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U.S. Insurance Market Report  
2009



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## U.S. Insurance Market Update Automotive

## Automotive

### Typical Rate Change at Renewal (Average/Good Risk Profile)

| Coverage         | Segment                        | Rate Change Q4 2008  | Rate Change Q1/Q2 2009 |
|------------------|--------------------------------|----------------------|------------------------|
| Property         | Large organizations            | Flat to 10% increase | Flat to 5% increase    |
|                  | Midsize organizations          | Flat to 5% increase  | Flat to 5% increase    |
| Primary Casualty | Midsize to large organizations | Flat to 10% decrease | Flat to 2% increase    |
| Excess Casualty  | Midsize to large organizations | Flat to 10% decrease | Flat to 10% decrease   |

## Automotive: Property Trends and Developments

- Rate and underwriting trends
  - Overall property insurance capacity remains stable
    - European insurers continue to provide large amounts of capacity.
    - Some U.S. insurers continue to review the financial condition of the automotive sector and may decline risks based upon bankruptcy/financial distress.
  - Continuous review of contingent exposures must be completed.
    - Financial/cash flow exposures that were previously business interruption could become new contingent business interruption (CBI) exposures following company restructuring.
    - Insurers are deciding where to maximize their CBI return with capacity on original equipment manufacturers (OEMs) or their suppliers.
- Industry developments
  - Insurers are concerned in the current financial environment of the continued dedication to fire protection and maintenance programs—particularly at idle or vacant facilities in the automotive sector—in order to maintain full replacement cost coverage.
    - Alternatives such as agreed value or market value for such properties can be used in lieu of replacement cost valuation.
  - Insureds are reviewing the true replacement cost in today's economy and reviewing the redundancy of equipment on the open market.



## Automotive: Casualty

### Trends and Developments

- Rate and underwriting trends
  - Rates for casualty insurance are firming.
  - Exposures in the automotive sector have been reduced substantially.
- Industry developments
  - There has been increased government involvement in the industry.
  - Loss trends have held steady.
  - Stricter review of financials has become the norm.

## Automotive: Excess Casualty Trends and Developments

- Rate and underwriting trends
  - Insureds generally experienced decreases in excess casualty insurance rates, with “good” risks seeing renewals from flat to 10% decreases.
  - Insurers are becoming more amenable to considering negotiating terms such as attachment points, treatment of defense costs, and tail or nose cover for discontinued products.
  
- Industry developments
  - Insurers that primarily write automotive business are familiar with the industry’s economic difficulties, which have led to increased bankruptcy filings, consolidation of companies, and other troubles.
  - Insurers are willing to work with clients from a pricing perspective. Although there is not a direct dollar-for-dollar correlation in premium savings to estimated reductions in revenue, some firms are securing double-digit premium reductions.
    - When pricing reductions are available, they may be more aggressive for the lead umbrella and the first excess layer than for the higher excess layers, which can be affected by minimum premium thresholds.



## Automotive: Excess Casualty Trends and Developments

- Industry developments (cont.)
  - Excess capacity for most risks remains plentiful, including some new entrants in the United States, Bermuda, and European insurance marketplaces.
  - Bermuda insurers have begun to re-evaluate their historic conservative stance on pricing due to an increase in competition. Bermuda has the ability to provide large blocks of capacity, which often makes them competitive.

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