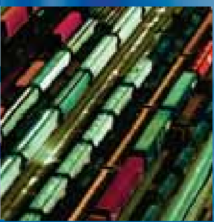
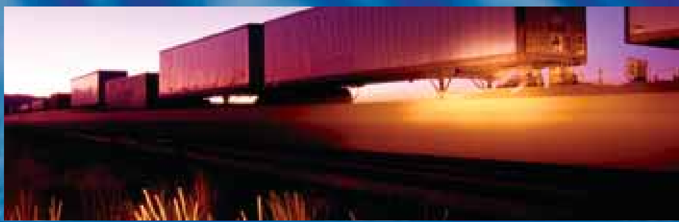
MARSH

Liability Insurance Buyers Report
Europe 2005





Transportation and logistics industry report

Data summary and findings

This report discusses liability data, trends and aspects of the transportation and logistics industries that will be relevant to insurance buying and risk management strategies of companies in this sector. It is a component of Marsh's *Liability Insurance Buyers Report, Europe 2005,* which supplements Marsh's global *Limits of Liability Report 2005* – the largest report of its kind available:

Visit: www.marsh.co.uk/insurancebuyersreport/

The data in this report is based on the prices paid for, and the volume bought of general and product liability for 96 companies in the transportation, logistics and related industries across Europe.

- Average limits purchased have remained flat in most European countries over the last year. However, Italian companies in our survey increased their buying substantially in 2005, and Italy now buys the highest average limits in Europe for this sector – €178m (compared with an average of €69m in 2004). The average price paid per million by Italian companies in our survey fell by 23 percent in 2005, to €3,872 per million limits.

- Prices per million of limits purchased for the sector have come down across Europe. The most expensive countries are France (€15,105 per million) and Germany (€16,178 per million) which probably reflect the wider cover and lower deductibles on policies of companies in these countries. The least expensive area of Europe, according to our survey, is the Nordic region, where companies paid on average just €1,497 per million limits purchased.

- Not surprisingly, organisations in countries that experienced higher prices – France, Spain, Netherlands and Germany – tend to buy lower limits. See Figure 3.

At the time, it might be tempting to set a policy whereby an organisation buys lower limits when prices are high and higher limits when prices are low. Data, such as that contained within our survey, suggests that some companies tend to do just that. Unfortunately, the risks that organisations are exposed to do not change based on the amount of insurance they have or on the price of insurance in a given year.

Country	Minimum limits (€millions)	Maximum limits (€millions)	Average limits (€millions)	Average price per million
Germany (4)	3	20	11	16,178
Netherlands (4)	3	45	16	6,248
Spain (11)	1	250	37	12,600
France (8)	2	168	50	15,105
Nordic (12)	1	748	71	1,497
UK (34)	7	566	107	6,531
Italy (16)	0.25	1,000	178	3,872
Belguim (1)	*	*	*	*
Sweden (2)	*	*	*	*
Eastern Europe (1)	*	*	*	*

Figure 1

Total revenues (millions)	Minimum limits (€millions)	Maximum limits (€millions)	Average limits (€millions)	Average price per million	Average cost per €1,000 revenue
€0-€200 (53)	0.10	565.69	55.75	2,743.70	2.09
€201-€500 (19)	0.25	750.00	135.22	4,011.90	1.69
€501-€1,000 (7)	6.00	780.00	187.46	13,148.63	3.38
€1,001-€5,000 (13)	2.56	1,000.00	136.22	3,636.77	0.22
€5,001-€10,000 (1)	*	*	*	*	*
10,000+ (3)	18.00	168.00	109.14	15,645.40	0.10

*Numbers in brackets indicate total number of organisations surveyed. *Not enough data for analysis*

Figure 2

Growth of logistics industries

The logistics services industry has grown substantially as global manufacturers in industries such as automotive, IT, and consumer goods have outsourced supply chain activities such as distribution and warehousing to third parties. The rise of manufacturing in China and other Asian nations and the globalisation of trade are other key drivers of growth.

More recently, however, the industry has begun to offer a range of value-added services around treating products. In addition to merely transporting and storing goods, Logistic Service Providers (LSPs) may also assemble goods from components they receive, or place accessories into packages. They are also offering consulting work around complex global supply chain problems.

