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MARSH RISK MANAGEMENT RESEARCH
FEBRUARY 2014

MARKET PERSPECTIVE

CANADA
INSURANCE MARKET REPORT 2014

MARSH GUY CARPENTER MERCER OLIVER WYMAN

MARSH & McLENNAN COMPANIES

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FOREWORD

2014 marks Marsh's 100th year in Canada. We opened our first Canadian office in Montreal in 1914, and a century later we have offices in 13 cities from coast to coast. In the past 100 years, we've seen many changes to the Canadian business landscape and economic environment, and more specifically, within the insurance marketplace in Canada.

On the cusp of this milestone, Marsh is pleased to share with you our *Canada Insurance Market Report 2014*. In the following pages, we describe some of the risk trends our local experts have observed emerging over the past year and highlight recent developments with respect to commercial insurance rates.

As always, we thank our colleagues for their efforts on behalf of our clients and for their contributions to this report. We offer it to you with our compliments. And we invite you to contact your Marsh client executive or any other member of your client service team to discuss this report in greater depth. As is the case with all we do, this report is part of our commitment to helping your business thrive.

Alan Garner,
President and CEO
Marsh Canada Limited

EXECUTIVE SUMMARY

Following are some key takeaways from Marsh's *Canada Insurance Market Report 2014*.

MAJOR COVERAGE LINES

Property and Casualty

- In 2013, Canada experienced a level of catastrophic activity never seen before in a single year. With record losses, it was a challenging year for Canadian property and casualty insurers. Despite this, the market appears uncertain as to how to move forward.
- Overall, there continues to be a good level of capital available in the Canadian market, and the market continues to attract new capital. In addition, reinsurance continues to be available and reasonably priced.
- All indications are that a fairly measured response will continue to be seen to events of 2013 as we move into 2014. Overall, the Canadian market will likely remain stable, with average increases in the 5% range. This will not, however, be the case for all segments or exposures.
- If 2013 results are worse than currently projected when reported in mid-2014, we may see a more disciplined underwriting approach in the second half of the year.

Financial and Professional

- Private companies and those with Canadian securities exposure continue to benefit from an abundance of capacity, which results in a highly competitive marketplace and stable premium rates. Companies with deteriorating risk profiles, however, especially those with US securities exposures, may well experience more severe rate increases.
- In the wake of the recent multi-million-dollar settlement with the Ontario Ministry of Environment on the part of the former directors and officers of Northstar Canada, directors and officers are increasingly looking for an effective insurance solution to post-insolvency clean-up cost exposures.

SPECIALTY COVERAGE LINES

Aviation

- ► Losses in the global airline segment are at historic lows, and this combined with excess capacity in the marketplace is continuing the downward pressure on pricing.
- ► For general aviation buyers, which represent the largest sector of the Canadian market, the abundance of domestic capacity, coupled with the aggressive growth plans of some insurers, ensured that the rate reductions trend continued in 2013.

Energy

- ► Capacity and pricing are expected to remain stable in 2014, with some downward pressure on pricing anticipated.
- ► The impact of the southern Alberta floods is causing some insurers to look for increased retentions.
- ► In the wake of the Lac-Mégantic disaster and several other rail accidents in 2013, the energy industry is facing increasing scrutiny with respect to the transport of oil by rail. This trend will continue to emerge in 2014.

Environmental

- ► The environmental insurance market in Canada continues to grow, with more than a dozen players now offering coverage for a variety of risks. As a result, rates have remained generally flat year-over-year for environmental coverage.
- ► Recent regulatory rulings, which have found companies (and their directors and officers) liable for environmental remediation costs, are expected to drive increased demand for environmental coverage. Companies that do not currently purchase dedicated environmental liability insurance are, at a minimum, assessing their exposure and potential coverage gaps.

Marine

- ► The marine insurance marketplace was relatively stable in 2013. Little to no change was seen in marine hull rates, while marine liability and cargo insurance rates fell slightly on average.
- ► Despite continuing marginal results on insurers' hull books, significant rate increases or coverage restrictions are not anticipated in 2014.
- ► On the liability front, fixed-market marine liability insurers are likely to continue to compete aggressively for business, and as a result, there may be opportunities for rate reductions.

Small and Midsize Businesses

- ► Typically, small and midsize enterprises (SMEs) have smaller concentrations of physical assets in a single location, which limits most insurers' reliance on reinsurance for this market segment. This partially insulates the SME market from the pricing swings that result from fluctuating global reinsurance markets and uncertainty due to pending treaty renewals that are driven by larger catastrophic losses.
- ► This effect, combined with the fact that many SME operations do not contain any US or international exposure (which is typically viewed as higher risk), helped keep the market soft in 2013 and likely will do the same for most of 2014.

Trade Credit and Political Risk

- ► The insurance market for trade credit insurance is expected to remain stable in Canada in 2014, due in part to additional capacity provided by new entrants into the marketplace.
- ► The political risk insurance market is also expected to be stable; however, claims activity in the Middle East and Asia could lead to hardening of the market in the near future.
- ► On the trade credit front, underwriters are expected to be better prepared to segregate credit risk portfolios into industry clusters and geographical aggregations in 2014.

Note: For specific insurance market and risk trends by industry, see the "Insurance Markets by Specialty" section of this report.

MAJOR COVERAGE LINES

5 Property and Casualty
7 Financial and Professional Executive Risk

Property and Casualty

INSURANCE MARKET CONDITIONS

Market Commentary

In 2013, Canada experienced a level of catastrophic activity never seen before in a single year. With record losses, it was a challenging year for Canadian property and casualty insurers. Despite this, the market appears uncertain as to how to move forward.

