INSIGHTS | 2016

MARKET PERSPECTIVE

UNITED STATES INSURANCE MARKET REPORT 2016

MARSH GUY CARPENTER MERCER OLIVER WYMAN

MARSH & McLENNAN COMPANIES

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FOREWORD

As part of our commitment to keeping you informed, Marsh is pleased to present you with the *US Insurance Market Report 2016*. Through data and analysis, it provides a snapshot of current market conditions and risk trends across major lines of coverage and industry/specialty sectors. The report reflects the experience of Marsh insurance professionals who work daily with the global insurance marketplace and provide clients with risk management advice.

With 2016 under way, the global insurance marketplace appears to be heading in the general direction of soft pricing, reflecting insurer capacity, competition, and relatively low catastrophe losses. At the same time, the insurance industry will continue to be affected by macro dynamics, including global economic, political, regulatory, technological, and environmental developments.

In addition, the insurance industry is also experiencing some significant developments that bear watching throughout 2016, including:

- Large-scale mergers and acquisitions.
- Executive leadership changes.
- A reduction in and changes in underwriting appetite at several companies.
- Some insurers' disposition of unprofitable segments.
- Recent announcements regarding potential and actual reinsurance underwriting.

These developments may ultimately produce positive outcomes, such as a prolonged healthy, competitive market with higher levels of innovation, new product offerings, and improved service.

Companies of all sizes and in all industries around the world choose Marsh for our breadth and depth of experience, expertise, and capabilities. These traits are critical in a volatile market, as is our ability as a trusted strategic advisor to help you navigate complex risk challenges and assess and recommend markets.

We thank you for the trust you place in Marsh every day. Should you have any questions about this report or the industry and market environment, please do not hesitate to reach out to your Marsh representative.

Best regards,

Rob

Robert Bentley
President, US and Canada Division

EXECUTIVE SUMMARY

Following are some key takeaways from Marsh's *US Insurance Market Report 2016*.

RISK ISSUES

Cybersecurity

Cybersecurity is now a mainstream business concern across all industries as most companies have either been the victim of a cyber-attack, conducted business with a company that has been attacked, or expect to be attacked at some point. There is a realization that cybersecurity needs to be managed across the enterprise. From individual employees to the board of directors, everyone has a stake in cybersecurity.

Drones

Insurers are paying increasing attention to the use of unmanned aerial systems — drones. Coverage for the risks presented by drone use may be excluded from casualty policies, and insurers are concerned about personal and advertising injury risks related to drones, although bodily injury and property damage coverage may also apply. In 2016, organizations that use drones may be expected to answer detailed questions from insurers including, but not limited to, questions about drone size and intended purpose.

Mergers and Acquisitions (M&A)

M&A activity in 2015 was exceptionally high in many industries, including insurance, health care, and communications, media, and technology. Activity is expected to be high again in 2016, barring any unforeseen changes. Among the risks heightened by M&A activity are environmental exposures, including legacy pollution issues; technological risks, such as integration of systems, data protection, and cybersecurity; and regulatory issues.

INSURANCE COVERAGE ISSUES

Property

- The US commercial property insurance market continued a two-year softening trend in 2015, one that is expected to continue into 2016, barring unforeseen changes in conditions. Rates are generally decreasing for buyers as catastrophe (CAT) losses were again low in 2015, insurer competition is at a high level, and alternative sources of capital are expected to continue to buoy the market.
- The quality of data that insureds submit to underwriters will continue to play a significant role in determining property insurance pricing, particularly regarding catastrophe risks.
- Cyber issues are playing out in property policies as business interruption losses stemming from cyber-attacks are an increasing concern for many organizations.

Casualty

- The US casualty insurance market generally softened in 2015 and, barring unforeseen changes, these conditions are likely to continue into 2016.
- Automobile liability remains among the most challenging of casualty areas. Nearly half of all auto liability clients renewed with rate increases in the fourth quarter of 2015, with trucking exposures facing a particularly difficult market.
- The workers' compensation insurance market continues to improve, with generally favorable conditions for buyers. Prescription drug prices remain a cost management concern.

Financial and Professional

- Entering 2016, demand for cyber insurance continues to grow across all industries and segments. Demand for protection against data breaches remains strong as concern over business interruption risks is growing. Capacity will continue to increase for most classes, barring unforeseen changes, but organizations should be prepared to fully outline their cyber security controls for underwriters for the best results.
- Employment practices liability insurance rates generally declined in 2015 and are likely to do so again in 2016, barring unforeseen events. Wage and hour claims filings have increased, as have related insurance offerings.
- Directors and officers (D&O) insurance rates are likely to continue to decline in 2016, barring unforeseen changes in conditions. Insurer and broker coverage innovations are also expected to continue.

Aviation

- The airline insurance market is expected to remain soft in 2016, barring unforeseen events. In the fourth quarter of 2015, most buyers renewed with decreases of between 15% and 25%. Competitive markets are also expected for general aviation and aerospace manufacturers.

Captives

- In early 2015, the Internal Revenue Service (IRS) included the formation of small captives on its annual list of questionable tax avoidance strategies. Any company seeking to form a small captive should follow a strict and detailed approach to ensure compliance.
- More captives may access terrorism insurance in 2016 as awareness of the potential benefits increases.

Employee Benefits

- Employers predict that in 2016 their health benefit cost per employee will rise by 4.3%, on average, according to Mercer, one of the Marsh & McLennan Companies.
- Employers are becoming more creative in how they support workforce health. For example, about one-fourth of large employers (24%) encourage employees to track their physical activity with a “wearable” device.

Energy

- Overall energy insurance market capacity increased in 2015, putting downward pressure on pricing. Barring unforeseen events, soft market conditions will likely continue in 2016.
- Energy companies have generally increased their focus on cybersecurity, including on regulations and adherence to certain contractual risk allocations to better manage each party’s risk and exposure to cyber loss.

Environmental

- Barring unforeseen changes, the soft environmental insurance market conditions seen in 2015, which were driven by abundant capacity, are likely to continue in 2016.
- The rapid pace of M&A activity has led to an increase in environmental insurance purchases to help facilitate transactions.

Entertainment

- The market for entertainment and events insurance was relatively soft in 2015.
- Drone use and terrorism risk are expected to be prominent issues in 2016.

Marine

- The marine market significantly softened in 2015, largely driven by a continued influx of capacity, a soft reinsurance market, and reduced losses.
- A high number of mergers among marine underwriters in 2015 did not affect the overall market.

Political Risk

- Despite significant global political turmoil and violence, political risk insurance rates generally declined in 2015 and should do so again in 2016, barring a significant change in conditions.
- High risk areas are exceptions. For example, it is difficult to obtain coverage for Russia, while portfolios that included Turkey or Brazil generally saw increases of about 10% in the fourth quarter of 2015.

Surety

- Surety market outlook for 2016 is positive, assuming continued strength in the construction industry.

Trade Credit

- The market for trade credit insurance is expected to remain generally favorable for buyers into 2016.
- Larger rate reductions were possible in 2015 for portfolio programs covering multiple debtors (as opposed to single-debtor programs).

Note: For specific insurance market and risk trends by industry, see the “Industry Specialties” section of this report.

REINSURANCE

GUY CARPENTER 2016 RENEWAL REPORT

The 2016 reinsurance renewal season brought few surprises and progressed in an orderly and timely manner. With few significant losses, the continued favorable trading experience was again a factor in renewal behavior, driving the reduction in reinsurance pricing at January 1, 2016. Prices generally decreased across most lines of business and geographies, albeit at a slower rate than in previous years.

The marketplace continues to evolve and adapt to changing conditions on several fronts:

- ► Inflows of new capital and moderate loss experience are keeping capacity abundant.
- ► The requirements of regulators and rating agencies are becoming more demanding and expensive, and have led to some stimulation in demand for reinsurance.
- ► The use of technology to leverage data and analytics is increasing in sophistication, presenting opportunities to create new methods of calculating and implementing pricing and distribution strategies.
- ► The long-predicted consolidation of the market has now started, with inevitable consequences for rationalizing reinsurance buying.

Insurers are increasingly focused on improvements in the structure and efficiency of programs incorporating more refined capital management goals; and to this end the flexibility and innovation the market has embraced are providing more bespoke solutions.