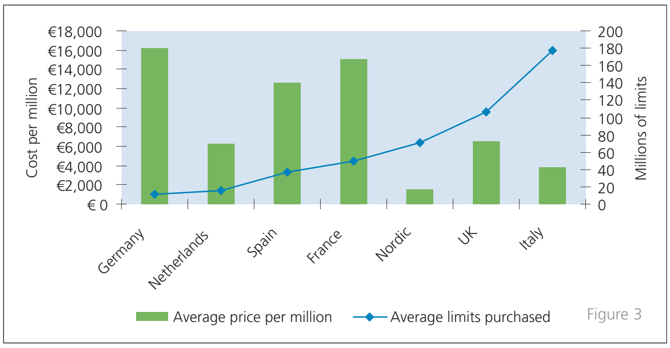


Figure 3

New services, new risks

While such business opportunities have been welcomed, they also change the risk profile of LSPs. In addition to traditional risks – failing to deliver products on time and losing shipments – LSPs must worry about mistakes made in a range of new service areas. LSPs are therefore exposed to greater compensation claims around Errors and Omissions (E&O) if customers suffer from business interruption.

In reality, the majority of such claims typically are settled out of court and do not reach public consciousness. Logistics firms have attempted to limit liability in this area through contract risk management; for example avoiding liability for consequential losses if customers were to suffer from business interruption.

The treatment and assembly of products by LSPs also means that they could be liable for product faults and product recalls. LSPs are advised to review and update their quality control procedures to address these new risks, and ensure that insurers understand and protect against these new exposures. (See also the section on Regulation and Legislation, below.)

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 achieve price reductions on their premiums.

Terrorism and underwriter uncertainty

The threat of terrorism has forced the logistics industry to reconsider issues of security at all points in the supply chain. There is a concern among underwriters and businesses that the industry could be held liable for failing to enforce security in the event of a terrorist act.

For instance the hijacking of petrol tankers and vehicles with hazardous waste have been mooted as possible terrorist actions. Given that transportation systems are targets, security around handling passenger goods for rail and air has been subject to review. Terrorism continues to be a major challenge for the industry, even in a context where high security around the transportation of goods, and the protection of people, have been traditional priorities.

Those businesses that can demonstrate sound risk management around these and related areas of concern, can expect better opportunities for negotiation with underwriters.

Year on year comparison – price per million limits

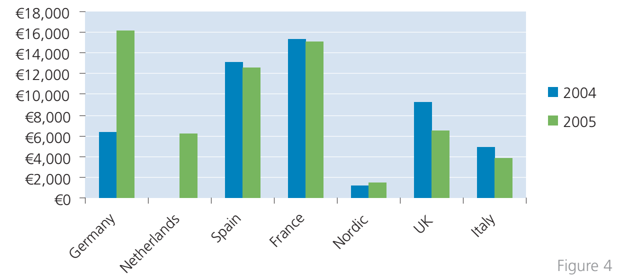


Figure 4

The year on year comparisons in figure 4 and 5 are based on all the transportation and logistics companies that participated in our 2004 and 2005 surveys, 128 and 96 respectively, and should not be viewed as trend data.

Year on year comparison – average limits purchased

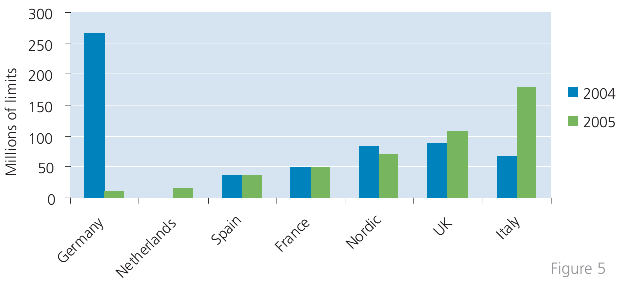


Figure 5

Growth in IT dependency

Another growing concern is the risk of computer and network breakdown, and the growing reliance of LSPs on these technologies.

The industry is increasingly reliant on networks and electronic data to co-ordinate the transportation and storage of goods in the supply chain. Corporate customers can suffer from business interruption if goods cannot be tracked electronically due to IT failure. They can also suffer if they are waiting on deliveries in order to complete orders for their customers.

New technologies such as Radio Frequency Identification tags (RFID) – tiny chips placed on goods to enable their tracking – are being analysed by the insurance industry in this context. While such tags promise efficiency gains, they again increase the industry's dependency on technology, and underwriters need to be convinced the benefits outweigh the associated risks.

New regulation and legislation

Down the ages, businesses have grappled with a basic commercial uncertainty: will consumers buy their goods? Until now, they have not had to worry about collecting their products back. The EU Waste Electrical and Electronic Equipment (WEEE) Directive, now scheduled for full implementation in some European countries in early 2006, makes producers, retailers and importers of electronic goods responsible for the costs of recovering, treating and recycling those goods when they become waste products. The motives behind the Directive are to reduce landfill waste, prevent potentially harmful materials from entering the ground, increase resource efficiency through recycling, and further the trend for eco-friendly product design.

