

Liability Insurance Buyers Report
Europe 2006



What price risk?

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Liability Insurance Buyers Report Europe 2006

Country/Region	Number of responses	Minimum limits (€)	Maximum limits (€)	Average limits (€)	Average price per million	Average cost per €1000 revenue
Ireland	33	1	100	19	8,288	0.08
UK	491	0.3	570	42	7,107	0.34
NORTHWEST EUROPE	524	0.3	570	40	7,197	0.31
Austria	12	0.8	150	20	5,558	1.33
Belgium	116	1	800	42	11,652	0.63
France	182	0.5	600	40	19,474	0.34
Germany	337	1	1,050	29	16,062	0.80
Netherlands	213	1	340	18	8,355	0.25
Switzerland	62	6	195	46	8,392	0.39
CENTRAL & WESTERN EUROPE	923	0.5	1,050	31	14,278	0.46
Greece	24	0.1	750	34	3,161	0.35
Israel	14	3.8	77	17	5,143	0.97
Italy	471	0.3	1,000	19	17,948	0.61
Portugal	15	1	200	35	6,251	0.19
Spain	254	0.3	600	19	14,128	0.41
Turkey	44	<0.1	159	7	7,131	0.15
SOUTHERN EUROPE	822	<0.1	1,000	19	15,230	0.51
Czech Republic	38	<0.1	225	12	7,574	0.72
Estonia	26	<0.1	41	4	4,396	0.38
Hungary	47	<0.1	50	4	6,831	0.01
Latvia	21	0.1	38	3	3,751	0.22
Lithuania	15	0.1	3	1	7,632	0.07
Poland	36	0.3	13	1	7,650	0.05
Romania	6	0.8	13	4	9,716	0.03
Russia	22	0.3	42	7	14,730	0.05
Slovakia	10	1	20	5	20,415	0.21
Slovenia	7	<0.1	12	2	29,235	0.91
Ukraine	5	0.2	20	5	16,988	0.34
EASTERN EUROPE	233	<0.1	225	5	4,974	0.17
Denmark	64	0.7	769	45	7,694	0.50
Finland	43	1	125	25	8,777	0.16
Norway	29	1	50	7	6,249	0.11
Sweden	91	1	404	25	14,305	0.50
NORDIC	227	0.7	769	29	10,166	0.36
Europe totals	2,729	<0.1	1,050	30	11,342	0.41
United States	2,897	0.8	846	56	11,562	0.38

The table above lists all the participating European and Middle East countries in Marsh's 2006 global liability benchmarking survey, plus summary data for United States.

Figure 1

What price risk?



Buying insurance should be straightforward.

Yet every day, organisations find they lack appropriate cover, either because of insufficient limits, inadequate policy wordings, or because they failed to identify the risk in the first place.

And for every organisation that does not have enough protection, there are others that pay too much for their limits, or are buying too much and wasting money by over-protecting themselves.

Undoubtedly, insurance buying is becoming more complex, reflecting the increased complexity of the environment in which all businesses must operate. Yet year on year, we see many companies still using pricing as the deciding factor on decisions about liability insurance limits: if its cheap, buy more, if its pricey, buy less. This is illogical, given that unplanned incidents that insurers try to help companies survive are increasing, and the costs associated with recovery are rising.

The optimal levels at which organisations should purchase insurance are linked to a range of other factors, including their ability to assess and control risk and make sound decisions about which risks to retain and which risks to transfer. This report is designed to be helpful to companies interested in finding that level. In particular, our benchmarking should assist companies to determine if they are as efficient as their peers, or if closer scrutiny would reward them with greater value for money, and a clearer understanding of the overall cost of risk.

A handwritten signature in black ink, appearing to be 'AM' with a flourish, followed by a period.

Alex Moczarski

CEO, Marsh Europe, Middle East, Africa

Methodology

Marsh surveyed 7,200 companies about their product and general liability insurance programmes, including data on limits purchased, premiums, attachment points, and five-year history of claims of US\$5 million or more. In Europe, we collected data from 2,729 companies. This year's global survey includes data from over 50 countries on six continents.