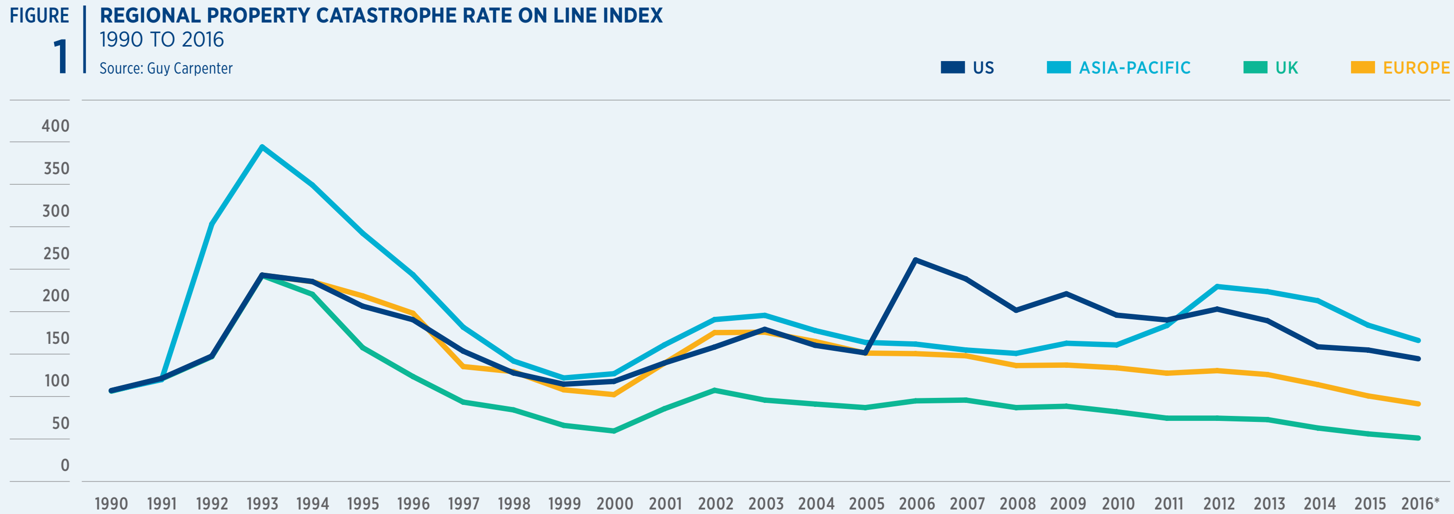
The past year also brought about several mergers and acquisitions (M&A). To date, this activity has not had a large impact on the buying or selling of reinsurance. However, concentration risk has grown in importance, particularly for insurers subject to Solvency II requirements, and must be carefully evaluated by buyers when a merger creates a large exposure or concentration of limits to a reinsurance group.

US Property

Pricing for US property catastrophe decreased by 5% to 8%, on average, moderating from the average decreases a year ago of 7% to 14% (see **Figure 1**). Capacity continued to be plentiful, but with a wider range of responses to individual renewals as markets were somewhat more apt to decrease lines or decline participation as margins tightened further.

- ► Price declines on all forms of property covers moderated, and generally were in line with expectations. However, individual outcomes varied

FIGURE 1 | **REGIONAL PROPERTY CATASTROPHE RATE ON LINE INDEX**
1990 TO 2016
Source: Guy Carpenter



Note: Data points do not reflect pricing relativities between geographies. All data measured at 1/1.

* Preliminary

based on renewal-specific factors, including loss activity.

- The number of supplemental and alternative coverages quoted at January 1, 2016, dropped noticeably over last year's renewal as the focus this year was more on specific options with an intent to purchase rather than on general market exploration.
- Modifications in terms and conditions were less of a focus for many compared with a year ago, while price remained a significant focus.

US Casualty

The reinsurance market in US casualty was active through the January 1 renewals. Several new treaties were placed on either new products or portfolios previously retained net, while terms and conditions stayed as expiring or had modest improvements as reinsurers loss costs generally increased year over year. Final outcomes were dependent upon the profitability of the underlying business, expiring terms, and continuity of the reinsurer panel.

Some key points regarding various casualty and professional liability lines include:

General liability: Placement results varied, and were largely dependent on the experience of the subject portfolio.

Auto liability: Primary commercial auto rates continued to increase in 2015 due to prior year adverse development.

Workers' compensation: There were slight structure adjustments in terrorism coverages to align with 2016 projected deductibles and the scheduled incremental changes to the US Terrorism Risk Insurance Program Reauthorization Act passed earlier in 2015.

Directors and officers: Most D&O renewals had slight improvements at January 1, having achieved significant broadening in terms and conditions over the past two renewal cycles.

Errors and omissions: E&O retentions increased in certain instances where clients' expectations of portfolio profitability exceeded those of reinsurers.

Cyber: Cyber risk continues to be a key discussion topic for E&O, including targeted insureds, how coverage is being offered (standalone versus blended), and the use of sublimits for various coverages and drop-down excess on sublimits.

Umbrella/excess liability: There was clear differentiation between excess/umbrella portfolios depending upon targeted risk classes.

Market Dynamics: Capital

Capital markets' commitment to the reinsurance space continued to grow, but at a somewhat slower pace. While capital dedicated to the reinsurance space from rated carriers declined slightly, a roughly equal increase in capital from alternative sources kept the overall level steady. The inflow of capital from a more diverse range of sources has fueled innovation and enabled insurers to access more tailored product offerings and solutions for new risks.

During 2015, there was increased evidence that companies shifted capital ever so slightly toward insurance lines and away from reinsurance lines based on the current rate environment. Furthermore, many reinsurers reduced catastrophe exposure through the use of retro capacity, largely from the convergence market. With this decline in net reinsurance premiums and exposure, A.M. Best and Guy Carpenter have estimated the amount of capital dedicated to writing reinsurance by traditional markets has declined by about 2% to 3%, while convergence capital continued to increase, though at a slower rate in comparison to previous years.

Our preliminary estimate of total capital dedicated to reinsurance is approximately $400 billion, which is unchanged from the previous year, with convergence capital, including catastrophe bonds, industry loss warranties (ILWs), collateralized reinsurance and sidecars of $68 billion, up 13% from year-end 2014 (see Figure 2). (Note: Guy Carpenter's estimate of dedicated reinsurance capital as of year-end 2015 was again produced through work with A.M. Best and is an estimate of capital dedicated to the reinsurance sector calculated by reviewing A.M. Best's proprietary capital model (BCAR) results as well as line of business allocations.)

The primary focus of the convergence markets continues to be property catastrophe risk, and most significantly

FIGURE 2 | GLOBAL PROPERTY CATASTROPHE REINSURANCE CAPACITY BY SOURCE (DOLLAR AMOUNTS IN US BILLIONS)

Source: Guy Carpenter

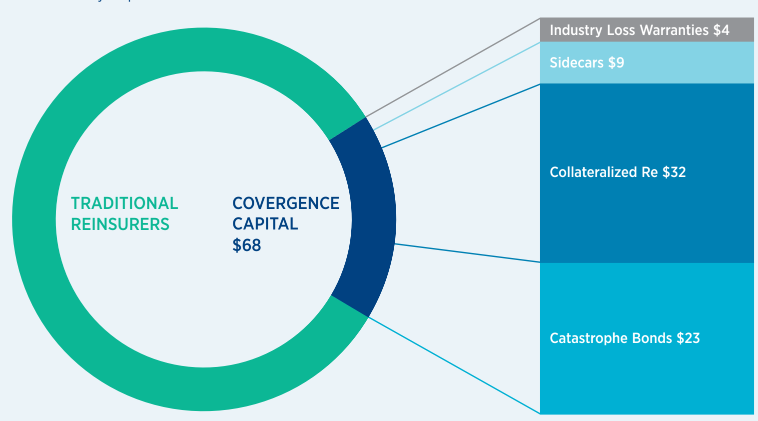
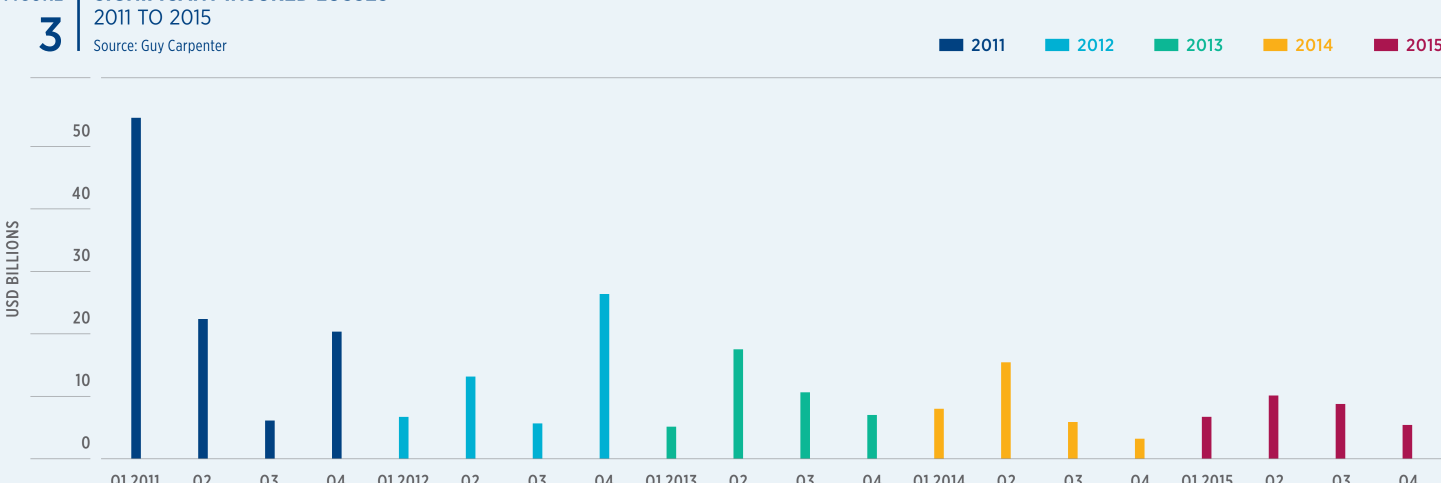


FIGURE 3 | **SIGNIFICANT INSURED LOSSES**
2011 TO 2015
Source: Guy Carpenter



US and retro exposures. Evidence of some broadening of appetite has occurred both within the reinsurance space and into insurance risk as well.