Like most regulation, the WEEE directive imposes a large, general cost on the economy, although the environmental benefits should be worth it. However, those directly affected now face difficulty in budgeting for costs because many variables are subject to uncertainty.

The Directive does not oblige consumers to return goods, but the industries that create them have been forced to consider the operational practicalities of what has been called a 'reverse supply chain'.

To help clients comply with the legislation, LSPs may begin to include the collection of electric and electronic equipment in their service offering. However, new liability exposures are created given that LSPs could be accused of negligence with such activities.

The 3rd Rail Package

The privatisation of the European rail sector will mean that potential litigation is likely to grow, given inter-operator changing relationships and growing competition. However, it is not yet clear how liability regimes will change in Europe for passenger liability outside of the reference to the output from the EU's 3rd Rail Package.

The European Commission is counting on service quality to boost the development of rail freight. The 3rd Rail Package launched in March contains a proposal for a Regulation that would establish minimum mandatory clauses in terms of service quality to be included in transport contracts which might otherwise be declared null and void. Each contract should specify arrival times and outline compensation available in the event of delays, losses or damage to goods, train cancellation by the railway undertaking or the rail freight customer. The Regulation will set thresholds and ceilings for compensation.

There is a major concern that some regulations will be a barrier to entry for some of the smaller operators. This is being discussed at EU level given the 3rd Rail Package suggestions, and specifically the discussions in the EU sub-committee of the Developing European Railway Committee (DERC) on license and insurance undertakings.

The underwriting environment

The specific sector of transportation carries more catastrophic risks that have the potential to acquire a public profile. Risks falling into this category include train crashes and tunnel fires, causing significant injury and damage. While cover for injury has typically been unlimited in most countries due to legal requirements, reinsurers are attempting to withdraw from such a commitment. In the eventuality of such a scenario, transport operators will be forced to buy top-up cover under their excess liability programmes, something they are used to doing for motor third-party damage risk.

The data for the table below, showing market capacity for insurers actively underwriting risk in the transportation and logistics industries were collated in September 2005. Many underwriters impose conditions on writing new business, such as a preference for companies domiciled in their own country, a preferred position in the programme, or on condition of additional lines being placed (such as property) at the same time.

Market capacity and S&P rating – transportation and logistics 2005

Market	Capacity (US$ million)	Rating
AIG	50	AA (S&P)
ACE	US$50m/£35m/€50m	A+ (S&P / AM Best)
Allianz	25	AA-
AWAC	50	A+ (AM Best)
Brit Insurance	15	A+ (strong) Fitch / A (excellent) AM Best
Chubb	25	A++ (AM Best)
DAC	50	AA
GERLING	50	A- (S&P / AM Best)
HDI	75	A-
MARP	50	A (AM Best)
Max Re	25	A- (AM Best)
Newline	15	A
Partner Re	25	AA-
QBE	35	A+
SCOR	25	A-
STARR	150	AA
Swiss Re	100	AA
ST PAUL	10 (primary rail)	A+
XL	100	A+
Zurich	50	A+

Not a comprehensive list

Figure 6

Using risk management to improve insurance buying

Companies that retain a focus on managing risk achieve significant discounts on premiums, and better negotiation on deductibles. In general terms, insurance market pricing operates around three interconnected areas:

- what is the available data, and what does it mean;
- that the claim event was unpredictable, and was not caused deliberately by the insured, and
- economic efficiency.

Good risk management can help organisations provide insurers with greater awareness, not just in terms of data, but around the processes in place and efforts to mitigate risk.

1. Risk Management focus on providing information for insurers

Detailed, quantifiable risk information and loss estimates do impact insurance terms and conditions. Property surveys and business interruption reviews enhance the quality of underwriting information and provide maximum loss estimates to help the underwriter fix capacity and rating levels. They also audit the existing insurance programme, and subject to more detailed analysis can help to create an understanding of an organisation's supply chain risk and single point of failure dependencies.

2. Risk Management activities directed at improving the risk quality

An organisation can demonstrate its commitment to manage major exposures, such as fire protection, business continuity management and employers' liability. Clearly defined plans and procedures provide underwriters with evidence that the organisation is taking risk management seriously. They reduce the maximum loss potential to underwriters by ensuring that properly worked out recovery strategies are in place.

Our case studies demonstrate real benefits achieved by firms in the transportation and logistics industries that understand how risk management can improve their organisation's performance, profitability and growth:

Case studies:

Risk Quantification resulting in costs savings

Marsh was asked to assess a likely Maximum Foreseeable Loss scenario to support a review of a client's insurance programme. Using our risk modelling techniques, mathematical models were created and assessed enabling us to provide meaningful commentary around 'worst case' credible loss potentials from a range of threats. Threats analysed included an onsite accident involving hazardous cargoes, an aircraft impact, and a terrorist act. The results of the study were used to determine acceptable insurance limits for the stakeholders. Consequently an expensive excess reinsurance layer was eliminated, saving the client €600,000.