The data are analysed in two ways. First, we compare the raw numbers of the full survey population through the first quarter of 2006 to last year's survey, providing a broad view of limits purchasing. Second, we examine the purchasing trends for the basket of companies for which we have consecutive years of data. Because the basket is so large, the comparison shows the patterns that emerge when looking at the same group of companies over time.

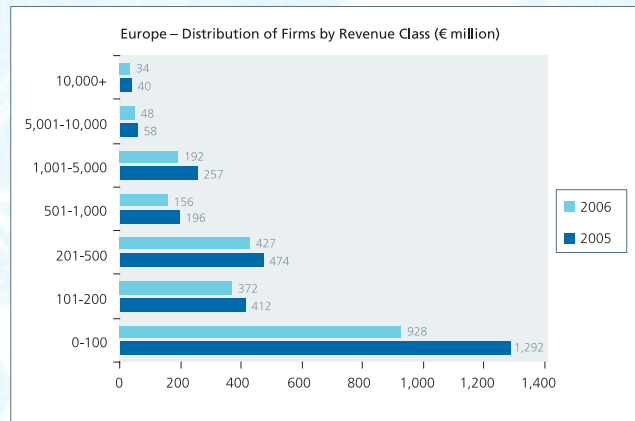


Figure 2

Setting limits in 2006

Following the trend set in recent years, liability rates continue to soften across Europe. However, this decline fails to reflect the ever-changing liability landscape, where numerous risks are on the increase for organisations, and underwriters reduce margins to gain market share.

This European Liability Insurance Buyers Report, the sister publication to Marsh's global Limits of Liability report, explores the different ways that liability is rising for European firms and provides benchmarking data on the limits of liability bought and prices paid.

Our four industry reports go into more detail on the liability exposures for firms in the following sectors:

- Food and beverage
- Chemicals and pharmaceuticals
- Technology and telecommunications
- Transportation and logistics

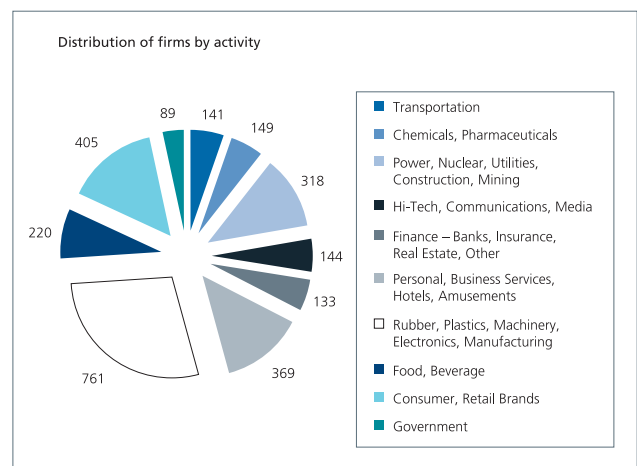


Figure 3

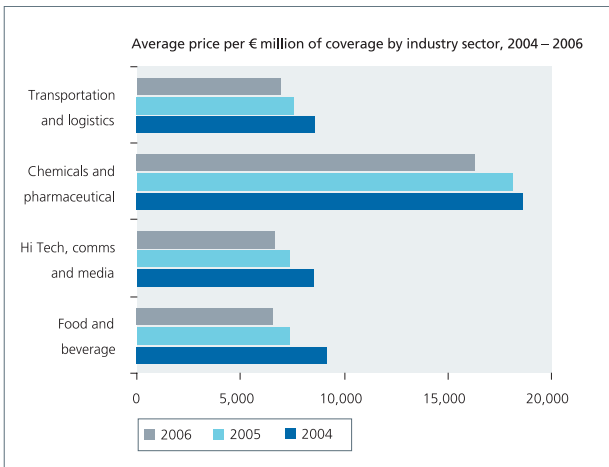


Figure 4

Key findings and analysis

Limits are designed to protect a company against problems that occur infrequently but that can extract a high monetary toll when they do occur: low-frequency/high-severity events. Prudent financial management means not spending money on protection that is not needed. But the opposite is also true – prudence dictates that management not expose their company by buying limits inadequate to protect against a realistic catastrophe loss.