During 2015, a combination of factors led to a notable increase in the amount of catastrophe limit purchased. Sources of the increased limit included new buyers, particularly in the public entity space, and existing buyers able to leverage savings to increase protection levels. Factors driving this behavior included:

- Ample capacity.
- Continued price decreases.
- Markets' motivation to find creative or new avenues to provide catastrophic protection.
- Buyers' increasing comfort that sources and fluidity of capital and current market dynamics are not short term.
- Increasing capital costs imposed by regulators and rating agencies.

Overall, growth in global property catastrophe limits is estimated at roughly 4% over January 1, 2015, with the convergence capital component growing at 10%. Note that total sidecar capacity is included in these figures.

Insured Loss Activity

Insured catastrophe losses for 2015 remained below the 10-year average, trending close to 2014 loss (see **Figure 3**). Global significant insured catastrophe losses reached approximately $30.5 billion compared to $32 billion in 2014, well below the 2012 total of $51 billion and the $102 billion recorded in 2011.

Record-breaking cold in the US and Canada and winter storms in Europe were the most significant natural disasters during the first quarter. Heavy rains in the Southern US, hail storms in Australia, and an earthquake in Nepal contributed to the bulk of second quarter losses. Wildfires in California, an earthquake in Chile, and drought in Canada were the primary loss drivers during the third quarter. In the fourth quarter, extensive flooding occurred in France, South Carolina, India, and the UK. Among man-made disasters, the most significant loss event was the explosion in August at the Port of Tianjin in China. On the aviation front, there were several tragic losses.

Moving Forward

In evaluating this renewal period, the story seems fairly straightforward as expectations were generally met. However, when reviewed in the context of the changes that have occurred over the past few years and the market realities to which we have become accustomed, the possibilities that are opening are remarkable. Sources of capital and the process of bringing that capital in and out of the market rapidly have changed, most likely permanently. Capital abundance and fluidity have brought greater competition and focus on expanding the reinsurance sector. This competition has fostered more solution-oriented dialogue between buyers and sellers, and capital providers are working to create innovative approaches to coverage needs for new, uninsured, or underinsured perils. The doors that are opened with this level of capital fluency coupled with the expertise and imagination that exists to make use of these opportunities will continue to shape change in the years to come.

Note: The information in this chapter is excerpted from *The Reinsurance Market 2016: Innovation and Customization,* the annual reinsurance renewal report from Guy Carpenter, one of the Marsh & McLennan Companies.

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PROPERTY/ CASUALTY INDUSTRY

Overall, the US property/casualty (P/C) industry is financially strong entering 2016. And while strengthening of the income statement is likely to remain a top priority for insurers in the quarters ahead, P/C insurers can be expected to maintain focus on fundamentals in 2016. This means protecting their balance sheets through such measures as pricing adequacy, underwriting discipline, capital planning, and preparing for major catastrophe (CAT) events.

Through the first three quarters of 2015 (the latest for which data are available), the US P/C industry's underwriting performance continued to improve (see **Figure 1**). In contrast, nine months into 2014 the industry had already accumulated significant catastrophe and other weather-related losses in what ended as a year of lagging, yet positive results. Fortunately, the 2015 Atlantic hurricane season was relatively mild, and the industry benefitted from lower catastrophe losses. The industry is poised to post a third consecutive year of underwriting profits. Such results should not be taken lightly as managing weather volatility and the investment environment remain challenges for insurers, along with the challenge of maintaining a competitive market position.

Insurers' profitability continued to face pressure in 2015 given persistently low interest rates. Competition among insurers is expected to remain intense a factor in 2016 as they are challenged to generate returns that meet their cost of capital and improve their market share. With an abundance of capacity in the market, we will likely see further rate flattening as the year progresses and as market competition picks up.

Mergers and Acquisitions: The past year witnessed an increase in M&A activity in terms of both the number of deals and announced deal values. We expect this trend to continue as insurers look to expand beyond organic growth. From deals between "smaller" names that didn't grab much media attention to multi-billion dollar mega-deals, the same set of drivers pushed the increased activity, including insurers' desire to:

- ► Increase capital efficiency and scale to drive down costs through synergies.
- ► Broaden product line capabilities and reduce exposure to market cycles.
- ► Enhance distribution channels.
- ► Increase buying power of pricing and terms and conditions.
- ► Find less expensive funding.
- ► Expand globally.
- ► Stave off the simple fear of being left behind.

FIGURE 1 | **US PROPERTY AND CASUALTY INDUSTRY NINE-MONTH 2015 FINANCIAL HIGHLIGHTS**
Source A.M. Best (Dollar amounts in US billions)

	9 MONTHS 2015	9 MONTHS 2014	CHANGE
NET PREMIUMS WRITTEN	$392.7	$380.8	3.1%
NET UNDERWRITING GAIN (LOSS)	$5.7	$3.5	64.4%
NET INVESTMENT INCOME	$34.8	$34.2	1.8%
NET AFTER-TAX INCOME	$43.1	$37.6	14.8%
POLICYHOLDERS' SURPLUS	$669.7	$678.6	-1.3%
COMBINED RATIO	97.2	97.6	-0.4

Some insurers have closed their doors as they could no longer compete at their current capacity.

Investment income: Insurers' investment performance continued to be challenged in 2015. Insurers' investment portfolios generally consist of high-quality fixed income securities with relatively short durations, and with high allocations to corporate, municipal, and US government and/or agency-backed bonds. The small increase in investment income mainly reflects the rise in the amount of invested assets net of the effect of reinvestment of longer-term maturing bonds at lower prevailing interest rates than the previous investments paid.

There has been moderate growth in higher-yielding asset classes that has offset the impact of low interest rates. Despite the choice by some companies to allocate a greater portion of their portfolios to higher-yielding asset classes and lower-rated bonds, the US P/C industry's comprehensive portfolio remains strong. The persistent low interest rate environment remains at the forefront of insurers concerns. For example, corporate bond market yields in the first half of 2015 were lower than in the first half of 2014. On the plus side, because investment income remains a major component of profitability for insurers, the constraints that low interest rates place on investment income should continue to promote underwriting discipline.

Capital: The US P/C industry remains extremely well capitalized. However, despite the continued improvement in underwriting results, policyholders' surplus declined modestly as of September 30, 2015, driven by unrealized losses on equity investments, share buybacks, shareholder dividends, and foreign exchange pressure. As has been seen in the past, the industry has proven to be resilient to adversity by rapidly and fully recouping its losses to surplus in the wake of major loss events such as the 2008 financial crisis and years plagued with major catastrophe losses, such as 2011 and 2012.

The industry entered 2015 with sufficient capacity to endure such adversity. Share buybacks remain on insurers' agendas, as do shareholder dividend payments due to robust capital levels. A reduction in share repurchases and level dividends over the longer term is likely as profitability is challenged, lower investment returns persist, and more modest reserve releases impact earnings.

Premiums: Net premiums written continued to grow, although the rate of growth narrowed through 2015, with NPW up 3.1% through the third quarter, according to A.M. Best. This is down from the 4.1% growth achieved through the second quarter of the year and also down from its 5% growth rate through the third quarter of 2014. While a number of industry rate surveys have suggested that price increases have slowed and even begun to deteriorate in some lines, these trends have not yet become apparent in the industry's premium writings.

It is common to attribute such premium increases to an increase in rates along with a rise in insurable exposures, the result of an improving economy. However, according to a recent Council of Insurance Agents and Brokers (CIAB) survey, the commercial P/C market showed a continued, though moderate, decline in commercial P/C rates across all account sizes and most lines. Most US P/C insurers reported continued premium rate increases across all business lines at the end of 2013; the magnitude of the increases began to recede in 2014 in certain classes, such as property lines; and in 2015, with competition in the market, the increases were abating.