In June and July, there were losses from across the country, with flooding in Calgary and Southern Alberta, severe rain storms in the Greater Toronto area, and the Lac-Mégantic train derailment in Quebec. The Alberta floods will likely be the largest single Canadian catastrophe ever, with insured losses to date exceeding $1.7 billion, while losses from the Toronto storms are expected to top $800 million.

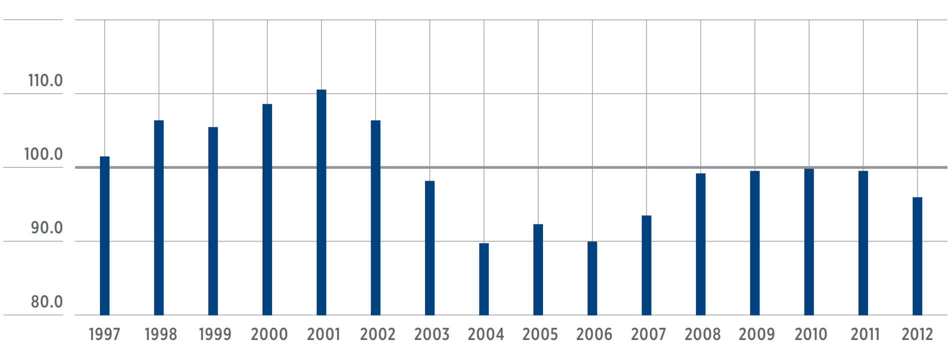
The derailment in Lac-Mégantic resulted not only in property and casualty losses, but also in life, health, auto, and personal lines claims.

Then in December, Ontario and the Maritime provinces were hit with severe ice and winter storms, which left many homes and businesses without power for up to 10 days during the holiday season. And, in Western Canada, an oil refinery explosion on Christmas Eve could result in yet another large loss.

When we look at these events in juxtaposition to a relatively benign year with respect to global catastrophe experience, which saw insured losses of only $40 billion compared to an average of $60 billion, the Canadian insurance market could find itself in a very different position from that of other countries in 2014.

FIGURE 1 | CANADIAN PROPERTY AND CASUALTY INDUSTRY COMBINED RATIO

Source: AM Best Company; ISO and the Insurance Information Institute



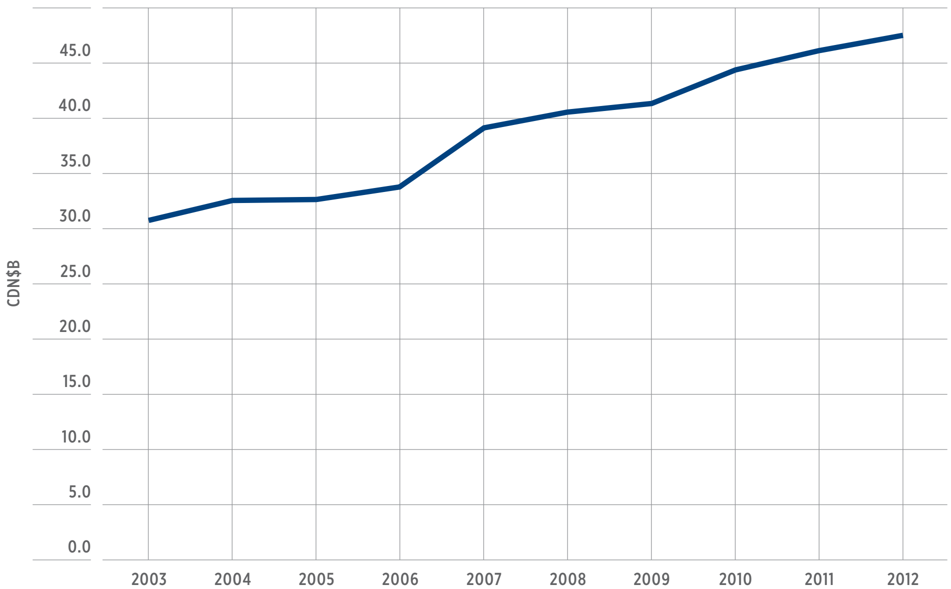
Further exacerbating this situation is the fact that the Canadian insurance marketplace has had very little organic growth over the past few years, and with the recent economic downturn, the losses experienced in 2013 will be a lot for some insurers to absorb in a single year. Despite this, and apart from some movement in specific segments and industries, Marsh saw very little change in the way insurers were responding in the second half of 2013 — nor has there been much movement with respect to rates or increased underwriting discipline.

For insurers, the disastrous experience of 2013 comes on the heels of close to five years in which the marketplace's overall combined ratio has hovered very close to 100% (see **Figure 1**). Some insurers are already indicating that their combined ratios for 2013 will be substantially higher than 2012 — one has said that it will report a loss for the first time in 10 years.

Overall, there continues to be a good level of capital available in the Canadian market, and the market continues to attract new capital. In addition, reinsurance continues to be available and reasonably priced. Like the direct market, the Canadian reinsurance market has also been affected by the catastrophic events of 2013, but since many insurers had increased their own retentions for significant-event-type losses, the impact has not been as significant as in past years. Most insurers seem to be able to renew their treaties in a similar fashion to previous renewals.

There have been some changes for catastrophe risks, but overall most treaties have been competitively priced for the coming year, particularly for global insurers that can benefit from the relatively quiet catastrophe year outside Canada (particularly in the US).

FIGURE 2 | **TOTAL PROPERTY/CASUALTY INSURANCE INDUSTRY**
NET PREMIUM WRITTEN 2003-2012
Source: A.M. Best Company, (based on data from ISO), SNL, MSA Research Inc.



