comparison for the price paid per €million limits varies massively across the different industry sectors. The biggest change in price was found in the chemicals and pharmaceuticals sector (64.1per cent reduction), where as businesses in the rubber, plastics, machinery, electronics and manufacturing industries paid virtually the same in 2005 as they did on average in 2004 (0.5per cent increase).

- The average limit purchased remained relatively flat, dropping only 1.6per cent from €63m in 2004 to €62m in 2005.*

- With a continued softening of rates, the market has favoured buyers over the last year. Clients have had more options in areas such as retentions, limits and cover. Capacity has expanded significantly in the Product Liability market due to the re-emergence of several large European insurers, including AXA and Gerling.

Organisations using risk management techniques to demonstrate their aversion to risk, and the processes they have in place to manage and mitigate risk, have historically got better deals from underwriters.

**Trend data, using the same companies that appeared in this survey and Marsh's 2004 survey.*



Comparison based on total survey population for both years.

The UK environment for insurance buying

The debate over whether the UK is experiencing a ‘compensation culture’ has retained its momentum. Many high-profile figures in business, politics and the media have been critical of a culture of ‘risk-aversion’ as organisations and professions curtail various activities for fear of being sued. The UK government unveiled a new Compensation Bill in order to help the courts make common sense distinctions between valid and invalid claims.

- While numbers of compensation claims are declining – leading many to question whether a compensation culture exists – awards are increasing. The average value of personal injury claims continues to rise by around 15-20per cent per annum.

- A forthcoming case brought against the UK government by 49,000 small investors, who are arguing that rail operator Railtrack should not have been placed into administration, is likely to have a significant impact on the development of class actions in the UK.

- Following the US$72.5million settlement of the 2001 Selby rail crash caused by a Land Rover on the track, a recent £5m payout in the auto market represents one of the largest awards ever seen in the UK. More generally, the auto market remains competitive. Insurers are expected to receive a boost from ongoing initiatives to tackle uninsured motorists: an estimated one in 20 motorists in the UK drive without insurance.

- In 2004 the UK experienced the largest ever recall of food products. More than 420 products were removed from UK shelves after fears of their contamination with Sudan 1, a red dye thought to be carcinogenic. The overall cost of the recall is estimated to be £100m; at the time of writing it is unclear how much liability will fall on Premier Foods, the maker of a product identified as containing the contaminated substance, and used as an ingredient in other foods.

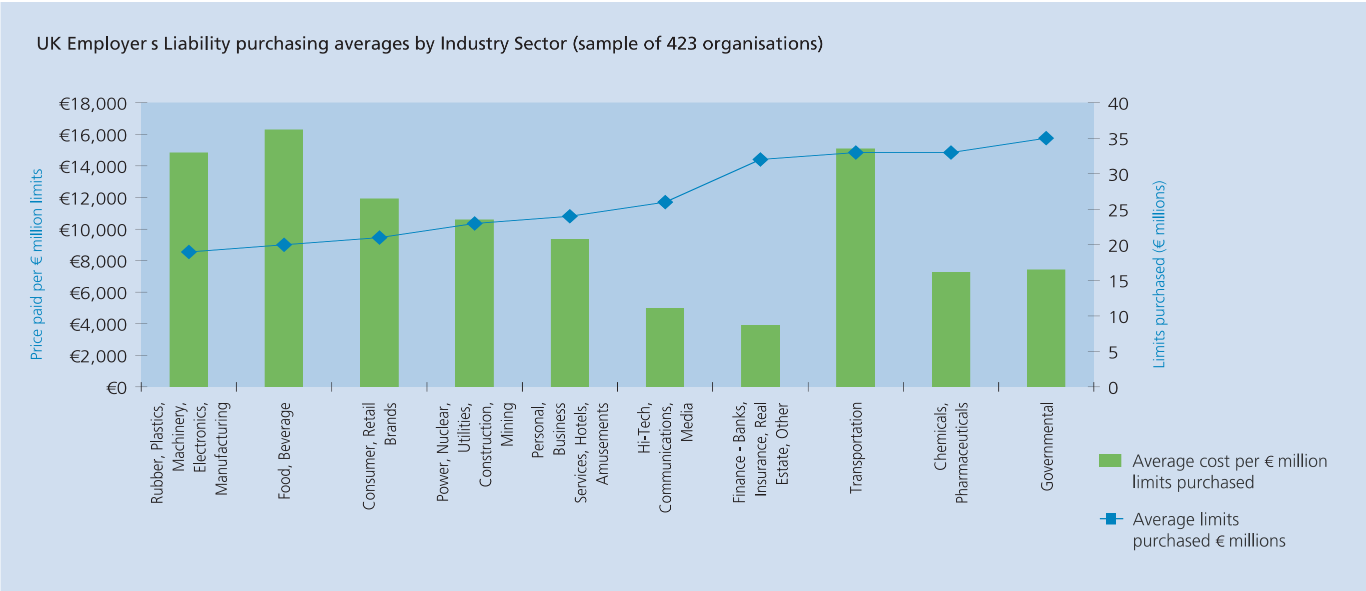
Legislative developments

- Two new environmental regulations, yet to come fully into force until 2006 but already forcing changes in industry behaviour, are the Waste of Electrical and Electronic Equipment (WEEE) directive, and the Reduction of Hazardous Waste (RoHS).

- WEEE requires that manufacturers, retailers and importers of IT equipment are newly responsible for recovering, treating and recycling that equipment when it becomes waste. The motives behind the directive are to reduce waste in landfill, prevent potentially harmful materials from entering the ground, increase resource efficiency through recycling and further the trend for eco-friendly product design.