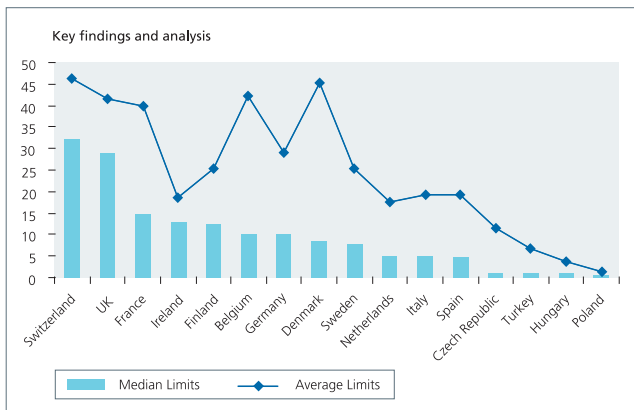


Figure 5

Figure 5 shows median limits purchased against the average for each country where we collected data from more than 30 companies (see full table on inside front cover). This helps us to see the spread of prices paid by companies that we surveyed in these countries. The spread is smallest in Ireland (median €13million, average €18.7million: median X 1.44) and greatest in Czech Republic (median €1.2million, average €11.5: median X 9.59).

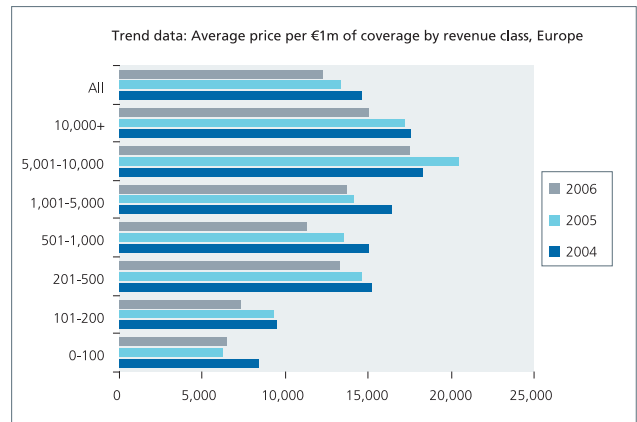


Figure 6

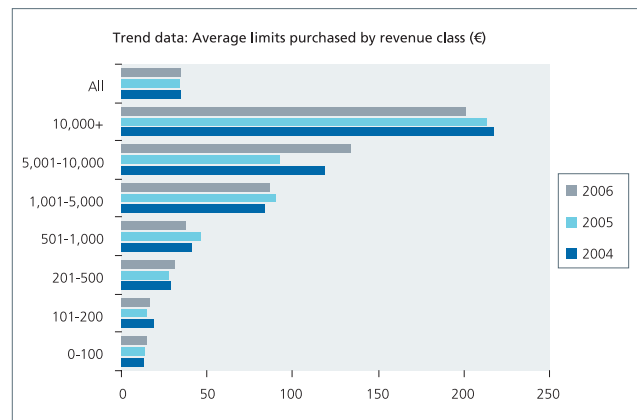


Figure 7

Figures 6 and 7 show yearly changes in limits purchased and prices paid for the same group of companies. This trend data gives us the most accurate reflection of the changing purchasing decision of firms, and the changing rates set by underwriters. It is encouraging to see evidence that many firms are choosing to take advantage of softening rates to increase levels of protection in 2006.