All indications are that a fairly measured response to events of 2013 will continue to be seen as we move into 2014. Overall, the Canadian market will likely remain stable, with average increases in the 5% range. This will not, however, be the case for all segments or exposures.

RISK TRENDS

Increased Competition in General Liability Market

A reasonable level of competition is expected to be seen within the general liability marketplace, which may result in some modest rate reductions for both primary and excess liability placements. This will not be the case for all industry types, and transportation (specifically rail and pipeline operations) will be subject to careful underwriting and could see difficult overall trading conditions.

The market for environmental coverage remains very competitive, as do the aviation and marine markets — so reductions will be available for good accounts.

Government Pressure for Auto Rate Reductions

Auto rates for large fleets will continue to be loss-driven; however, provincial governments (particularly in Ontario) continue to push insurers to reduce rates by up to 15% on personal auto over the next 12 months. As these reductions move through the market, we could see two potential scenarios develop: 1) If underwriting results are acceptable, insurers may be able to absorb the rate reductions within their auto books; or 2) If underwriting results are not acceptable, insurers may have to turn to their property and casualty portfolios to make up the lost premium income (see **Figure 2**). In Canada, auto is the largest product line segment in the insurance market, and as such, it can have a significant influence on other segments — particularly if results are not good and the politicians see an opportunity to get involved.

Property Rates Will Remain Stable

We anticipate that insurers will deal with the poor loss ratios seen in 2013 by managing capacity and capital deployment rather than through wholesale rate increases. With other areas of the world seeing downward pressure on rates, particularly in the US, Canadian insurers are not likely to go too far in the opposite direction.

We could see a reduction in the size of the lines being offered as insurers attempt to manage overall portfolio exposures, particularly for catastrophe-exposed accounts — not only earthquake and windstorm, but also flood risks. The events of the past summer have resulted in a much greater focus on flood mapping. Accounts with properties located in traditional 100-year flood zones will experience greater scrutiny in 2014. They could also face the potential for significant increases in rates and retentions, particularly if insurers choose to apply percentage deductibles to flood exposures. In addition, those organizations that incurred losses in 2013 could be targeted even further as some insurers try to correct previous underwriting approaches.

Refinery Explosion Could Impact Rates

Although it is still too early to determine the full impact of the refinery explosion in late December, the onshore energy insurance segment will be in the red for 2013, and there is some concern that some of the smaller players in this segment may struggle to remain in this class going forward. Regardless, there is real potential for some pricing impact in 2014.

Taking a measured approach to underwriting should allow most insurers to continue to compete for best-in-class risks in 2014, which will leave the overall property marketplace treading water for the first half of the year. If 2013 results are worse than currently projected when reported in mid-2014, a more disciplined underwriting approach may be seen in the second half of the year.

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Financial and Professional Executive Risk

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
DIRECTORS AND OFFICERS (D&O) – US PUBLIC	INCREASE 0% TO 10%
DIRECTORS AND OFFICERS (D&O) – CANADIAN PUBLIC	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O) – PRIVATE	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

The insurance marketplace for D&O insurance has changed very little over the past year. Companies with US securities exposure are seeing moderate premium increases. Private companies and those with Canadian securities exposure continue to benefit from an abundance of capacity, which results in a highly competitive marketplace and stable premium rates. Companies with deteriorating risk profiles, however, especially those with US securities exposures, may well experience more severe rate increases.

In 2014, little change is anticipated in the marketplace for financial and professional executive risk insurance.

RISK TRENDS

Overabundance of Capacity

An excess of capacity for D&O insurance is keeping rates lower than what is justified from a loss perspective. With international insurers continuing to enter the Canadian insurance marketplace, this situation is unlikely to change in 2014.

Pollution Liability

In the wake of the recent multi-million-dollar settlement with the Ontario Ministry of Environment on the part of the former directors and officers of Northstar Canada, directors and officers are increasingly looking for an effective insurance solution to post-insolvency clean-up cost exposures.

Rising Defence Costs

Defence costs are rising on both sides of the border, and as a result, companies need to carefully assess their limit adequacy to ensure they have sufficient coverage. This trend is also spurring insurers to push for increased deductibles.

Sustained soft market conditions have left insurers unable to provide sufficient premium incentives to companies to voluntarily increase their deductibles. This has led to many companies carrying deductibles that fall below their actual risk retention capacity.

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Aviation

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
HULL AND LIABILITY – GENERAL AVIATION	DECREASE 20% TO 25%
HULL AND LIABILITY – AIRLINE	DECREASE 20% TO 25%
AIRCRAFT PRODUCTS LIABILITY – MAJOR MANUFACTURERS	DECREASE 20% TO 25%
AIRCRAFT PRODUCTS LIABILITY – OTHERS	DECREASE 20% TO 25%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Losses in the global airline segment are at historic lows, and this combined with excess capacity in the marketplace is continuing the downward pressure on pricing. For general aviation buyers, which represent the largest sector of the Canadian market, the abundance of domestic capacity, coupled with the aggressive growth plans of some insurers, ensured that the rate reductions trend continued in 2013.

With rating levels at historic lows, pricing within the aviation insurance market is expected to level off in 2014. However, an abundance of capacity, combined with a reasonable loss profile for the industry, is likely to maintain current pricing levels for the next 12 to 18 months.

RISK TRENDS

Safety and Loss Records

Safety management system initiatives, equipment upgrades, and client safety demands are affecting the performance of commercial aviation operators, including airlines and general aviation, not only in Canada but also globally. In Canada, the current low accident rate (except for private, business, and pleasure aircraft) is driving almost historically low rating levels, and such levels may become the long-term norm rather than an anomaly.