- RoHS requires that electronics products in the EU be free of lead and other hazardous materials such as mercury. Clearly there are a range of new liability issues for companies of all sorts that fail to conform to these new standards.

- Elsewhere, REACH (Registration, Evaluation and Authorisation of Chemicals) is the European Union’s proposed regulatory framework for the chemicals industry. It is intended to replace over 40 existing EU directives in an attempt to uncover and outlaw dangerous chemicals and raise health and environmental standards. It requires the testing and risk assessment of all new chemicals, and those chemicals that were placed on the market before 1981 for which little information exists. REACH will lead to new risk exposures for companies within, or having any kind of relationship with, the chemicals sector. Given that REACH raises expectations about the safety of chemicals, businesses can expect to face an increased risk of litigation if their behaviour compromises safety.



Developments in the Employers' Liability market

Insurers continue to worry about awards granted for compensation claims, which on average are rising 19 per cent each year, according to the Department for Work and Pensions. Although some stability has returned to the EL market, rates are still increasing. The average rate increased by 7per cent in 2004, compared with 50per cent in 2003, according to the Office for Fair Trading. Despite this, some companies have been able to negotiate rate reductions, either because they have improved health and safety procedures or because insurers have wanted to maintain market share under competing offers.

The rising cost of claims is presenting a significant challenge for the UK insurance industry. Insurers continue to suffer losses for Employers' Liability (EL) risks and, to a lesser extent, General Liability risks. Other factors are also likely to influence future EL costs.

- The sister company of a UK car manufacturer is being sued for allegedly causing lung disease, alveolitis and asthma among 83 workers. Compensation claims against the company could total £4m according to the Transport and General Workers Union.

- The impact of the Courts Act 2003 may force up prices in the EL market. The Act, which came into force on 1 April 2005, allows judges to insist that insurers pay 'periodical payments' to claimants rather than one-off lump sums. Given that claimants will be entitled to payments for the rest of their lives, the precise final payment from an insurer is subject to uncertainty.

- The New NHS Injury Cost Recovery Scheme, due to come into effect from October 2006, may also lead to rate increases. The NHS will soon be able to recover the costs of treating injuries originating in the workplace. It is estimated that EL insurers will have to pay the NHS of between £200m and £250m a year, leading to an estimated 5-8per cent rise in the EL market.

- Talks have started between the insurance industry and Government to create a new industrial illness fund. The idea behind the fund, which would receive contributions from employers, is to budget now for an unpredictable Asbestos-style liability crisis in the future. Insurers are worried that speculative risks discussed today, such as those around mobile phones, could blow up into EL crises if they materialise in the future. An industrial illness fund could impact the EL market: employers for example may argue for lower EL premiums to compensate for contributions to the fund.

The role of risk management

Our advice in the context of the softening liability market is twofold. First, risk managers should not assume that the softening market reflects lower liability risk. In fact, current pricing is driven more by dynamics in the general market.

Second, while a soft market is beneficial in the short-term, risk managers should guard against complacent attitudes to assessing and controlling exposures, given that the cost of insuring those exposures now appears to be cheaper. Proactive companies that continue to improve risk management standards have more room for price negotiation with carriers in soft or hard market conditions. As a consequence they can better deal with the vagaries of the market cycle.

MARSH

A risk management approach can provide underwriters with far greater clarity around clients perceived risks and exposures. This results in greater market confidence and reduced premiums for clients.

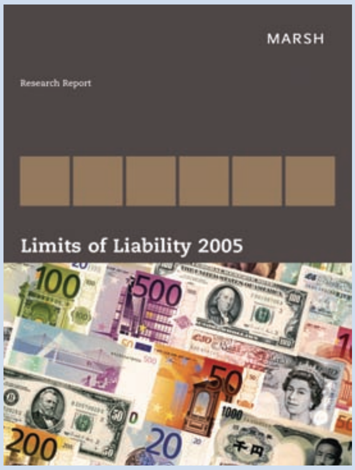
Marsh's risk management tools and techniques are well recognised and valued by clients and the underwriting community alike. One such tool is our Business Risk Audit. Using TrendTracker software, Business Risk Audit provides a snapshot review of the existence and quality of risk management activity undertaken in the client's organisation, benchmarked against best practice. As well as helping businesses identify, prioritise and address risks, clients use this information to improve underwriting submissions and argue for price reductions on their premiums.

About Marsh

Marsh is the UK's number one insurance broker and risk management firm. Our clients included 75per cent of the FTSE 100 in 2004, local and central government agencies, and over 20,000 firms spanning every industry sector and representing businesses at every stage of development. Our 5,400 UK employees are experts in all areas of insurance and risk, from general, product and employer's liability as discussed here, to specialist areas including Directors and Officers Liability, Environmental Liability and Terrorism risk, and risk consulting. Marsh is the prominent brand of Marsh & McLennan Companies (MMC).

MMC

MMC is a global professional services firm with annual revenues exceeding $12 billion. It is the parent company of Marsh, the world's leading risk and insurance services firm; Guy Carpenter, the world's leading risk and reinsurance specialist; Kroll, the world's leading risk consulting company; Mercer, a major global provider of human resource and specialty consulting services; and Putnam Investments, one of the largest investment management companies in the United States. Approximately 60,000 employees provide analysis, advice, and transactional capabilities to clients in over 100 countries. Its stock (ticker symbol: MMC) is listed on the New York, Chicago, Pacific, and London stock exchanges. MMC's website address is www.mmc.com.



This UK report is supplementary to Marsh's *Global Limits of Liability 2005* report, available on request.

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