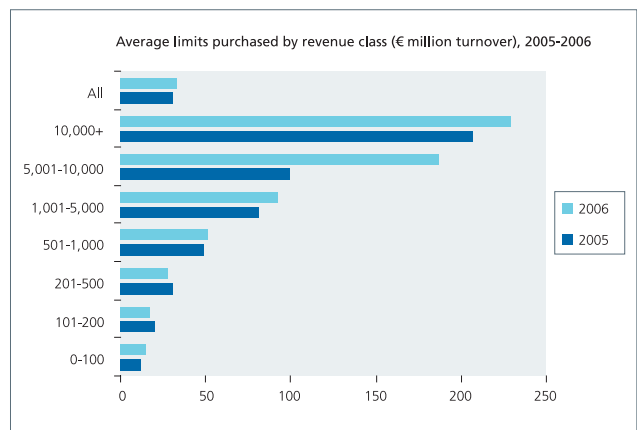


Figure 8

Liability rates continued to soften across all revenue classes for European companies, particularly for some of the largest companies. Marsh's survey found the following in Europe:

- the average limit purchased in 2006 fell to €30 million from €33 million in 2005, with the largest decrease coming for companies with revenues between €5 billion and €10 billion
- prices per €1 million of liability coverage dropped by 16.1 percent in 2006 compared to 2005
- the average cost per €1,000 of revenue dropped 18.8 percent in 2006 from 2005.

When looking at trend data, comparing the same companies over a three-year period, the following emerges from Marsh's survey of European companies:

- the average limits purchased stayed relatively flat – an increase of 2.9 percent – to €35 million from €34 million in 2005
- the average price per €1 million of coverage declined by 8.0 percent
- the average cost per €1,000 of revenue dropped by 4.7 percent.



Figure 9

A word of caution

Many companies still base their liability purchasing decisions on cost. As the market softens, we generally see firms taking the opportunity to increase their protection, as shown above. It remains to be seen if as the market hardens, as it inevitably will, how many companies also reduce their protection to save money, despite any evidence to suggest that the environment for risk is decreasing.

The data in the table below shows the difference in buying styles of companies that have experienced a significant financial loss, against those that have not, during a time of market hardening over a number of years. The companies that have consistently bought the same volume year on year demonstrate that the decisions made regarding their liability insurance cover are based on more than just the price.

Companies that have experienced large losses (greater than US\$5 million) in the past continued in 2006 to purchase higher average limits than companies that did not experience such losses. In fact, in Europe, the average limits purchased by companies with large-loss experience were more than seven times greater than those without (in US it was more than four times). The ratio has grown continually without regard for pricing changes.

Another way to look at the impact of an uninsured large loss is to consider its impact on revenues. The chart below (figure 10) illustrates the amount of additional product/ services a company would have to sell to make up for uninsured losses in order to maintain their target profit margin/net operating income (NOI) rate.

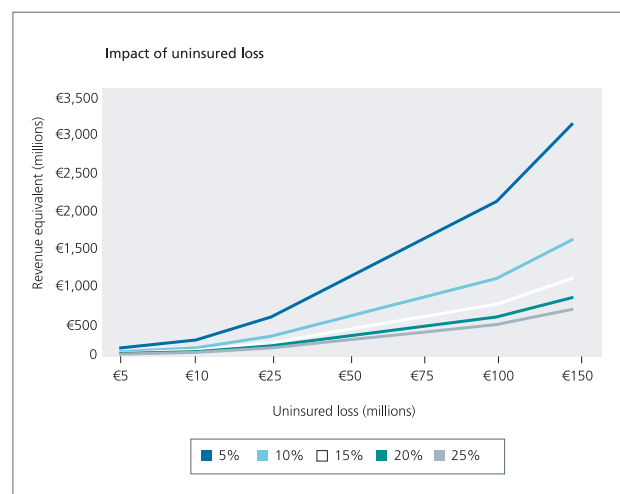


Figure 10

For example, a firm with a margin of 25% experiencing an uninsured loss of €100million, would need to increase sales by €400 million just to maintain targets.

Overview of 2005-06



Overview of 2005-06

The landscape for legal risk in Europe is ever-changing and several trends over the last year are especially noteworthy for European corporate risk managers. These are:

- Product liability and recall
- Class actions in Europe
- Rising professional negligence actions
- The UK grows closer to the US
- US developments are watched with interest

Product liability and recall

Perhaps the most prominent trend over the last year involves product liability and product recalls.