Quiet Fire Season

A quiet fire season had a negative impact on helicopter operators, particularly in Western Canada. A number of companies discontinued operations in the second half of 2013.

Consolidation

Consolidation continues in the general aviation sector, with companies now operating fixed and rotary wing fleets in support of resource development.

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Energy

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	STABLE -5% TO +5%
PROPERTY (NON-CATASTROPHE-EXPOSED)	DECREASE 0% TO 10%
PRIMARY CASUALTY	STABLE -5% TO +5%
EXCESS CASUALTY	INCREASE 0% TO 10%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	INCREASE 0% TO 10%
CRIME	INCREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Capacity and pricing are expected to remain stable in 2014, with some downward pressure on pricing anticipated. The impact of the southern Alberta floods is causing some insurers to look for increased retentions. Contingent business interruption insurance is becoming increasingly important for energy companies, as is environmental coverage in light of loss issues and public and media attention. Cyber risk protection is also increasing in importance.

RISK TRENDS

Alberta Floods

Following the floods in southern Alberta in mid-2013, energy companies are facing increasing pressure from insurers to increase retentions.

Oil by Rail

The industry is facing increasing scrutiny with respect to the transport of oil by rail. This trend will continue to emerge in 2014.

Contingent Business Interruption

Energy companies are facing restrictions on coverage and limits related to contingent business interruption. In addition, there is reduced capacity for this type of cover for energy companies.

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Environmental

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
POLLUTION LIABILITY	STABLE -5% TO +5%
CONTRACTOR POLLUTION LIABILITY	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

The environmental insurance market in Canada continues to grow, with more than a dozen players now offering coverage for a variety of risks. As a result, rates have remained generally flat year-over-year for environmental coverage.

In 2014, even more insurers are expected to enter the environmental insurance marketplace in Canada; however, their appetites for risk will continue to vary. Recent regulatory rulings, which have found companies (and their directors and officers) liable for environmental remediation costs, are expected to drive increased demand for environmental coverage. Companies that do not currently purchase dedicated environmental liability insurance are, at a minimum, assessing their exposure and potential coverage gaps. Those with higher potential risk and/or lower risk tolerance will likely begin purchasing this coverage in 2014.

Demand for contractors' pollution liability coverage for medium/large construction projects is expected to continue to grow, particularly in those instances where the government is involved.

RISK TRENDS

Clean-up Standard Changes

Changes in clean-up standards across the country will result in an increase in the number of environmental insurance claims, which may make it more difficult to obtain this coverage moving forward.

Urban/Suburban Infill

Shifting development patterns towards urban/suburban infill — the use of vacant property within a built-up area for further construction or development — will result in increased potential for environmental risk for developers.

Creative and Aggressive Regulators

Environmental regulators are becoming more creative and aggressive in their efforts to find parties to pay pollution remediation costs. In particular, they are willing to go after individual directors and officers for these costs if the company itself is in bankruptcy or otherwise unable to pay. This trend may impact the availability of certain types of insurance including environmental and D&O.

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Marine

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
MARINE HULL	STABLE -5% TO +5%
MARINE LIABILITY	DECREASE 0% TO 10%
CARGO – OCEAN AND INLAND	DECREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

From a pricing perspective, the marine insurance marketplace was relatively stable in 2013. Little to no change was seen in marine hull rates, while marine liability and cargo insurance rates fell slightly on average. Insurers continue to build their capacity so they can offer higher limits across all lines, while imposing property-style sublimits and aggregation calculations on the stock exposure covered under cargo programs. With larger retention cargo and stock programs (deductibles in excess of $25,000), insurers are more commonly looking to have deductibles apply to both total and partial loss, rather than waiving the deductible for total losses, as has been traditionally done on these placements.

Looking ahead, despite continuing marginal results on insurers' hull books, significant rate increases or coverage restrictions are not anticipated in 2014. On the liability front, although the protection and indemnity (P&I) clubs have indicated that they will be seeking general increases of between 2.5% and 12.5%, fixed-market marine liability insurers are likely to continue to compete aggressively for business, and as a result, there may be opportunities to negotiate. Similarly, cargo and inland marine risks are attracting new entrants into the insurance marketplace looking to build books of business, which could create competitive opportunities.

RISK TRENDS

Fixed Market P&I

With competition in the fixed-market liability space and P&I clubs seeking general increases, interest in fixed-market options will continue to grow.

Increased Cargo Capacity

Despite deteriorating cargo loss ratios, capacity for cargo and inland transit risks is growing, as is capacity for stock throughput programs, particularly where the property markets are pushing for rate increases or accumulation limitations.

Insurers with global capability are leveraging client relationships to capture cargo lines, leaving local insurers focused on competing for local programs. However, given the aggressive global marketplace, watch for countries to continue to introduce or expand protectionist, tax and licensing policies to reduce premium leakage to unlicensed markets.

Increased Catastrophe Exposure Awareness

Cargo insurers writing high limits with broad storage terms are questioning accumulation risk in catastrophe zones in order to address potential reinsurance issues. Although there are benefits to streamlining transit coverage through the supply chain, including warehousing and distribution risks, expect some insurers to start treating named and unnamed storage locations more like property risks, with scheduled values, COPE (construction, occupancy, protection, exposure) information requirements, and catastrophe sublimits and deductibles.

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Small and Midsize Businesses

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Typically, small and midsize enterprises (SMEs) have smaller concentrations of physical assets in a single location, which limits most insurers' reliance on reinsurance for this market segment. This partially insulates the SME market from the pricing swings that result from fluctuating global reinsurance markets and uncertainty due to pending treaty renewals that are driven by larger catastrophic losses.