With an abundance of capital and underwriting capacity heading into 2016, any upward trajectory of rates is not likely, barring unforeseen changes in conditions. There should also continue to be competition in the marketplace as underwriters are eager for new business and pressured to meet underwriting goals.

Challenges: The US P/C industry remains quite strong financially, although challenges remain. Despite continued improvement in underwriting results, the industry's policyholders' surplus declined by 1.6% through the first nine months of 2015 following years of reaching record levels. The industry must continue to focus on underwriting discipline and profitability as it will be crucial to maintaining financial strength as investment returns and reserve releases are not expected to support earnings to the level they had in the past. In addition, as competition heightens, differentiation through some form of strategic transformation could prove valuable.

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MAJOR COVERAGE LINES

11 Property
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28 Lawyers Professional Liability

Property

AHEAD IN 2016

Continued softening of rates likely, though at a slower pace.

Opportunities for broadened coverage for some insureds.

Data quality remains critical for catastrophe models and renewals.

Solutions that span longer than an annual term possible from some insurers.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	NON-CAT-EXPOSED ORGANIZATIONS	10% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT
	MODERATELY CAT-EXPOSED ORGANIZATIONS (1% TO 30% OF VALUES IN CAT ZONES)	15% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT
	LARGELY CAT-EXPOSED ORGANIZATIONS (MORE THAN 30% OF VALUES IN CAT ZONES)	15% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT
	LOSS-DRIVEN ORGANIZATIONS	VARIABLE	VARIABLE

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

Market Commentary

The US commercial property insurance market softened further in 2015, continuing a two-year trend that is expected to continue into 2016, barring unforeseen changes in conditions. As the year progressed, rates generally decreased for buyers due to minimal catastrophe (CAT) losses, insurer competition, and an influx of alternative sources of (see Figure 1) capital.

Non-CAT-exposed organizations generally can expect competition for their property insurance programs in 2016, with favorable terms and conditions and price decreases likely to average between 5% and 10%. CAT-exposed organizations can generally expect rate decreases ranging from 5% to 15%, depending on their risk profile and concentration in CAT-prone areas. Insurers will continue to scrutinize coverage terms and conditions around such areas as flood, storm surge, and contingent business interruption.

Insurers generally have appetite for all types of property risk. However, some CAT exposures, such as energy risks and terrorism aggregation risks in major US cities, may be difficult to place. Insureds with significant loss histories and risks that are sub-optimally protected or in loss-prone catastrophe areas may have a slightly less favorable experience with insurers.

CAPACITY

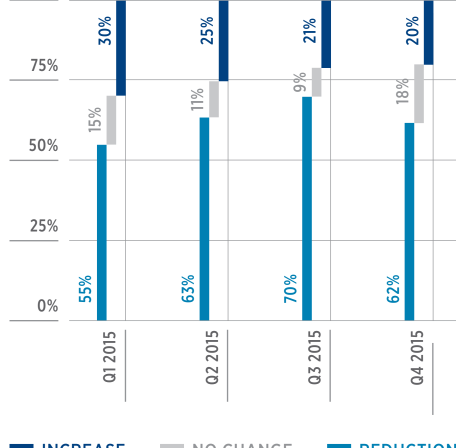
Few new insurers entered the property market in 2015. Most existing insurers increased their underwriting capacity and ultimately grew their business. Some insurers also:

- Reduced pricing and increased availability for named windstorm, storm surge, and earthquake risks.
- Continued scrutiny of high-hazard flood risks.
- Expanded capacity at pricing aimed at dislodging competitors, resulting in the significant oversubscription of many property insurance renewal placements.

Some buyers cut back or did not renew with incumbent insurers, taking advantage of lower prices offered by competitors.

FIGURE 1 | PERCENT OF US PROPERTY "ALL RISK" CLIENTS WITH RATE CHANGES

Source: Marsh Global Analytics



Insureds continued exploring alternative risk management solutions, such as multiyear options or loss-sensitive options. To lock in low rates, many insureds sought to secure multiyear policies, to which insurers have become more amenable. Such policies are often offered at discounted rates with attractively priced aggregate coverage reinstatements. These policies may be written on a multiyear, multi-limit (MYML) or multiyear, single limit (MYSL) basis, each having its own benefits. Some insurers looking to lock in premium for several years have actively pursued such contracts, a trend that is expected to continue in 2016.

ALTERNATIVE CAPITAL

Capital continues to flow into the reinsurance market from nontraditional sources such as hedge funds, pension funds, and other institutional investors. About $400 billion of reinsurance capacity — including roughly $68 million of alternative facilities such as catastrophe bonds, sidecars, and collateralized reinsurance — was available at the beginning of 2016.

The additional capital flowing into the property market has generally driven down the cost of traditional reinsurance, which in turn has led to lower premium rates for insureds. Increased alternative capital availability and more aggressive stances from insurers have pressured reinsurers to reduce pricing and develop products tailored to insurers' needs.

While signs of potential capital saturation may lead to some uncertainty around the flow of capital into the reinsurance markets, the use of alternative financial products will likely continue for some time. With products such as insurance-linked securities (ILS) and collateralized aggregate solutions, innovation around capital deployment will continue as investors look to growth opportunities.

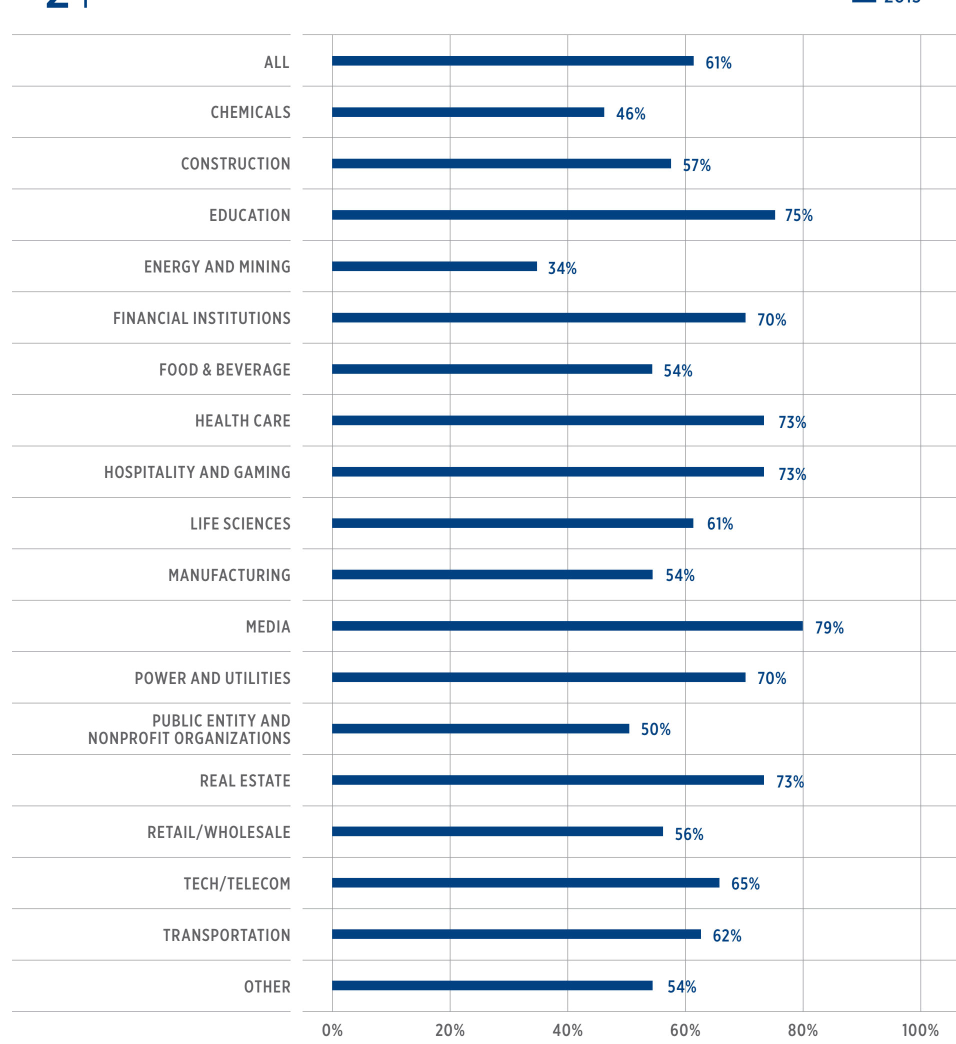
PROPERTY TERRORISM RISK

The passage of the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) — which authorizes the federal terrorism insurance backstop for six additional years — brought greater certainty to organizations that depend on terrorism insurance coverage (see Figure 2), and generally prevented short-term increases in pricing at the start of 2015. Insurers continue to closely monitor aggregate exposures for central business districts in major cities such as Boston, Houston, Chicago, New York, San Francisco, and Washington, D.C. Standalone terrorism insurance pricing continues to be generally competitive and to offer viable options versus embedded terrorism quotations within "all risk" programs.