The potential for products to harm public health has probably never been more scrutinised in Europe. Virtually all types of consumer products are now subject to greater debate and regulatory initiatives, with obvious examples including food, chemicals, drugs, mobile phones and other personal technologies, transportation and cars.

The 2004 General Product Safety Directive, now implemented across Europe with the UK being the last to implement in October 2005, raises the bar for product safety by defining safety in more exacting terms.

More specifically, the Directive stipulates that manufacturers and distributors must inform the relevant authorities if they suspect that one of their products endangers public health and safety, and must disclose information on their recall policies. Manufacturers must be able to show that they can trace their products in the supply chain.

“The potential for products to harm public health has probably never been more scrutinised in Europe”

¹Lloyd's List Product Liability International, 23.3.06
²The Grocer, 8.4.06

Since European figures were first compiled in 2004, product recalls have risen dramatically, partly as a result of the above legislation. The weekly number of product recalls notified to the EC increased from an average of six per week in 2004 to 14 per week in 2005.¹

Food continues to be an especially sensitive area. Following a survey of 150 soft drinks on sale in the UK, four were found to exceed the WHO's guideline benzene limits of 10 parts per billion, and were recalled by the respective manufacturers, two of which were supermarket chains.²

In early 2006, Belgium was involved in a major food scare when cancer-causing dioxins were found in a Belgian pork fat ingredient used in animal feed in Belgium and the Netherlands, echoing a major dioxin-related crisis in 1999 when traces were found in chicken. A number of countries, including South Korea, Japan, Taiwan and China banned imports of Belgian pork as a result.

The risk was found to be negligible by the Belgian food authorities because of the low level of contamination involved. However, several thousand pigs were culled and farmers and others affected by the scare are already seeking compensation for damages.

An important sub-trend is that the reasons for recalling food products are becoming broader than just contamination. In the UK in 2005, for instance, 100,000 cans of Tango soft drink were recalled because of fears about the packaging bursting, following several complaints.

Increasingly, companies are taking a 'precautionary' approach: 'better to be safe than sorry'. This is reflected in the tendency to recall products that are said to be 'contaminated' but where levels of contamination fall within recommended health levels.

The greater influence of Chinese and Asian manufacturing may have a bearing on product recalls in Europe.

An estimated 75% of toy products sold in Europe are made in China, for example. Similarly, more and more product components and food ingredients are being exported from China and the Far East and used in Western products.

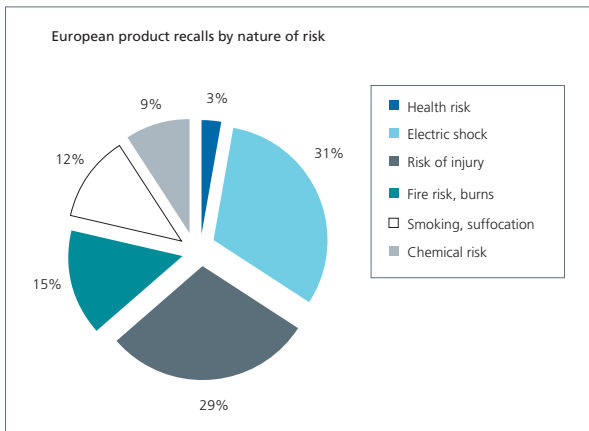


Figure 11 source: Limits of Liability 2006, *Setting Limits in a World of Risk*, Marsh Inc.

While quality can be very good in Asia, regulatory standards around product safety are not as stringent as Europe. As more production takes place in China and Asia, it is perhaps inevitable that more recalls will involve products from those regions. Already in the US, for instance, an estimated 60% of products recalled are made in China.

In situations where component integrity is critical, like in automotive and technology markets, an increase in product counterfeiting is causing headaches for supply chain managers. Good supply chain due diligence is one way to be certain of product integrity and traceability, and help drive down the risk of product recall.