This effect, combined with the fact that many SME operations do not contain any US or international exposure (which is typically viewed as higher risk), helped keep the market soft in 2013 and likely will do the same for most of 2014. Coverage for water damage, however, will be changing in 2014 in many ways: reduced capacity, wording restrictions, increased deductibles, and higher rates for flood risk are expected, following the floods in Southern Alberta and the storms in Ontario in the summer of 2013.

RISK TRENDS

D&O Liability

Challenging macroeconomic conditions are putting pressure on SMEs' financial stability, which is increasing interest in D&O coverage for private companies to mitigate potential insolvency. Interest in private company D&O is also increasing, due in part to the inclusion of employment practices liability extensions that can help insulate companies from defence costs, settlements and/or judgments against them for "wrongful dismissal," or discrimination allegations that may arise out of actions, such as downsizing and layoffs.

Contractor and Consultants Liability

An increase in requests for professional liability insurance is being seen from small firms providing services as contractors and/or consultants for large professional service firms. This trend appears to be due to a desire of larger firms to outsource rather than hire full-time staff for project-based work.

Slip and Fall Coverage

Increasingly it seems that slip and fall events are resulting in litigation, which in turn is leading to an increase in reported losses under commercial general liability policies across a number of industries.

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Trade Credit and Political Risk

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
TRADE CREDIT	DECREASE 0% TO 10%
POLITICAL RISK	DECREASE 0% TO 10%
TERRORISM/POLITICAL VIOLENCE	INCREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

The insurance market for trade credit insurance is expected to remain stable in Canada in 2014, due in part to additional capacity provided by new entrants into the marketplace. The political risk insurance market is also expected to be stable; however, claims activity in the Middle East and Asia could lead to market hardening in the near future. The market for terrorism/political violence insurance will also continue to be stable. The potential non-renewal of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) in December 2014 poses a systemic risk for providers of standalone terrorism insurance coverage to businesses with US exposures.

On the trade credit front, underwriters are expected to be better prepared to segregate credit risk portfolios into industry clusters and geographical aggregations in 2014.

Canadian insurers are beginning to offer property insurance programs with terrorism/political violence coverage included. Limits of up to $50 million can be accessed through primary property insurers, while limits above that level are typically provided by specialized underwriters with segregated risk portfolios.

RISK TRENDS

Leveraged Governments

The potential default of sovereign nations is putting significant pressure on political risk and trade credit insurance portfolios.

Global Social Unrest

Companies are increasingly looking for political violence coverage, including strikes, riots, and civil commotion perils.

Exposed Supply Chains

Suppliers in countries and cities in which a convergence of natural catastrophes and credit/political risks exist are being further scrutinized for reliability under stress and contingency plans.

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29 Transportation

Communications, Media, and Technology

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PRIMARY CASUALTY	INCREASE 0% TO 10%
EXCESS CASUALTY	STABLE -5% TO +5%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	INCREASE 0% TO 10%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

There is significant overcapacity in the casualty insurance marketplace for companies in the communications, media, and technology industries, driven in part by new entrants that are creating coverage and premium competition. As a result, little change in coverage, retentions, rates, or premiums is anticipated in 2014. However, renewing with an incumbent insurer may lead to higher premiums than if the program were marketed to several insurers.

Underwriters are paying more attention to water damage, sewer backup, and flood exposures, given recent losses in Canada. Some insurers are implementing higher deductibles or site-specific rate increases where they perceive the exposure warrants it.

RISK TRENDS

Cyber Risk Coverage

Although Canada still lags the US marketplace, there has been a large increase in activity with many communications, media, and technology organizations obtaining proposals and binding coverage for cyber risk coverage. Of particular interest is cloud computing and contingent business interruption coverage for potential cloud service interruption.

Mergers and Acquisitions (M&A)

Continued M&A activity is shrinking the communications, media, and technology marketplace in Canada. Canadian and foreign-owned businesses are purchasing Canadian communications, media, and technology companies. The net effect is fewer large communications, media, and technology businesses in Canada and reduced overall premium in the marketplace.

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Financial Institutions

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	STABLE -5% TO +5%
PRIMARY CASUALTY	INCREASE 0% TO 10%
EXCESS CASUALTY	INCREASE 0% TO 10%
DIRECTORS AND OFFICERS (D&O)	DECREASE 0% TO 10%
ERRORS AND OMISSIONS (E&O)	INCREASE 0% TO 10%
CRIME	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Competition in the insurance marketplace throughout 2013 was robust for financial institutions with improved risk profiles and good loss experience. The upward pressure on rates seen in the first half of the year began to weaken and stabilize in the latter half of the year. Successful renewals were a reflection of thorough preparation, active participation by senior management in renewal underwriting meetings, and strong differentiation of positive risk profiles.

In 2013, headlines continued to dominate discussions with underwriters, including:

- Regulatory change: Enforcement of tougher regulations and tighter consumer protection laws are top of mind for financial institutions underwriters. The US Securities and Exchange Commission's new approach to settlement negotiations, requiring admissions of wrongdoing, is a game changer, but so too are the growing number of whistle-blower reports and awards. Both have the potential to impair an institution's image and brand, and this may lead to a significant spike in follow-on civil litigation.
- Internal controls: Internal failures have proven to be as dangerous as external threats for financial institutions. Index rigging, money laundering, and other illegal transactions in the news highlight the possibility for internal control weaknesses that can cause significant financial loss and serious reputational issues. A controlled environment with robust policies, processes, and systems should be highlighted during underwriting meetings.