As the threat of terrorism and terrorism-related violence increases, organizations with exposures outside the US are looking at broader policies that include political violence perils. Discussions around potential cyber terrorism losses and insurance coverage will continue in 2016.

FIGURE 2 | TERRORISM INSURANCE TAKE-UP RATES BY INDUSTRY

Source: Marsh Global Analytics



RISK TRENDS

Flood

Flood disasters — such as flooding in South Carolina in October 2015 and along the Mississippi later in the year — represent the number one natural catastrophe in the US, affecting thousands of businesses and homeowners each year. Flood losses often lead to business continuity and crisis management issues. In reviewing insurance policies, organizations should pay particular attention to the scope of coverage, including:

- Locations for which the peril of storm surge is/is not covered.
- Limits for Special Flood Hazard Area (SFHA) for zones A and V and non-SFHA flood zones.
- How deductibles will be calculated and applied.
- How locations are defined as being in or out of SFHA flood zones.

It is a best practice to review and update business continuity and crisis management plans annually and after any activation or major event — regardless of how severe the impacts. A thorough review of insurance coverages, claims plans, and business continuity plans can help companies prepare for, manage, and recover from an event.

Terms and Conditions

While markets have increased sublimits for the past two years, insurers have become more open to granting additional and unique coverages tailored toward specific industries as opposed to giving further premium reductions. Some organizations achieved lower percentage deductibles for key catastrophe perils, such as named storm and earthquake (including within California). In some instances, insurers are willing to improve upon these terms and conditions in order to keep premium rates flat and/or to dislodge an incumbent and gain market share. Insureds will likely see continued improvements in 2016 as insurers may be more willing to forego further rate erosion for an improvement in terms and conditions and offer increased limits for the same or less-than-might-be-gained rate decreases.

CAT Modeling and Data Quality

In 2015, modeling firm Risk Management Solutions Inc. (RMS) released version 15 of its hurricane model, which included updates on European windstorm and North Atlantic hurricane models based on, among other things, experiences from Superstorm Sandy in 2012 and Hurricane Irene in 2011. There has been little change from insurers that implemented the updates in 2015; and it is expected that the overall market will have adopted them by mid-2016.

CAT modeling remains a key component of every property placement and is, in many cases, the driving factor in insurer participation, pricing, and terms and conditions. CAT models are highly sensitive to uncertainty driven by poor or missing data. When data quality is addressed, organizations often produce better quantification and qualification of the risk being considered, which can result in significant returns in premium savings. Organizations should work with their insurance advisors to validate modeling data that improves accuracy, reduces uncertainty, and better informs underwriters.

Cybersecurity

Business interruption losses stemming from cyber-attacks are an increasing concern for many organizations. Property policies typically limit coverage to damage to and/or loss of use of tangible property resulting from a physical peril. A cyber-attack resulting in physical damage from a peril that is not excluded would typically be covered. Damage to data or software absent physical damage, or that does not trigger a secondary physical loss, would typically not be covered. Several insurers go further, expressly excluding coverage for any damage to data or software

Standalone cyber policies can provide limited coverage absent physical damage for business interruption, extra expense, and contingent business interruption. Cyber insurance, however, is just one part of a well-planned and effective risk management program that also includes policies and protocols to prevent and mitigate technology risks.

Contingent Business Interruption

Contingent business interruption (CBI) continues to challenge organizations, particularly those with large supply chain networks. CBI coverage rates are ultimately determined from underwriting information from suppliers, which can be difficult for companies to obtain. The scope of CBI coverage can vary between policies. For example, cyber policies provide limited CBI coverage. Even under broad coverage forms, some causes of loss to suppliers and customers may not be covered. Organizations that work with underwriters and brokers to better understand and quantify their supply chain risks often fare better in terms of coverage and price.

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AHEAD IN 2016

Soft market conditions likely to continue for general liability insurance.

More difficult auto liability market expected.

Insurer consolidation unlikely to affect rates.

Casualty

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
GENERAL LIABILITY	GUARANTEED COST	10% DECREASE TO 5% INCREASE	10% DECREASE TO 5% INCREASE
	LOSS SENSITIVE	10% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
AUTOMOBILE LIABILITY	GUARANTEED COST	10% DECREASE TO 5% INCREASE	5% DECREASE TO 10% INCREASE
	LOSS SENSITIVE	10% DECREASE TO 5% INCREASE	5% DECREASE TO 10% INCREASE
UMBRELLA AND EXCESS LIABILITY	LEAD	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE
	EXCESS LAYERS	10% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE
WORKERS' COMPENSATION	GUARANTEED COST	10% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
	LOSS SENSITIVE	10% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE

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

Market Commentary

The US casualty insurance market generally softened in 2015 and, barring unforeseen changes, these conditions are likely to continue into 2016. In the fourth quarter of 2015, rates trended downward for most insureds, and the rate increases that were observed were generally fewer and smaller in magnitude than in the same period in 2014.

Underwriting performance generally remains positive, but overall profitability continues to lag that of prior years due to the slow economic recovery and low interest rates. There are no indications that investment returns will increase any time soon, contributing to insurers' focus on underwriting scrutiny.

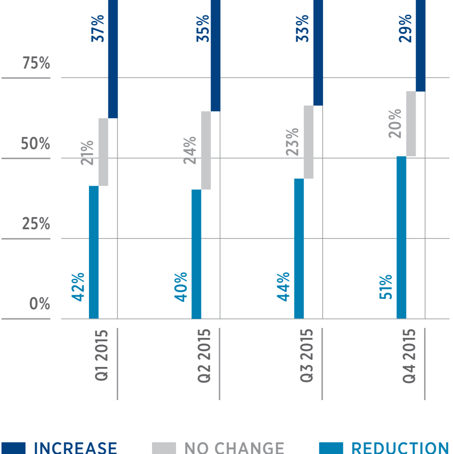
Capacity and competition remain strong, and insurers typically found it difficult in 2015 to secure rate increases. Insurers often offered rate reductions to retain favorable accounts, and attempted to lock in renewals early to avoid marketing efforts. Many insurers priced new business aggressively and offered flexible coverage terms and program structures, including for more difficult exposures. However, some insurers are reexamining the profitability of their portfolios, which could lead to reduced capacity, higher rates, and higher attachment points in some industries.

GENERAL LIABILITY

Rates for general liability insurance were typically stable in the fourth quarter of 2015. With the exception of some tougher risks, a growing portion of the market received rate decreases, generally in the low single digits (see Figure 1).

FIGURE 1 PERCENT OF GENERAL LIABILITY CLIENTS WITH RATE CHANGES

Source: Marsh Global Analytics
Numbers may not add up to 100% because of rounding.



- Favorable market conditions for general liability overall were generally driven by results in the guaranteed cost segment, where average rates were down by 2% in the fourth quarter.
- On average, loss-sensitive rates renewed flat; the overall range was typically from down 10% to up 5%.

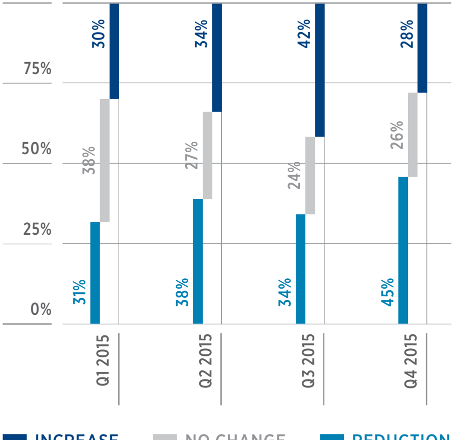
AUTOMOBILE LIABILITY

On average, auto liability insurance rates were down in the low single digits in the fourth quarter of 2015. However, it remains a challenge for many buyers. Although renewals were competitive for large deductible accounts with good experience, insurers remained concerned about the growing frequency and severity of auto losses. Multiple insurers are expected to seek low single digit average rate increases for this line in 2016.

- Nearly half of all companies renewed with rate increases in the fourth quarter of 2015.
- Conditions were generally more difficult for accounts with trucking exposures. Insurers are paying close attention to insureds' use of telematics and other technologies to mitigate losses.

FIGURE 2 | PERCENT OF US EXCESS/ UMBRELLA LIABILITY CLIENTS WITH RATE CHANGES

Source: Marsh Global Analytics
Numbers may not add up to 100% because of rounding.



UMBRELLA AND EXCESS LIABILITY

The market for umbrella and excess liability generally remained stable in 2015, although individual results depended on insureds' unique loss experience. Fewer lead umbrella programs were marketed in 2015 as incumbents sought to retain profitable accounts. Umbrella and excess rates were down, on average, 2.5% in the fourth quarter, with rates generally trending from down 7% to up 5% (see **Figure 2**). Market conditions should remain stable in 2016.