Companies would do well to re-assess how comprehensive their product recall insurance policies are. In certain European countries, cover is only provided for the costs associated with recall but not necessarily the business interruption expenses. A further problem – raised with the Sudan 1 recall – is that product recall insurance typically does not cover products contaminated with banned substances. Companies may discover too late – as in Sudan 1 – that such stand-alone exclusions mean that their cover is worthless. Finally, in many policies the trigger for cover has to be health-related. However, organisations may experience defects with their product packaging or cases where specific harm to health may not be clear.

Class-actions become a greater possibility due to legislation

While new legislation grants rights to stakeholder groups, fuelling litigation, other new law across Europe is making it easier for citizens to pursue class-action or ‘collective’ lawsuits.

In the Netherlands, new legislation was introduced in July 2005 – The Act on Collective Settlement of Mass Claims – that permits class action lawsuits for the first time. Such lawsuits would be European-style collective actions and would differ from US class actions. Dutch courts can only give a ‘declaratory’ judgement over whether a defendant is liable or not, rather than order a particular sum of financial compensation as is the case in the US.

In Germany, a new law took effect in November 2005, the Kapmug, which permits shareholders to file class actions in groups of 10 against companies that have presented false, misleading or incomplete information relating to the capital markets. The legislation follows the long-running securities litigation against Deutsche Telekom.

“Despite legislation, there are still other major barriers to the rise of US-style class action lawsuits in Europe”

In France, a working group set up by president Jacques Chirac submitted a report on collective class actions to the Finance, Trade and Justice ministers in December 2005. A new law is expected by the end of 2006.

Despite such legislation, there are still other major barriers to the rise of US-style class action lawsuits.

Contingency fees are not the norm in Europe, with the cost of bringing a lawsuit reducing the number of people that can join up as a class to pursue a lawsuit. Judges, rather than juries as in the US, typically decide the amount of financial compensation, reducing settlement sums. As a result, for now at least, European class action lawsuits will have a distinctive character and will lack the impact of their US counterparts.

Professional negligence actions continue to rise

The fall-out from the recent spate of US and European corporate governance scandals continues to be felt across Europe, and is perhaps making it easier for plaintiffs to pursue professional negligence claims.

Scandinavian countries in particular over the last year have experienced such claims.

In Norway, professional services firm KPMG was found to be negligent in auditing the books of Finance Credit, a collection agency, and was forced to pay €40m in damages. Earlier this year, Ernst & Young in Norway was also ordered to pay €12.5m in damages to a Norwegian bank for failing to properly audit one of the bank's clients.

Elsewhere, one of Norway's largest law firms was found liable for €13m of damages – a new record with respect to law firms in that country – for their work with a shipping company in 1998. Professional liability claims are also on the increase in Denmark and Sweden.

In the longer-term, professional liability claims will be driven by Europe's further move into a service economy. A higher number of companies and individuals will carry a professional liability exposure and will face possible negligence claims. Traditional professions such as law and medicine will also carry greater exposures because of greater expectations of corporate governance and the greater priority given to customer service.

The UK increasingly mirrors the US

The UK remains apart in Europe as a centre of litigation. The average large UK company has 32 pending litigation matters – only slightly below the US average of 38, according to a 2005 survey by US law firm Fulbright & Jaworski. Two-thirds of UK business faced court actions in 2005, and half expect to see more litigation during 2006. The most common types of litigation faced are workplace, contractual and product liability.

Elsewhere, the UK continues to lead the way for new types of environmental claim and some believe that class actions may become a possibility in these areas in the future.

In the area of noise nuisance, a court case against Alton Towers, a theme park and resort in the UK, may have ramifications for the sport, leisure and entertainment industries in the European region. After a private prosecution brought by two neighbours, Alton Towers management was ordered to reduce its noise to 40 decibels, leading to a reduction on some activities such as its firework displays.

Again in the UK, the Government's Department for Environment, Food and Rural Affairs (Defra) has published new guidance on odour nuisance, specifically from sewage treatment works, and class action lawsuits are expected in this area. For example, Dublin City Council in Ireland is facing a huge compensation bill after a group of householders threatened to seek a High Court injunction to restrain the nuisance of foul smells from a sewage treatment plant, and to sue the council for damages.

US developments continue to be watched with interest

Finally, a number of developments in the US over the last year have caught the eye of European corporate risk managers.