- Cyber attacks/privacy: High-profile spying, data breaches, and evolving consumer protection laws have put the spotlight on privacy obligations; however, denial-of-service attacks are growing at an alarming pace. In situations where the motive for the attack is not simply theft of data but destruction of data, internet protocol, and trade secrets, the financial loss to the organization can be far more catastrophic. Interest in cyber/privacy insurance products is expected to continue to gain momentum with financial institutions throughout 2014. Continued introduction of coverage enhancements to address the myriad of evolving first- and third-party risks is also anticipated.

RISK TRENDS

Financial institutions are focused on improving their risk governance frameworks, and to that end, insightful discussions around each institution's positive risk attributes has assisted in differentiating the institution's risk profile from that of its peers. Some of the emerging trends are summarized below:

Stress Testing

Although the impetus for enterprise-wide stress testing was a regulatory requirement around capital adequacy, institutions are now employing stress testing to meet broader risk management and business objectives. Some financial institutions have taken it a step further with reverse stress testing to identify particular scenarios that can lead to particular adverse outcomes. Underwriters continue to be keenly interested in the scenario parameters and the impact on the organization.

Risk Culture

Recent criminal investigations into index rigging, money laundering, and other illegal transactions have revealed certain risk culture weaknesses. Underwriters will want to gauge how well employees understand the institution's risk appetite, the formal escalation process for whistle-blowers, and the level of engagement and adherence to compliance, internal controls, policies, and procedures. Differentiation of positive risk attributes will help institutions distance themselves from the "culture of complicity" misnomer that has resonated in the media. Some of the largest financial institutions have undertaken risk culture audits, and from a risk management and insurance underwriting standpoint, this is a positive risk attribute that should be highlighted in underwriting meetings.

Board Composition

Regulators and governments are imposing more responsibilities on boards of directors, and shareholder activism has drawn attention to stagnant boards. Competency of board membership is paramount to the business, which was never more apparent than during the financial crisis. In order to balance the needs of the business and respond to the demands of various stakeholders, corporations are competing for boardroom talent. From financial and business acumen to diversity, board composition is an emerging trend for financial institutions. Highlighting the background, experience, and effectiveness of the board, with particular focus on the risk and audit committees, is another way to differentiate the positive risk attributes of an institution.

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Forestry

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	DECREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	DECREASE 0% TO 10%
PRIMARY CASUALTY	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%
ENVIRONMENTAL	DECREASE 0% TO 10%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Overall, property insurance rates for the forestry sector are expected to continue to fall from the recent high levels experienced for sawmill companies. Other types of businesses within the forestry industry are expected to experience modest price increases. There will likely be rate increases for other lines of cover as well in 2014. Deductibles are also expected to continue to increase.

After a complete withdrawal by domestic insurers from primary sawmill business in 2011-2012, some return of capacity from Canadian insurers has become apparent. However, the majority of Canadian sawmill insurance business is still written by European insurers.

RISK TRENDS

Coverage Costs

Continued higher rates for property insurance coverage will cause continued cost pressures for forestry companies.

Available Domestic Property Capacity

There is limited to no capacity for property insurance from domestic insurers. Most capacity will continue to be provided by the London market.

Increased Retentions

Insurers' loss experience should continue to improve as more losses fall within self-insured retentions.

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Health Care and Life Sciences

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 10% TO 20%
PROPERTY (NON-CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PRIMARY CASUALTY	INCREASE 0% TO 10%
EXCESS CASUALTY	INCREASE 0% TO 10%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	INCREASE 0% TO 10%
ERRORS AND OMISSIONS (E&O)	INCREASE 0% TO 10%
CRIME	INCREASE 0% TO 10%
MEDICAL MALPRACTICE	INCREASE 0% TO 10%
PRODUCT LIABILITY	STABLE -5% TO +5%
CLINICAL TRIAL LIABILITY	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

In the absence of any further serious natural catastrophes in Canada or the US, property rates and capacity for health care and life sciences risks should remain stable in 2014, as rate increases and capacity reductions have already been factored into the market. In the most exposed areas, however, insurers are reducing capacity, which forces greater use of reinsurance, which ultimately increases costs. Deductibles are also much higher in these exposed areas and some insurers are applying deductibles on a per location basis rather than per occurrence basis.

Hospitals and the senior care sector are expected to continue to see liability rates rise due to increased claims costs. In the hospital sector, compromised birth claims — both old and new — have been trending unfavourably for the past number of years.

Rates and capacity for product liability and clinical trial risks should remain relatively stable, provided generic pharmaceutical companies continue to be legally protected. If this situation should change as a result of lawsuits currently under way, the life sciences sector would see a significant shift in underwriting philosophy, rates, and available capacity.

RISK TRENDS

Funding Shortfalls

Hospitals are under increasing pressure from the government to balance their operating budgets. This pressure, combined with funding shortfalls, has increased scrutiny of all controllable expenses, including risk management.

Antibiotic-resistant Infections

Instances of hospital-borne infections that are resistant to treatment with antibiotics are on the rise across Canada and the US.

Capital to Fund Clinical Research

Life sciences companies continue to have difficulty raising the necessary capital to fund clinical research.

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Manufacturing

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 10% TO 20%
PROPERTY (NON-CATASTROPHE-EXPOSED)	STABLE -5% TO +5%
PRIMARY CASUALTY	DECREASE 0% TO 10%
EXCESS CASUALTY	STABLE -5% TO +5%
ENVIRONMENTAL	DECREASE 0% TO 10%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	DECREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Manufacturers are likely to see generally flat property insurance rate trends continue in 2014. But a reduction in the amount of capacity for property insurance in the manufacturing sector is expected, along with increasing deductibles. Property insurance rates for catastrophe-exposed areas will likely continue to trend upward; however, incumbent carriers want to keep good risks on their books and may offer more favourable rates to retain these risks.