- Some insurers have sought to limit their exposure to more difficult market segments, including accounts with trucking fleets and companies in the New York construction, transportation, public entity, and energy sectors.
- New capacity continues to enter the marketplace from existing insurers expanding their appetites and from new entrants, notably from London. These insurers appear more willing to compete at all levels of umbrella and excess towers.

RISK TRENDS

Industry Consolidation

While all casualty insurers seek growth, there is abundant capacity available, giving insureds ample opportunities and choice in the market. The amount of capital that is essentially sitting on the sidelines earning minimal returns will likely lead to more consolidation among insurers in 2016. Although some individual insurers may reduce the capacity they deploy to the casualty market as a result of mergers and acquisitions, overall market capacity should remain high.

Collateral

Insurers seem more willing to negotiate collateral requirements than they have been in recent years, especially for companies with strong balance sheets. This is another financial lever that most insurers are willing to review and entertain given the current market environment.

Emerging Risks

In addition to traditional risks, insureds may need to manage a number of emerging risks.

- **Cyber coverage:** Insureds should ensure that general liability policies do not exclude coverage for claims that are more appropriately covered under those policies as opposed to dedicated cyber policies.
- **Infectious disease:** The Ebola outbreak in 2014 and incidents of Legionnaire's Disease in New York in 2015 highlight coverage issues related to infectious diseases. Insureds should consider how general liability policies will respond to infectious disease claims and whether certain pathogens are excluded under a policy's pollution exclusion.
- **Drones:** Insurers are becoming increasingly concerned about the risks presented by the use of unmanned aerial systems, or drones, coverage for which may be excluded from casualty policies. Insurers are concerned about personal and advertising injury risks related to drones, although bodily injury and property damage coverage may also apply. Insurers are scrutinizing insureds that use drones, and asking for detailed information about their size and intended purpose.

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WORKERS' COMPENSATION

Market Conditions

The workers' compensation insurance market continues to improve, with more favorable conditions for buyers. The industry's combined ratio (see **Figure 3**) has steadily declined since 2011, according to the National Council on Compensation Insurance (NCCI).

In the fourth quarter of 2015, workers' compensation rates generally decreased by single digits. In addition to the downward rate trend, more companies secured rate reductions. More than half of all Marsh clients renewed with rate decreases, with fewer than one-third seeing increases — essentially a reversal of the trend from the prior year (see **Figure 4**). In the relatively few instances where rate increases occurred, they were generally smaller. These favorable market conditions should continue into 2016, barring unforeseen circumstances.

Market conditions are generally more positive for buyers with guaranteed cost programs:

- ► In the fourth quarter, rates for loss sensitive, or deductible, programs were typically down 10% to up 5%.
- ► Rates for guaranteed cost programs were typically flat to down 10%.

There remains a divide between "good" risks that generally experience favorable conditions and more challenging ones that face a difficult market. However, consistent with the broader casualty market, the gap between the two is not as pronounced as it has been in the past. Due in part to competition and difficulty securing rate increases, insurers are generally focusing on premium volume. As a result, insurers may more aggressively pursue business that they might not otherwise have considered. Although the market can still be difficult for these companies, they are generally experiencing greater predictability and flexibility at renewal in both pricing and terms and conditions.

AHEAD IN 2016

Overall market conditions improving.

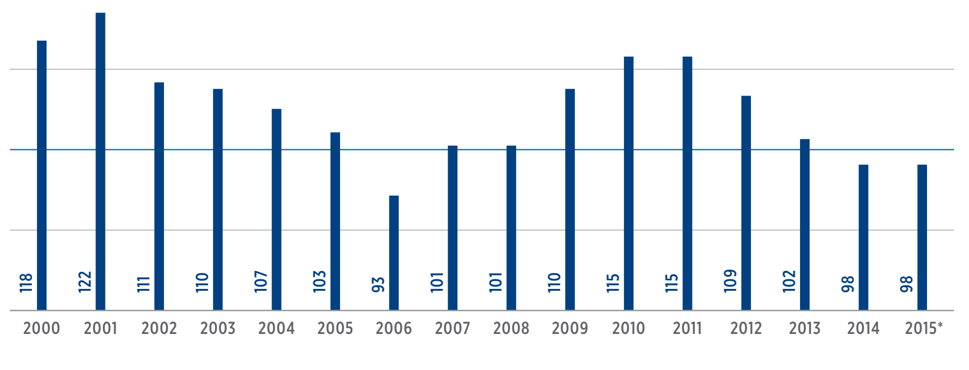
Prescription drug costs remain a challenge.

Some states exploring regulatory changes allowing workers' compensation alternatives.

Wearable technology emerging as a new means for data collection and employee safety.

FIGURE 3 | WORKERS' COMPENSATION COMBINED RATIOS 2000 TO 2015

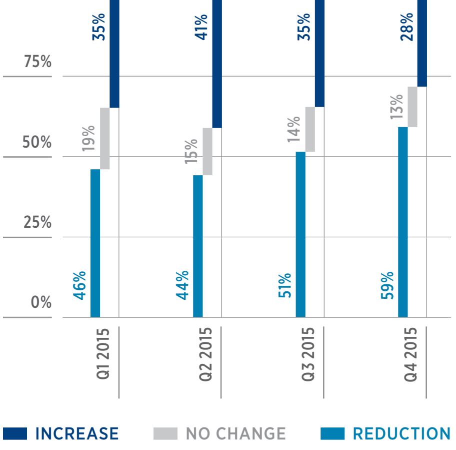
Source: National Council on Compensation Insurance



* Estimate

FIGURE 4 | PERCENT OF US WORKERS' COMPENSATION CLIENTS WITH RATE CHANGES

Source: Marsh Global Analytics
Numbers may not add up to 100% because of rounding.



WORKERS' COMPENSATION RISK TRENDS

Prescription Drug Costs

Workers' compensation prescription drug costs continue to be a challenge for employers, making up a sizable portion of overall claims expenses. Two increasingly common practices have greatly contributed to rising costs:

- The practice of physicians providing medication directly to patients, known as physician dispensing.
- The use of costly "compounded" drugs instead of commercially available alternatives.

Employers can work with their claims administrators and pharmacy benefit managers (PBMs) to limit these practices. For example, employers can encourage injured workers to use only in-network providers and pharmacies, and require prior authorization from nurse case managers before compounded drugs are dispensed. Employers can also work with their PBMs to regularly audit medical networks and take action to eliminate fraudulent or problematic behavior.

Workers' Compensation Alternatives

Two states — Texas and Oklahoma — currently offer employers alternatives to traditional workers' compensation schemes:

- In Texas, employers can nonsubscribe from the state's workers' compensation system, and instead partially self-insure their occupational injury benefit programs.
- In Oklahoma, employers that meet certain criteria can "opt out" of the state's workers' compensation system while replicating the indemnity benefits that injured workers would normally receive.

In 2016, legislators in Tennessee and South Carolina will consider whether to offer their own alternatives to workers' compensation; other states may follow. For some employers, these alternatives could offer better control over claims expenses and the direction of optimal care, but there could be added costs associated with a transition to a new approach. In Texas, nonsubscribers lose the protection of the exclusive remedy provision that is central to traditional workers' compensation systems. Employers considering adopting an alternative approach should review these options carefully with their insurance advisors and legal counsel.

Marijuana

Recreational use of marijuana is now legal is four states — Alaska, Colorado, Oregon, and Washington — and its medicinal use is legal in 23 states and the District of Columbia. Marijuana legalization presents new concerns for employers, including whether:

- Injuries suffered by employees under the influence of marijuana are compensable.
- Employees can use medical marijuana as a form of treatment while recovering from workplace injuries.
- Employees can be terminated following post-injury drug tests.

Wearable Technology

Wearable technology is emerging as a new tactic to keep employees safe and healthy. Sensors in clothing and equipment can track and record employee movements in the workplace, and warn supervisors when workers are in physical danger. Fitness wrist bands, meanwhile, can help companies record physical activity and nutritional and sleep habits, and enable incentives for employees that reach certain wellness goals.

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International Casualty

AHEAD IN 2016

Soft market conditions likely across most lines.

Insurers competing aggressively.

Insurers offering more global casualty solutions.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
INTERNATIONAL CASUALTY CONTROLLED MASTER PROGRAMS (CMPS)	GUARANTEED COST	20% DECREASE TO 2% INCREASE	15% DECREASE TO FLAT
	LOSS SENSITIVE	FLAT TO 5% INCREASE	10% DECREASE TO FLAT
AUTOMOBILE CONTROLLED MASTER PROGRAM	GUARANTEED COST	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
	LOSS SENSITIVE	FLAT TO 5% INCREASE	FLAT
INTERNATIONAL PACKAGE POLICIES (IPPS)	GUARANTEED COST	5% DECREASE TO FLAT	FLAT TO 10% DECREASE

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

Market Commentary

Soft market conditions for international casualty insurance persisted in 2015. Few insureds changed carriers as incumbent insurers defended their books of business. Barring unforeseen changes, the market should remain soft in 2016.

