Each January, Marsh’s US Casualty Practice identifies key trends expected to shape the insurance marketplace in the year ahead. The following ten trends could affect your company in 2017.

DOMINOES: CONNECTED FAILURE

The interconnected world is a relatively new phenomenon, one that will continue to develop for years as the Internet of Things (IoT) contributes to a rapidly changing risk landscape. Some changes are minor — for example, the ability to open your garage door while sitting on the beach. Others are more significant. Law enforcement agencies, for example, are beginning to use internet-connected microphones and cameras to detect firearm activity and collect minute-by-minute intelligence on shootings to improve response times.

Meanwhile, internet-enabled telematics in connected cars can track vehicle performance and driver behavior. This enables usage-based insurance (UBI) that can provide coverage on a need-only basis and reward safe drivers with lower rates. The market for this coverage will rapidly develop in 2017.

The level of interconnectedness amplifies the potential frequency and severity of adverse events as the impact of an individual loss can ripple through an entire connected system. This possibility directly contributes to insurer aggregation fears. For example, in October 2016, a denial of service attack that shut down several popular websites for hours used unprotected, internet-connected cameras, routers, and printers.

As the world becomes more connected, the boundaries blur between traditional product liability and cyber insurance. In 2017, we can expect to see more unintended consequences from the IoT—leading insurers to ask more questions about their own risk aggregation and possibly change the way they provide coverage for risks associated with connected devices.

HOT POTATO: NOT IN MY GENERAL LIABILITY POLICY

Businesses rely on technology and sophisticated data capture and diagnostic capabilities more than ever. This will continue to drive underwriting decisions and policy language as insurers seek to transfer risk of the unknown to specialty product lines.

Over the last two years, the Insurance Services Office (ISO) and insurers have created a number of cyber exclusions for commercial general liability (CGL) policies. Largely, these exclusions seek to eliminate some combination of intangible property damage, nonphysical damage, and advertising or
personal-related liabilities that were not originally contemplated by CGL policies.

In 2017, insurers will likely continue to craft policy language and endorsements that clarify how commercial and personal lines policies address a number of evolving risks, including:

- The sharing economy.
- Drones.
- Self-driving cars.
- 3D printing.
- Genetically modified organisms (GMOs).

Meanwhile, insurers will make individual underwriting decisions based upon better identification of the root causes of claims. Insurers will also seek to clarify coverage intent with regard to traumatic brain injury and other emerging exposures.

**ETCH A SKETCH: UNDERWRITING DISCIPLINE**

Since 2008, insurers generally have increased underwriting discipline. With limited investment income opportunities, insurers have largely focused on underwriting profitability rather than premium growth. Many have described how their new “quest for profitability” would lead to less rate volatility in the future as their upfront decisions lead to more consistent and overall better results.

In 2017, however, this strategy may lose ground. The marketplace appears to be getting more aggressive despite indications that underwriting results are deteriorating and inflationary claim trends will not be offset by rate. This could lead to greater-than-expected volatility for various product lines or industry segments.

New entrants and incumbent insurers are competing for market share and growth at a time when insurers are reporting increases in medical costs, automobile damage, and claim settlement values. In 2016, multiple insurers reported the need to strengthen reserves in the commercial automobile segment due to unforeseen increases in claims frequency.

In the long run, rising medical costs, an organized and aggressive plaintiff’s bar, and larger verdicts will likely impact more product lines. For the foreseeable future, however, new carrier entrants and expanding insurer appetites will bring the industry’s focus back to growth.

**THREE-CARD MONTE: WHO IS LEFT HOLDING THE LIABILITY?**

Ridesharing and transportation networks are here. Fully autonomous vehicles are coming. Does a future of driverless cars mean individual car ownership will die? Whatever the answer, the insurance industry will have to evolve quickly. Autonomous vehicles will change historical automobile loss dynamics; we may see fewer automobile accidents in the long run. We will also see a shift from automobile liability to products liability as component parts with the potential for defect allegations take over for humans.

The conversion to autonomous vehicles will not be completed in 2017, but we will see stepping stones in the consolidation of personal and commercial automobile insurance and products liability. During this transition period, we will see potential gaps in coverage as insurance policies struggle to keep up and the liability landscape becomes more complicated. Time will tell what the future
underwriting requirements will be for driverless vehicles — perhaps the date of the last software update?