RISK TRENDS

Strong Canadian Dollar

The continuing strong performance of the Canadian dollar is a risk for some exporters. Canadian exporters have been resilient, taking measures at all levels to adapt to a strong dollar and to remain competitive.

Attracting and Retaining Labour

A looming shortage of skilled workers presents a significant risk for Canadian manufacturers. Overcoming the skills gap and attracting and retaining talent are key priorities for manufacturing companies.

Global Economic Conditions

Canada continues to struggle to regain momentum within the manufacturing industry following the global economic slowdown. The main factor negatively affecting competitiveness is the rise of the Canadian dollar.

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Mining

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	DECREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	DECREASE 0% TO 10%
PRIMARY CASUALTY	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Insurers focused on the top line continue to be attracted to the mining industry as premium rates are much higher than most other industries. The average rate decrease in 2013 was around 3%, and there is no reason not to expect this trend to continue. However, the emphasis on engineering has not abated, and insurers continue to expect companies to invest in loss control, regardless of their size.

The majority of clients saw their casualty programs renewed on a flat premium basis in 2013, and this is not expected to change in 2014. The London market continues to like non-US risks and is able to offer pollution extensions, which some domestic insurers are unable to do. The market is watching closely for any reaction to a tailing dam break at a coal facility in northern Alberta this year.

The mining industry is in the early stages of a reclamation bond comeback for investment-grade companies in Canada and the US. Provinces such as Quebec have agreed to accept a surety bond for the first time in recent memory. Mining companies should be aware that there is an alternative to posting letters of credit, which has not been available to them since the Enron collapse in the early 2000s.

RISK TRENDS

Open Pit Coverage

After a catastrophic pit wall collapse in Utah (Rio Tinto), greater scrutiny is expected around coverage and geotechnical information about open pits.

Falling Commodity Prices

Some companies are facing costs that exceed revenue due to a drop in commodity prices, such as gold. A resulting increase in mergers and acquisitions is anticipated, as some companies will not be able to continue on their own.

Delayed Projects

The fall in commodity prices, coupled with cost overruns and complex geopolitical environments, is making it difficult for companies to source project financing. Projects are being cancelled or delayed, reducing demand for construction insurance. Insurers will be very keen to participate when opportunities arise.

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Power and Utilities

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PRIMARY CASUALTY	INCREASE 0% TO 10%
EXCESS CASUALTY	INCREASE 0% TO 10%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%
ERRORS	INCREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

The market continued to see modest upward pressure on property and casualty rates in 2013. Underwriters required enhanced underwriting detail for issues, including dam construction and safety, management of pollution liability exposures, and planning for crisis management and recovery.

Overall, the insurance market for power and utilities risks is expected to remain relatively stable in 2014, given the abundance of capacity. Underwriters will select and renew risks with increasing care, however, as climate change, natural catastrophe perils, and aging infrastructure impact underwriting results.

RISK TRENDS

Aging Infrastructure

Obsolescence and aging of generation assets continues to be a risk for the power and utilities industry. Greater scrutiny of technical/engineering details will continue to be a must. The broad question of asset valuations and advance claim settlement provisions arises as older assets approach the end of their usefulness and may not be replaced if lost.

Brownfield Developments

The preponderance of brownfield developments and refurbishments immediately adjacent to operational assets will require bespoke coverage adjustments and innovation to ensure certainty of coverage and avoid claims disputes.

Catastrophe and Climate Change

More impactful natural catastrophe perils and climate change will significantly affect the power and utilities industry in Canada. As insurance losses continue to mount, upward pressure on retentions and reduced capacity for regions where these issues arise is anticipated.

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Public Entities and Education

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%
AUTO	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Insurers are looking closely at Canadian catastrophe risks, especially in British Columbia and flood zones. Aggregation is limiting capacity in catastrophe-exposed areas, but competitive rates and terms are still available.

Casualty loss experience, especially in the municipal space, has resulted in reduced capacity, which is beginning to drive up both premiums and retention levels.

The London market is aggressively pricing Canadian primary versus excess positions, and we continue to see new insurers entering the Canadian casualty insurance market.

In addition, we are seeing a new trend to broaden the availability of cyber risk cover as an addition to general liability policies, which is helping to reduce the cost of coverage. Obtaining abuse liability coverage continues to be a challenge in the public entity and education space. The London markets will only consider writing this cover on a claims-made basis; however, domestic insurers will still consider it on an occurrence basis following underwriting of the institution's protocols.

RISK TRENDS

Cyber Risk

Data security and privacy breaches are vulnerable areas as public entities and education institutions develop ever-greater network dependency and resulting risks related to intellectual property, health care regulations, identity theft, and other first- and third-party risks.

Abuse Liability

An allegation of harassment or abuse can do significant damage to an educational institution's reputation. In the insurance marketplace, abuse liability protocols are being underwritten to obtain meaningful limits of liability.

Aging Infrastructure

Government funding to public entities is limited, and funds may not be available for improvements or expansion.

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Rail

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PRIMARY CASUALTY	INCREASE 0% TO 10%
EXCESS CASUALTY	INCREASE 0% TO 10%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Despite several high-profile rail incidents, most notably the Lac-Mégantic disaster, property and casualty rates have remained fairly stable for Canada's rail industry, as have insurers' capacity for these risks. The principal driver of rate stability in the rail industry is that only a small amount of the industry's total aggregate loss value of approximately $700 million is insured. Moving forward, rail carriers are expected to be looking carefully at their aggregate limits, particularly for liability exposures.