Risk management review reduces Total Cost of Risk

Marsh used risk management techniques to help a firm address excessive staff turnover and absenteeism. A logistics company with high levels of staff turnover (40%pa) and absence (10%pa) estimated that it was costing them €14million a year. A human capital management review resulted in the identification of weaknesses in the human resource (HR) management framework. Our recommendations led to the implementation of supervisor training, improved reporting and recording procedures, and a redesign of benefits solutions. The improvements in the first year were 25% reduction in staff turnover, and 5% reduction in the absence rate. The total savings experienced by the client in one year were €4.3million.

About Marsh

The Transportation and Logistics Practice within Marsh is the world's leading provider of risk management solutions to the transportation and supply chain industries. Our experts deliver proactive, consultative risk management tools and techniques designed to help anticipate emerging trends and pre-empt potential risks before they become costly problems – or tomorrow's headlines. As well as understanding and mitigating risks, we help clients to better "market" their risks to the underwriting community, helping them with reduced pricing and stronger negotiating power at renewal.

The Practice serves over 1,000 clients worldwide, and has more than 150 specialists operating around Europe and the Middle East who collaborate in real time with another 300 supply chain industry experts worldwide.

The Transportation and Logistics Practice specialises in identifying and solving the risk issues facing the following sectors:

- Supply chain management and delivery services
- Warehousing and distribution
- Freight forwarding
- Post, parcels, couriers and home delivery
- Road haulage
- Fleet, including car hire/lease
- Ports and terminals
- Airport service providers
- Rail

Maintaining a bespoke and high quality insurance regime is fundamental to the continuing operation of companies in these sectors. Marsh broking professionals specialising in designing, negotiating and maintaining innovative insurance programmes assure clients of comprehensive coverage from the best insurance companies at the best possible prices.

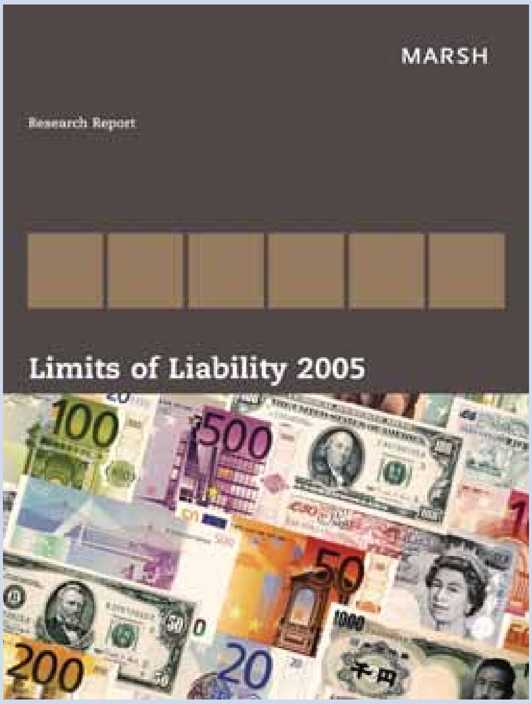
Our practice provides a range of risk consulting services that include:

- Environmental risk management
- Fleet risk management
- Contract due diligence
- Business impact and continuity
- Alternative risk transfer/financing
- Brand and reputation protection
- Behavioural risk improvement
- Health and Safety
- Human Capital risk training

For further information about this report, or about risk and insurance challenges in the transportation and logistics sector, please email practice leader: brian.sullivan@marsh.com

Marsh is the world's leading risk and insurance services firm, and a major brand of MMC, a global professional services firm with annual revenues exceeding $12billion. MMC is also parent to Guy Carpenter, the world's leading risk and reinsurance specialist; Kroll, the world's leading risk consulting company; Putnam Investments, one of the largest investment management companies in the United States; and Mercer, a major global provider of consulting services. More than 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 transportation and logistics industries report, a component of the *Liability Insurance Buyers Report – Europe 2005,* supplements Marsh's *Global Limits of Liability 2005* report. Limits of Liability contains data and analysis of over 300 companies operating in the transportation and logistics services sector around the world.

www.marsh.co.uk/insurancebuyersreport/

MARSH

For further information, please contact your local Marsh office, email us at insurancebuyersreport.europe@marsh.com or visit our web site at www.marsh.com

Marsh & McLennan Companies