**LIMBO: THE INTEREST RATE DANCE**

Insurers have been forced to learn the interest rate game, living in a record low environment for almost a decade. Despite the challenges, the industry has remained profitable. And the industry’s surplus continues to grow to record highs, with the market holding more than one dollar in surplus for every dollar at risk. Still, insurers’ margins are under pressure and shrinking due to competition, new market entrants, and downward rate pressures.

Notwithstanding the counter-intuitive dynamic noted in item 4, a need to expand margins will lead to insurers trying to push for higher casualty rates in 2017. On the other hand, a warming economy, the tightening job market, and recent movements in the bond market foreshadow a rise in interest rates that could offset the need for increases on certain casualty product lines.

Those insurers without a drag from legacy liability and that look to grow market share will once again ensure clients enjoy a soft casualty market in 2017. Legacy writers will need to “sweeten the pot” with flexible terms on coverage, collateral, and service delivery to help retain their business.

**OPERATION: BUZZ – YOU’VE HIT A SENSOR**

Technology advancements, coupled with the ability to digest vast amounts of data and arrive at actionable recommendations, will allow the insurance industry to improve loss ratios, analytics, claims handling, and workplace safety. Major personal lines carriers are actively looking to use sensors in homes to proactively mitigate losses in real time. In the workplace, wearable devices are being used to keep employees safe — and to collect data to identify adverse loss trends, improve wellness, and increase productivity. The sensor technology explosion will continue as the number of things that can be measured remotely expands.

The key to unlocking these technologies’ potential benefits rests with the translation of data points into actionable information. Investment in wearable devices, other sensors, and dashboard technologies that purport to translate sensor inputs into data will lead to commercial insurance sensor applications improving both property and casualty loss profiles.

**SCRABBLE: THE DETAILS MATTER**

Competition from both legacy insurers and new entrants once again helped a majority of our clients enjoy a soft market environment. But coverage is as important as price — especially as new risks emerge.

We will see more underwriting scrutiny from a coverage perspective in 2017. Differentiation in program choices will be more about coverage than price as unknowns increase and carrier positions begin to diverge. These differing approaches will occur as clients have access to more analytical data and information to help them better analyze coverage differences. Different cyber, punitive damage, and dispute resolution mechanisms will carry more weight in 2017 than ever before.

**JENGA: EXPERIENCE LEADS TO TALLER TOWERS**

Insureds make buying decisions based on many parameters: Risk quantification, safety and claims handling expertise, likelihood of catastrophic loss, and budgets. These are logical and practical reasons — until there’s an underinsured loss. Hindsight brings second guessers out of the woodwork to ask why additional coverage wasn’t purchased for a minimal expense.

The present soft excess market provides low-cost access to contingent capital. Sophisticated analytical tools exist to quantify the likelihood of a loss greater than the current excess liability limit purchased. “Nuclear verdicts” in the automobile liability and product liability arenas are in the headlines. At the same time, the soft market leaves some room in most insurance budgets. We expect to see increased purchases of excess liability limits in 2017.

**THE GAME OF LIFE: NEW WORKFORCE DYNAMICS**

Barring a major catastrophic event, we expect the workers’ compensation market to favor buyers from a risk transfer premium and rate perspective. But that will not eliminate or fully offset many of the challenges employers will face in 2017. Court rulings holding that some aspects of the Florida and New York workers’ compensation systems are unconstitutional will likely drive up costs for employers in those states. Rising medical costs and unique approaches necessary to accommodate and treat older workers are examples of the more customary issues affecting workers’ compensation across the country.
What is new are the dynamics affecting a changing US workforce. In 2017 and beyond, as the "gig" economy expands and technology further develops, we will see a continued shift away from the traditional 9-to-5 workday and fixed employment locations to part-time, on-demand, and independent contractor arrangements. This will be particularly true with younger workers, especially those just now entering the workforce.

For an employer, at a basic level, this increases complexities around the implementation of proper safety procedures and the delivery of timely and quality medical care to injured employees. It also could have implications for workers’ compensation insurance policies: Which individuals are subject to the coverage afforded to employees?

Marsh will continue to monitor these and other trends that could affect your casualty insurance programs in 2017. As always, we welcome your thoughts and feedback on these topics.

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