The first is the ongoing litigation associated with the 9/11 attacks. More than 7,000 rescue workers and volunteers have joined in a class action suit, filed in September 2004, claiming that the rescue work caused them to become ill. The allegation is that workers were not given adequate safety gear and inadvertently inhaled asbestos, glass, heavy metals and other toxic materials released by the collapse of the towers.

In another important case relating to terrorism, Hilton Hotels is facing a lawsuit in the US on behalf of victims of the terrorist bombing that occurred in a Hilton Hotel in Taba City, Egypt in 2004. The suit alleges that the hotel was negligent in properly securing the well-being of its guests. An alleged lack of security enabled a suicide bomber to drive into the hotel and explode a bomb.

This is an important case which may mean that organisations caught up in terrorist attacks can be found liable in ways they could not easily anticipate.

The throwing out of a major lawsuit against the alcoholic beverage industry in September 2005 may give the European industry some hope. Major lawsuits are now underway against virtually every major drinks manufacturer in the US, on the grounds that such companies advertise to minors and encourage the young to drink their brands. However, the first four major cases have been rejected by the courts on the grounds that the plaintiffs failed to show that the companies' advertisements harmed their children.

Influence of North American operations

As was expected, companies headquartered in Europe that had operations in North America purchased higher limits, on average, than those that did not have a significant presence there. The more litigious nature of the United States undoubtedly accounts for much of the difference. The Marsh survey for European companies found that:

- those with significant North American operations purchased average limits of €42 million, compared to €21 million for companies without such operations;
- those with North American operations purchased significantly lower limits in 2006, €42 million compared to €57 million in 2005;
- those without North American operations purchased €21 million in average limits in 2006, which was nearly the same as the €20 million average in 2005; and
- both groups paid less per €1 million of coverage in 2006 compared to 2005.

Reducing insurance costs

In a softening market, underwriters are prepared to accept less information from companies seeking to transfer their risk. For the client, lower premiums give the impression that a better deal has been struck, and the focus on risk mitigation and presentation is reduced, even lost. However, even in a soft market, companies that retain a focus on managing

	Operations in North America		No operations in North America	
	Average Limit (€ millions)	Price per million	Average Limit (€ millions)	Price per million
Northwestern Europe	78	8,206	34	4,340
Central & Western Europe	128	19,248	15	8,659
Southern Europe	23	14,044	18	16,138
Eastern Europe	5	9,176	5	9,830
Nordic	43	10,039	8	10,856
European Total	42	11,771	21	10,862

Figure 12

risk not only give them selves a competitive advantage, they also achieve significant discounts on premiums, and better negotiation on deductibles.

Insurance markets operate around three interconnected concepts:

- what do we know? – what data have we got, and what does it mean;
- randomness – the claim event was unpredictable, and was not caused deliberately by the insured, and
- economic efficiency – the cost of the premium is perceived as valuable to the insured and profitable to the insurer.

“In a softening market, underwriters are prepared to accept less information from companies seeking to transfer their risk”

Good risk management can achieve two things that provide insurers with greater awareness about the risks being insured, thus helping to reduce the premium:

1. Risk management to provide quality information for insurers.

Detailed, quantifiable risk information and loss estimates, do influence 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. Plans and procedures for these and other areas gives the underwriter evidence that the organisation is taking risk management seriously. It reduces the maximum loss potential to underwriters by ensuring that properly worked out recovery strategies are in place. It can also provide competitive advantage in the event that other producers are hit by the same loss, and can help to manage losses not covered by traditional insurance in the event of a major business interruption.

Using limits benchmarking

This report’s information about pricing and limits purchasing provides a quantitative benchmark for liability limits decision making. For example, it appears that in general, organisations did not significantly increase their limits this year compared to last, despite a significant drop in price. One of the most notable points made by the data is the apparent willingness of companies that have suffered a large loss in the recent past to buy higher limits than those that have not suffered such a loss. These companies understand that liability purchasing decisions are based on more than just price.