- Rates for guaranteed cost controlled master programs (CMPs) typically ranged from down 20% to up 2% in the fourth quarter of 2015.
- Slight rate increases for controlled auto programs were largely loss-driven.
- International package policy rates remained soft, with many incumbent carriers committing to single-digit rate decreases to stave off competition.

Insurer competition for the international programs of US-based multinationals is growing. This comes both from European insurers seeking to gain greater footholds in the US and from incumbent insurers on domestic programs looking to expand. Competition is expected to remain strong in 2016 as new entrants are likely to add more capacity for international risk, barring unforeseen circumstances. However, there could be some firming as a result of profitability concerns for some insurers.

Exchange rate fluctuations and slowdowns in emerging markets — most notably, Brazil and China — have led to declines in US-dollar based exposures for some insureds. Many insureds reported large reductions in exposure; in extreme cases of exposure reduction carriers are seeking nominal rate increases to keep premiums at minimum thresholds.

RISK TRENDS

Local Policy Focus

Many CMP buyers are demanding help from insurers for their local policies. While buyers in the past have typically been concerned about the details of US-issued master policies, more organizations are seeking to understand precisely what is (and is not) covered under local policies.

Global Casualty Programs

A small number of established global insurers have made strides to offer truly global casualty programs for US-based clients. Some terms and conditions need to be ironed out as domestically minded insurers expand internationally, and vice versa. In general, these solutions are being offered as insurers seek to capture global premium by rounding out their existing books of business. However, some global carriers are pulling back from writing monoline international programs without domestic lines, leaving fewer global package markets willing to write unsupported international business.

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Financial and Professional: Directors and Officers

AHEAD IN 2016

Average rates expected to soften.

Directors and officers will remain under SEC and DOJ scrutiny.

"Yates Memo" implications remain to be seen.

INSURANCE MARKET CONDITIONS

SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PUBLIC COMPANIES	10% DECREASE TO FLAT	2% DECREASE TO 2% INCREASE
PRIVATE COMPANIES	5% DECREASE TO 5% INCREASE	FLAT TO 15% INCREASE

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

Market Commentary

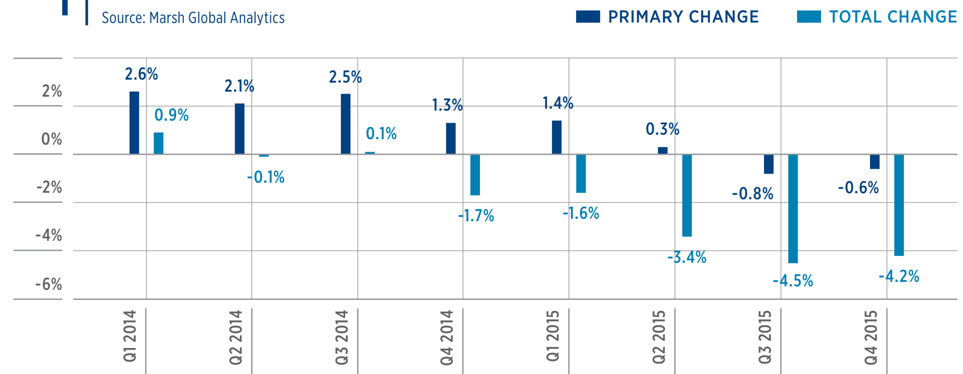
The commercial directors and officers insurance market generally softened in 2015, with average primary D&O rates at renewal for the fourth quarter typically flat to a decrease of 10%. Average primary layer decreases are likely to continue in 2016. Average total program rates also declined in the fourth quarter, generally by 4.4%. This marks the ninth consecutive quarter of average total program decreases (see **Figure 1**). Softening prices were most prominent in the large market capitalization space (greater than $10 billion) with average program decreases of 5.3% in the fourth quarter. However, it was not uncommon for insureds of any size with challenging risk profiles to experience average primary rate increases of around 10%. These results were offset largely by increased deductibles, competitive excess layer pricing, or both.

D&O capacity remained stable during 2015. To date, current and prospective consolidation of market capacity has not affected rates adversely. Risk profile continues to be the distinguishing factor driving renewal rate results, while competition among excess D&O insurers remains robust. In addition, competition for A-side difference-in-conditions (ADIC) programs helped keep rates at renewal in check.

Insurers and brokers in 2015 offered D&O coverage innovations, including, for example, Marsh Alpha 3's internal investigations coverage solution for lead ADIC D&O programs and one insurer's arbitration endorsement for its lead ADIC policies. Regarding primary D&O programs, endorsements extending coverage for plaintiffs' attorney fees and Delaware Section 220 books and records demands were introduced. Coverage for corporate costs in regulatory investigations continued to evolve, offering the potential to either fully insure this risk on a standalone basis or to manuscript coverage and sublimit such costs within an existing policy for a substantial additional premium.

FIGURE 1 | DIRECTORS AND OFFICERS LIABILITY INSURANCE HISTORICAL RATE (PRICE PER MILLION) CHANGES: AVERAGES

Source: Marsh Global Analytics



RISK TRENDS

Regulatory Enforcement/ Individual Accountability

There has been much discussion about what is commonly referred to as the "Yates Memo," which was released late in 2015. Authored by Deputy Attorney General Sally Q. Yates and published by the Department of Justice (DOJ), the memo

provides specific guidance about naming and prosecuting individuals in the most egregious cases of wrongdoing concerning, for example, insider trading and fraud. While the implications of the Yates Memo are currently unknown, civil and criminal investigations could increase — with a focus on individual accountability.

Globalization of D&O Risk

The globalization of traditionally US-based D&O exposures — including, cyber, mergers and acquisitions (M&A), insider trading, and bankruptcy — along with ongoing harmonization among regulators worldwide continues to expand personal liability for directors and officers. Each exposure adds exponential risk for US public companies operating internationally due to the myriad of judicial, legislative, and penal systems to be navigated, compounded by a prism of governance standards enforced by countries competing for standing as fair and reputable business environments. The result is a continued rise in enforcement efforts toward both corporate and individual liability. Many insureds have bolstered their US "master" global D&O programs with lower-limit, local programs across jurisdictions. Other insureds have chosen to build separate, standalone programs outside the US.

Litigation Dynamics

Analysis of current securities class-action filing statistics must include consideration of newer dynamics that may be affecting noted trends. First, there are more securities-related filings by first time issuers or companies pursuing initial public offerings both in 2015 and 2014. In addition, increases in securities class-action filings against foreign issuers continue with approximately 35 such cases in 2015 and almost 30 in 2014. This range is up from the historical average of 22 such filings per year from 1997 to 2013. Other dynamics include the rise of class- or collective-action litigation in some jurisdictions, along with a rise in litigation funding — where organizations that are not party to litigation agree to fund it in return for a proportion of the damages.

Also, the Delaware Chancery Court challenged disclosure-only settlements in merger objection suits in 2015, which could stem the flow of such filings in that forum in 2016.

CLAIMS TRENDS

Public companies in general faced continuously increasing scrutiny by the Securities and Exchange Commission (SEC) in 2015, as the agency remained strident in combatting fraud on a variety of fronts, from its "broken windows" policy to paying bounties under its whistleblower program. In the fiscal year that ended in September 2015, the SEC filed 807 enforcement actions covering a wide range of misconduct, and obtained orders totaling approximately $4.2 billion in disgorgement and penalties.

In 2016, the SEC's focus will remain on directors and officers, while the DOJ affirmatively puts its scope on individuals as well. In addition, the DOJ qualified the way in which cooperation credit may be granted in future criminal investigations. D&O insurance typically does not cover pure, internal investigations.

COVERAGE ISSUES

Investigations Coverage

Traditional D&O policies were not designed to specifically cover the costs of the corporation when responding to a regulator. With the continuing rise in regulatory investigations, insureds are seeking ways to mitigate these corporate costs under the D&O policy. Insurers have responded in various ways without yet providing full coverage at a cost that insureds are willing to pay. Individual directors and officers do have coverage for this exposure, but the corporation itself does not. Insurers have considered this an operational cost historically.

Shareholder Derivative Demands

This coverage, provided on a sublimited basis under most standard D&O policies, generally expanded in 2015. First, many insureds required more coverage due to the consistent increase in the frequency of shareholder derivative demand investigations. Similar to broader investigations coverage, this coverage is for the entity. Because it is not an individual's coverage but a corporate balance sheet protection, insurers historically chose to sublimit the coverage levels that appeared to serve insureds well for the last 15 to 20 years; however, those levels may be inadequate now for some insureds.

Compensation Clawback

In 2015, the SEC issued a proposed rule related to so-called "clawbacks" pursuant to Section 10D of the Securities and Exchange Act of 1934. (Section 10D was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.) Under Rule 10D-1, the SEC may require disgorgement of certain executive officers' incentive-based compensation pursuant to an "accounting restatement." It would apply to such compensation during the three fiscal years preceding the date of the restatement, and would be equivalent to compensation in excess of what an executive would have received based on the restatement.

