

Marketwatch: Terrorism Insurance 2005

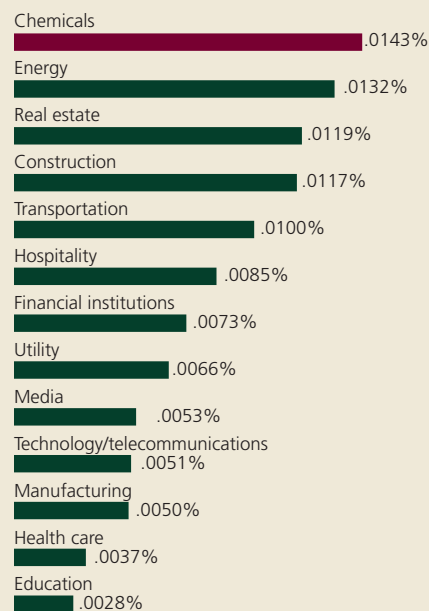
Industry Focus: Chemicals

Terrorism insurance is an important component of a comprehensive risk management strategy that incorporates both loss prevention and risk transfer.

The U.S. chemical industry recognizes terrorism as a serious threat and has been a leader in many areas of terrorism risk management. For example, the industry has implemented extensive security procedures and has adopted standards such as the Responsible Care Program of the American Chemistry Council (ACC). The ACC estimates its members have invested more than \$2 billion in security enhancements since the terrorist attacks of September 11, 2001.

The Department of Homeland Security (DHS) has often praised the chemical industry for its commitment to enhancing the security of the nation's critical infrastructure and leading the way in promoting cooperation and information sharing between the private sector and the DHS. Why then does the chemical industry purchase less property and liability terrorism insurance than nearly any other industry?

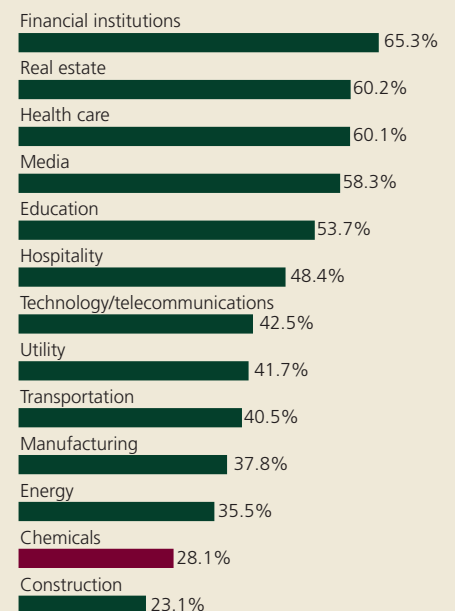
Terrorism Pricing—Median Rates by Industry



Source: Marsh's Property Practice

According to an extensive survey of terrorism insurance buying patterns conducted by Marsh, fewer than 30 percent of U.S. chemical companies bought property terrorism coverage in 2004. This is significantly lower than the overall average for all industries of nearly 50 percent. Only companies in the construction industry were less likely to purchase property terrorism coverage. Equally remarkable, only 32 percent of chemical companies purchased liability terrorism

Terrorism Take-up Rates by Industry



Source: Marsh's Property Practice

coverage during 2004, compared to a national average of 81 percent.

Price is certainly a factor in the decision making behind the chemical industry's low take-up rates of terrorism insurance. Generally, the cost of property terrorism insurance for chemical companies has been higher than for other industries. Consider, for example, terrorism pricing as a percentage of total insured values (TIV), a measure that allows companies to track

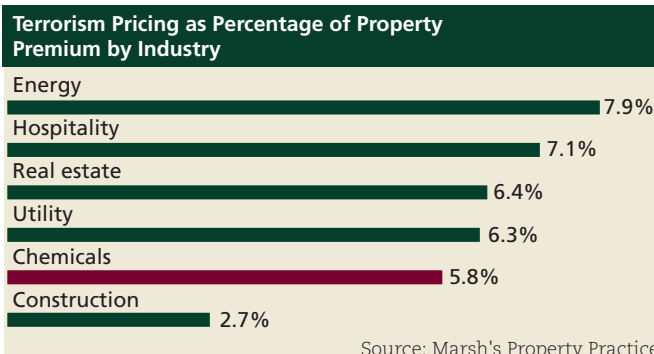
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what they pay in absolute terms. The median property chemical rate is nearly 10 percent above the rate for the energy industry, which is the next highest.

Looking at property terrorism pricing as a percentage of overall property premiums shows how terrorism coverage affects a company's overall property insurance budget. Again, Marsh's survey showed the chemical industry's terrorism cost to be in the top five.

Size also plays a factor in a company's terrorism insurance purchasing decisions. Only 12 percent of the largest chemical companies—those with TIV in excess of \$1 billion—bought property terrorism insurance, compared to 32 percent of those with TIV between \$100 million and \$1 billion and 38 percent of those with TIV under \$100 million. Interestingly, liability terrorism purchasing among chemical companies shows the opposite pattern—liability terrorism insurance is bought by 42 percent of the largest companies, 22 percent of mid-size companies, and 30 percent of the smaller companies.



For chemical companies that did purchase terrorism coverage, the cost was significantly less for larger companies than for smaller companies, both as a percentage of overall property premiums and as a percentage of TIV. Firms with TIV over \$1 billion spent 4.4 percent of their property premiums on terrorism insurance; companies with TIV under \$100 million spent over 6.2 percent of their budget on the coverage.

The combination of expensive terrorism security measures, high terrorism premiums, and tight insurance budgets probably best accounts for what have been low terrorism insurance take-up rates among chemical companies. Marsh is committed to working with chemical companies to educate insurers about the real risks involved in the industry and the security measures in place. Insurers can then make more informed decisions about the pricing of terrorism insurance, which hopefully will result in more competitive terrorism insurance rates and greater insurance protection for chemical companies.

Printed copies of Marketwatch: Terrorism Insurance 2005 can be ordered through Marsh's client executives, Property Practice and Casualty Practice professionals, and other representatives, or by sending a request to questions@marsh.com.

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| Surveyed companies | Take-up rate | Average terrorism rate | As a percent of the property premium |
|---------------------------|--------------|------------------------|--------------------------------------|
| All | 28.1% | 0.0143% | 5.8% |
| TIV > \$1B | 11.8% | 0.0044% | 4.4% |
| TIV between 100M and \$1B | 32.0% | 0.0107% | 5.7% |
| TIV under \$100M | 38.1% | 0.0203% | 6.2% |

Source: Marsh's Property Practice

| Surveyed companies | Take-up rate |
|-----------------------------------|--------------|
| All | 32.3% |
| Total sales > \$1B | 41.7% |
| Total sales between 250M and \$1B | 22.2% |
| Total sales under \$250M | 30.0% |

Source: Marsh's Casualty Practice