Insurers have seen significant flood losses globally over the past few years and more recently in Southern Alberta this past summer. As a result, underwriters continue to focus on flood exposures for property risks, with a renewed focus on retentions and tighter coverage terms.

RISK TRENDS

Increase in Crude Oil Shipments

The volume of crude oil shipped by rail has increased significantly. Transport Canada recently announced that it has launched a study to analyze the risks linked with transporting hazardous goods across North America amid growing concern about the safety of moving potentially explosive crude oil by rail.

Increasing Scrutiny of Dangerous Goods Transport

In the wake of the Lac-Mégantic disaster, regulators are increasing scrutiny of dangerous goods transported by rail. Transport Canada recently implemented new regulations that require railway companies that transport dangerous goods to provide municipalities with detailed information about the materials being shipped in their jurisdictions.

Flood Exposure

Flood risk for Canadian rail companies continues to be a concern for underwriters. Many of the nation's rail lines run through known flood zones and this combined with recent events is driving renewed focus on flood exposure for rail companies.

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Real Estate

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 10% TO 20%
PROPERTY (NON-CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PRIMARY CASUALTY	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%
ENVIRONMENTAL	INCREASE 0% TO 10%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%
TERRORISM	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Following the flood losses in Canada in mid-2013, insurers are taking a more conservative approach toward flood exposure. This includes higher rate surcharges, increased deductibles (including percentage deductibles), and more stringent loss control requirements, such as flood emergency response plans.

In 2014, the real estate insurance market is expected to see occasional premium reductions on accounts with good loss experiences and minimal natural catastrophe exposure, due to a continued abundance of capital. Real estate companies should anticipate flat renewals for most lines of coverage. Companies with insurance policies renewing in the first half of the year may experience the impact of the trend toward conservative flood underwriting that began in late 2013.

RISK TRENDS

Climate Change

As large natural catastrophe losses occur more frequently, insurers will continue to price this increased frequency into insurance programs, resulting in higher premiums, reduced coverage, or both.

Non-renewal of TRIPRA

If the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) is not renewed in the US at the end of 2014, there could be an expected run on the standalone terrorism insurance marketplace, resulting in a lack of capacity for existing buyers, as insurers are "tapped-out" in dense downtown commercial business districts.

Cyber Risk

Increased losses resulting from cyber and privacy breaches, along with growing global government regulation, is expected to result in an influx of buyers into the cyber insurance market.

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Retail/Wholesale

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
PROPERTY (CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PROPERTY (NON-CATASTROPHE-EXPOSED)	INCREASE 0% TO 10%
PRIMARY CASUALTY	INCREASE 0% TO 10%
EXCESS CASUALTY	INCREASE 0% TO 10%
ENVIRONMENTAL	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good profiles.

Market Commentary

Recent catastrophic events in Canada — flooding in Southern Alberta and Ontario in the summer of 2013 — are affecting property insurance rates within the retail/wholesale industry. Companies are seeing increased deductibles for catastrophe-exposed areas and geographical aggregations. However, given an abundance of capacity, it is expected that competition will result in favourable renewal terms for most companies. Companies with property in areas that are catastrophe-exposed may see some reduced capacity along with the rise in deductibles.

RISK TRENDS

Mergers and Acquisitions

As Canadian retailers seek growth, they are increasingly looking globally for opportunities. This trend will change the risk climate for these companies, while increasing exposures and regulatory requirements.

Claims Management

As losses continue to increase in the retail/wholesale sector, and along with them legal expenses, insurers will be seeking increased premiums to cover the costs.

Cyber Risk

With increased exposure to privacy and data security risks and the changing regulatory environment, retail/wholesale businesses are increasingly looking to purchase data security and privacy insurance.

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Transportation

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2013
TRANSPORTATION	STABLE -5% TO +5%
EXCESS/UMBRELLA LIABILITY	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Overall, the marketplace for transportation fleet insurance is expected to remain stable in the near term. Capacity remains abundant for primary automobile and excess/umbrella markets, including risks with high US exposures, as more insurers are willing to write cross-border fleet exposures.

Capacity in the marketplace should prevent individual insurers from any sustained attempts to increase rates in 2014, particularly when competition is introduced at renewal.

RISK TRENDS

Driver Shortage

Facing demographic regional challenges, the driver shortage continues to hurt the Canadian transportation industry. Factors such as an aging workforce, gender imbalance, and competition from other industry sectors have been reflected in driver recruitment and retention initiatives. The future professional truck driver will need to be better trained and have a higher education level than today's drivers in order to cope with the evolving technologies being installed on trucks to improve safety and productivity.

Broker/Freight Forwarding Liability

Companies are being included in lawsuits based on negligent hiring of carriers moving freight. When hiring a carrier, shippers must be able to prove due diligence — having a certificate of insurance and a copy of the carrier's registration on file is not enough.

Electronic Logging Device Mandate

Drivers who must track their hours of service will soon be required to use electronic logging devices, which will improve reporting. The goal of this initiative is to reduce driver fatigue, which can cause an increased number of collisions.

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NOTES

About Marsh

Marsh is a global leader in insurance broking and risk management. We help clients succeed by defining, designing, and delivering innovative industry-specific solutions that help them effectively manage risk. We have approximately 27,000 colleagues working together to serve clients in more than 100 countries. Marsh is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global professional services firm offering clients advice and solutions in the areas of risk, strategy, and human capital. With more than 54,000 employees worldwide and approximately $12 billion in annual revenue, Marsh & McLennan Companies is also the parent company of Guy Carpenter, a global leader in providing risk and reinsurance intermediary services; Mercer, a global leader in talent, health, retirement, and investment consulting; and Oliver Wyman, a global leader in management consulting. Follow Marsh on Twitter @Marsh_Inc.

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