Companies buying lower limits than our benchmark suggests could be using other risk mitigation strategies to minimize the impact of unforeseen events, and may therefore not be so reliant on insurance markets. Or they could be under insured.

Equally, firms that are paying more per million than our benchmark averages, may not be doing enough to demonstrate their efforts to mitigate risk to underwriters. Or they might be paying too much.

The benchmarks presented in this report should be used as a starting point for a discussion about an organisation’s approach to setting and buying limits. The benchmarks themselves should not be taken and applied in isolation, as the risk profile of every business is different.

What to do

Given the limited depth of analysis in this report it is inevitable that many companies will be paying less or more per million than our average, and buying less or more limits than our average. Companies should be able to answer the following two questions with confidence, having evidence to back up the answers:

1. Are you buying the correct amount of liability insurance for your business?
2. Are you paying the best rate possible for your liability insurance?

Unless the answer in both cases is a confident yes, the suggestions below might help to establish the correct risk profile for the business (and so the correct liability exposure), and help negotiate the best price.

There is no simple formula to use in putting all of the information in this report together to come up with the “right” limit for a given company. Instead, it should serve only to help companies make better informed decisions about their own unique circumstances.

Among the lessons to be drawn from the information presented are the following:

- Evaluate and prioritise exposures regularly.

- Examine minor accidents and near misses with an eye toward what could have happened if something else had gone wrong – what was the worst case scenario?
- Do not shrug off exposures that seem unlikely – especially if a peer in your industry, region, or other grouping has experienced a related loss.
- Keep in mind the impact inflation will have on potential awards in court cases that may take five or more years to resolve.
- Keep an eye on developments in the legal arena but do not pin false hopes on them. Do not underestimate the ability of plaintiffs’ attorneys to develop new avenues of attack.
- Remember that although insurance prices tend to move in cycles, loss trends do not.
- It is not prudent to base limits-purchasing decisions solely on price.
- Consider a range of options in structuring your liability limits. It may be wiser to retain more risk in a primary layer and spend the premium savings on purchasing higher excess limits.

Case study

Integrated risk management saves Company €2.2million

A Integrated risk management saves Company €2.2million Following an initial public offering (IPO) a Marsh client in the chemical sector was required to provide evidence of effective corporate governance through developing a framework for managing risk. Marsh ran a series of Board-level workshops to identify the main risks to the business. A risk register was produced and subsequent controls allocated to senior management. The exercise integrated the risk management activity that had previously taken place in silos, and the cumulative effect was to save the company approximately 25% of the totals cost of risk or €2.2million.

Product recall forensics

Having introduced a number of safety improvements to its processes, a manufacturer wanted to demonstrate its improving safety performance to the insurance market to reduce its premium. The project involved identifying underlying indicators of performance relating to employers’ liability (EL) exposures, and assessing the performance of the client’s individual sites so that it could benchmark internally, accurately allocate premium costs and identify appropriate areas for intervention and investment.

This meant the client could identify improving and deteriorating performances, and revise processes as necessary. The improved risk information led to a 33% reduction (£370,000) in the client’s EL premium.

About Marsh

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Our client base is extremely diverse, including small and large businesses, public entities, associations, professional services organisations and private individuals in over 100 countries.

In Europe, our 8,000 dedicated professionals work for more than 60,000 successful European organisations, from the largest manufacturers and service providers, to the newest start up operation. Our specialists are experts in public sector risk, industry specific risk, special insurance lines, such as directors and officers, terrorism and environmental risk, risk modeling and analysis, insurance broking, deal risk and risk consulting.

Marsh has over 100 offices throughout Europe, the Middle East and Africa, and is the prominent brand of Marsh & McLennan Companies (MMC).

MMC is a global professional services firm with annual revenues of approximately \$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 55,000 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 European report supplements Marsh's Global Limits of Liability 2006 report: Setting Limits in a World of Risk, available on request. This report along with other benchmarking reports from Marsh, can be downloaded from:
marsh.co.uk/research

If you are interested in finding out more about liability limits purchasing, email: insurancebuyersreport.europe@marsh.com

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