

Core Matters

A Mining Industry Update for Marsh's Clients and Colleagues



Market Update—Third Quarter 2006

INTRODUCTION

The insurance marketplace for mining risks continues to shrink in response to industry loss experience. Underwriters are scrambling to define an underwriting formula that works. To their credit, those insurers committed to mining are attempting to define underwriting philosophies and risk engineering standards that will allow them to provide continued capacity. The following provides a snapshot of current market conditions and defines some of the corrective action being implemented by insurers to address the segment's profitability issues.

PROPERTY

As key market renewals approach, conditions appear to be flat for hard-rock mining and worse than previously expected for coal. For mining risks, there are three primary market regions: London, Bermuda, and North America—with Zurich, Munich, Sydney, and Paris also contributing some cautious capacity.

About 20 percent of 2005 coal mining property insurers are now out of underground coal mining. Coal mining property capacity is down by more than 60 percent since January 2000. The remaining market, with the exception of North America, appears to be cutting its capacity for underground coal, on average, by 50 percent. Based on our understanding of current market conditions, completing a \$100 million property program, which includes full limit business interruption, for a longwall mining operation is likely to prove extremely difficult and costly.

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Pure rate on values for continuous mining operations is expected to be up by 10 percent to 20 percent, with business interruption waiting periods at 30 days for surface and 45 days for underground.

However, coal mine longwall operations are facing significant challenges. Coal longwall losses in the United States and Australia have presented underwriters with a “frequency of severity” financial picture that they considered unacceptable. Rate increases of 20 percent to 40 percent can be expected. Coal longwall operations with significant loss activity can expect 40 percent or higher rate increases.

The increased rate is likely to then be applied to higher values declared. Steel prices and short supplies of mining equipment continue to drive up replacement and repair cost. Gross earnings values are also increasing as supply contracts for lower-priced coal expire. In past years, large increases in reportable values were mitigated by decreases in rate as underwriters (encouraged by insurance brokers) sought to moderate premium increases, particularly once they had achieved what they believed to be adequate income for their capacity.

The market mood has now turned desperate and underwriters are demanding substantial rate increases, and also demanding that those increased rates apply to 100 percent of the higher values declared. In addition to rate increases and reduced capacity, underwriters are requiring increased business interruption waiting periods on underground longwall operations. Business

interruption waiting periods in 2005 were relatively consistent at 45 days. Accounts with longwall losses or any negative engineering, or accounts that experience difficult mining conditions are likely to face a minimum BI deductible of 90 days. In real terms, a 90-day waiting period on a large longwall mining operation could mean an increased financial loss to the policyholder, exceeding \$15,000,000.

Property and Casualty Rates

Segment	Typical Rate Change at Renewal (Average / Good Risk Profile)
Property	<p>Coal mining property capacity is down by more than 60 percent since January 2000.</p> <p>The remaining market, with the exception of North America, appears to be cutting its capacity for underground coal, on average, by 50 percent.</p> <p>Pure rate on values for <u>continuous mining operations</u> is expected to be up by 10 percent to 20 percent.</p> <p>Rate increases of 20 percent to 40 percent can be expected for coal longwall operations.</p> <p>Hard-rock mining property capacity is stable, however underwriters continue to be concerned with concentrations of values, business interruption bottlenecks, quality of risk engineering and catastrophe exposures. Rates are believed to be generally flat with increases being driven by individual risk characteristics, particularly losses and catastrophe prone locations.</p> <p>Typical property insurance tends to apply 5 percent rate decrease to 15 percent rate increase, unless there is a catastrophe exposure.</p>
Casualty	<p>For both hard rock and coal, rates and/or premiums are expected to be flat or trend upward slightly with inflation and general concerns over the industry class. West Virginia continues to be problematic, and underwriters are expected to increase deductibles or retentions where there are notable WV operations. Excess casualty underwriters may seek increases in underlying policy limits where WV exposures exist. Losses and adverse changes in risk profile could drive premiums higher than the norm.</p>

Casualty market interest in coal continues to be tight, and there is no indication that coverage terms are improving. Mining limitation endorsements continue to be in wide use, with no consistency as to the scope of the limitations. Workers compensation that includes employers liability is expected to tighten further with deductibles and/or rates increasing. This continued trend is driven by insurer concerns over an aging work force and uncertainties related to silica and noise claims. Coverage availability and the percentage of increases in either deductible or premium will continue to vary greatly based on individual policyholder risk characteristics.

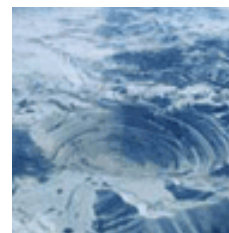
EMERGING UNDERWRITING TRENDS

Property damage deductibles for larger mining operations are also expected to increase modestly for all mining subclasses. However, coal mining operations with a frequency of loss could see substantial increases in property damage deductibles. Policyholder assumption of greater risk in the current market is not likely to generate significantly reduced premium. Specifically related to coal, if the most recent 18-month pattern of underground coal losses continues, a viable

market for underground coal business interruption may cease to exist. While the coal property damage market is stressed and struggling, it is underground business interruption capacity that is at considerable risk and could disappear if loss patterns do not improve.

Policyholders with exclusively surface mining operations are considered by underwriters to have the most favorable risk profiles within the industry class. Accordingly, loss-free surface operators can expect typical property insurance trends to apply—5 percent to 15 percent rate increases, unless there is a catastrophe exposure such as windstorm or earthquake. Rate increases in this subsegment may be mitigated by increases in reportable values.

Hard-rock and industrial minerals mining casualty (commercial general liability, business auto, workers compensation and umbrella/excess liability) continues to struggle in the market but not to the same degree as coal. However, deductibles, casualty rates and/or premiums are expected to trend upward with inflation and general concerns over the industry class.



For more information about the mining insurance marketplace, please contact Ken Sloan at Ken.L.Sloan@marsh.com.

Ken Sloan, ARM, CIC, CRM, is the global practice leader for Marsh's Mining, Metals & Minerals Practice. He has provided risk and insurance management consulting service to mining, metals and minerals companies for more than 20 years. Based in Knoxville, Tennessee, he reports to Marsh's industry practices based in New York.



Colleague Spotlight: Marsh's Global Marine & Energy Mining Resource

James (Jim) Barry has worked in marine lines for the insurance industry for the past 17 years. His career has spanned from underwriting marine lines to brokering marine insurance. His previous experience as both underwriter and broker enables him to anticipate both client and underwriter expectations.

Prior to joining Marsh, Jim's underwriting experience focused on contractor equipment business, including mining equipment. Since then, he has broadened his field of

expertise and types of businesses he works on, but continues to serve clients who have mining and tunneling equipment (schedules that include draglines, TBMs, loaders, dozers, cranes, compressors, etc). His comprehension of mining and tunneling equipment exposures enable him to properly address these exposures from a risk assessment standpoint.

Jim works closely with the Global Marine & Energy Practice—comprised of dedicated marine and energy specialists serving a diverse client base of over 3500 companies. Jim's experience compliments an already impressive practice, which includes particularly his focus on cargo transportation exposures of the mining industry. The cargo specialists within Global Marine & Energy are dedicated to addressing the complex risks for clients involved in the shipment of products and merchandise on a global basis. Their commitment has contributed to establishing

Marsh as the market leader in the placement of cargo risks and innovative approach to structuring cargo programs.

For more information about comprehensive risk programs for cargo exposures, please contact Jim Barry at James.P.Barry@marsh.com.



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