Pay Ratio Rule

Similarly during 2015, the SEC issued its final rule requiring disclosure of the ratio of the annual pay of the CEO to the median annual pay of all employees (excluding the CEO). Issuers subject to the rule must comply with it for the first fiscal year beginning on or after Jan. 1, 2017.

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Financial and Professional: Commercial Errors and Omissions

AHEAD IN 2016

Moderate rate increases likely.

Increases typically highest for companies processing high volumes of data.

Product risk is on the rise due to the growth of connected products (the "Internet of Things").

Customer demands for E&O and cyber insurance expected to increase.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
ERRORS AND OMISSIONS	5% DECREASE TO 5% INCREASE	FLAT TO 8% INCREASE

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

Market Commentary

Capacity in the commercial errors and omissions (E&O) insurance market is approaching $1 billion, with the largest technology companies and service providers typically purchasing between $200 million and $500 million in total limits in 2015. However, those companies that had exposure to confidential data, including protected health information (PHI) and payment card industry (PCI) data — such as transaction processors, point-of-sale technology providers, companies that provide medical record software solutions, and those active in the cloud services space — experienced more volatility than in prior years as they were likely to receive rate increases and/or suffer from a lack of credible primary and excess capacity. Average commercial E&O renewal rates in the fourth quarter of 2015 ranged from a 5% decrease to a 5% increase.

RISK TRENDS

Privacy Exposure

Technology companies, particularly health care-related IT service providers, continue to evaluate how cyber insurance fits into their overall E&O liability programs. They are also concerned about contractual risks — the risk transfer from business associate agreements — and how these can alter their risk profile.

Cloud Computing

Companies of all sizes are putting proprietary data in the cloud. Providers of cloud services can be vulnerable if they are not compliant with specific industry standards, such as the Health Insurance Portability and Accountability Act (HIPAA) and other regulations. Companies are increasingly concerned about how long cloud vendors have been in practice, their network and data security processes, financial strength, and business continuity plans. Attacks on cloud environments climbed from 30% to 44% of customers in 2014, and as much as 45% in 2015, according to *The 2014 Cloud Security Report* from Alert Logic, a cloud security firm.

Social Media

Technology service providers, media companies, and other firms could, depending on specific circumstances, be held liable for what their employees inadvertently or purposely post to social media, making this a prominent E&O risk. Technology companies that provide data tracking, organizing, or monitoring services to health care organizations are under particular scrutiny as cyber criminals look to steal PHI.

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Financial and Professional: Cyber

AHEAD IN 2016

Increases in retentions and premiums expected.

Enhanced cyber policy solutions to meet client demand.

Improved and expanded risk modeling.

INSURANCE MARKET CONDITIONS

SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
CYBER (EXCLUDING RETAIL AND HEALTH CARE)	FLAT TO 10% INCREASE	2% INCREASE TO 10% INCREASE
RETAIL	FLAT TO 50% INCREASE	FLAT TO 10% INCREASE
HEALTH CARE	FLAT TO 15% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

In 2015 cyber risk was widely acknowledged as more than “just an IT risk.” For most corporations, it became a core business issue as companies recognized their exposure to the wide spectrum of cyber perils. Many risk managers and other business leaders advocated an enterprise approach to cyber risk that engages stakeholders across an organization, including IT, operations, compliance, legal, finance, communications, the board of directors, and more. A comprehensive cyber risk management framework that includes assessing, managing, and responding to cyber risk — not just preventing it — are necessary to properly protect the business.

Cyber-attacks, threats, and attempts to disrupt business operations are now aimed at businesses of every size and across every industry. Cybercrime alone costs businesses more than $400 billion a year, according to a recent report from Strategic and International Studies/McAfee.

Demand for cyber insurance rose in 2015, a trend expected to continue in 2016. Typical rate increases in the first half of 2015 for similar programs were 10% to 15% over the prior year. The retail and health care sectors, which have experienced some of the costliest events, saw increases for similar year-over-year programs in the same time period ranging from 45% to 55% and 15% to 25%, respectively. Despite rate pressures, client demand remained strong and many clients purchased both expanded coverage and higher limits.

Capacity in the cyber insurance market remained strong, with notional capacity in excess of $800 million and the largest programs exceeding $500 million, attributable to both new entrants and increased capacity from existing markets. Capacity will expand further in 2016.

Favorably, coverage grants continue to mature and expand, generally to the benefit of insureds.

Insurers have increased their focus on risk selection and underwriting diligence, and have shown increased discipline regarding capacity. As a result, finding the right balance between capacity and pricing has become more complicated, and some clients optimized their programs without maximizing their limits.

Many insureds sought new ways to analyze and quantify their risks, including through modeling, benchmarking, and assessment tools. Such tools can help companies make more effective strategic risk management decisions; fill gaps in coverage; and reduce financial, reputational, and other risks.

RISK TRENDS

Business Interruption

Cyber criminals are generally no longer only interested in stealing credit card information — they have become skilled at invading an organization's core technology systems. For example, manufacturers and other heavy industries face attacks on their industrial control systems. In fiscal year 2015, nearly one-third of the 295 attacks against critical infrastructure investigated by the Department of Homeland Security's Industrial Control Systems Cybersecurity Emergency Response Team (ICS-CERT) were against manufacturers. Other organizations have seen attacks targeting customer relationship management, enterprise resource planning, and basic corporate systems like email — all of which can result in disruptions to daily operations. Unplanned IT and telecommunications outages (64%) and cyber-attacks and data breaches (54%) were the top two causes of supply chain disruption, according to the 2015 Business Continuity Institute *Supply Chain Resilience Report*.

First-party losses from these business interruptions can cost upwards of $10 million. With corporations storing and transacting more business via the cloud and other hosted services as well as mobile devices, the opportunities for a cyber incident to shut down large portions of a corporation's business operations have grown considerably.

Regulators

In 2015, regulators and industry groups actively engaged with their constituents and broadened the reach of their activities. For example:

- The Federal Trade Commission (FTC) entered settlements with a data protection company ($100 million in value) and a hotel enterprise.
- The Financial Industry Regulatory Authority (FINRA) recommended broker-dealers establish and implement a cybersecurity governance framework. FINRA also noted that risk assessments serve as a foundation to understand cybersecurity risks.
- A National Association of Insurance Commissioners (NAIC) task force adopted principles for effective cybersecurity for insurers.

Regulators in 2015 continued to push for market-based approaches to controlling cyber risk, with cyber insurance often cited as an effective way to improve corporate cybersecurity. In addition, the Cybersecurity Information Sharing Act (CISA) of 2015 is an attempt to bring private entities together with public resources to share cyber threat intelligence and better prepare the nation for cyber challenges. This trend of public-private partnership to improve cybersecurity posture is expected to continue in 2016.

A ruling by the European Union's highest court in October 2015 invalidated the US-EU "safe harbor" data transfer agreement, under which US companies agreed to follow rules for handling personal information from the EU. The ruling could have repercussions for US businesses, although many have entered into alternative arrangements to legitimize the transfer. The EU's Network and Information Security Directive, expected to be finalized in the spring of 2016, would regulate US search engines and online marketplaces, requiring that major security breaches be reported and that cybersecurity guidelines be followed.

New Exposures

Cyber criminals constantly adapt their tactics, so staying current on attack vectors is critical. Criminals will often target a company with less robust defenses in order to reach another that is harder to penetrate. Such two-pronged intrusions have been involved in several high-profile cyber incidents, and they are likely to continue in 2016. Nearly 70% of the attacks with a known motivation identified in Verizon's 2015 *Data Breach Investigations Report* included a secondary victim.

Cyber criminals often repurposed the information taken from such events to use in so-called "spear phishing" attacks, which use social engineering to exploit weaknesses and gain deeper access into an organization's systems. For example, a typical spear phishing attack may use targeted emails or phone calls that appear to come from a senior executive in a firm, but are actually cyber criminals luring employees to place wire transfers, provide non-public information, or otherwise hand over sensitive information.

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Financial and Professional: Employment Practices Liability

AHEAD IN 2016

Rates expected to generally decline for largest insureds.

Two landmark cases could impact companies in the "sharing economy."

New versions of EPL claims expected.

INSURANCE MARKET CONDITIONS

SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
LARGE ORGANIZATIONS	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
FINANCIAL INSTITUTIONS	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE
MIDSIZE ORGANIZATIONS	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

Employment practices liability (EPL) insurance rates in 2015 were generally more favorable than in 2014. Rates, on average, renewed flat to an increase of 5% for companies with more than 4,000 employees, a trend that is expected to continue into 2016 barring unforeseen changes in conditions. Companies with between one and 500 employees generally experienced modest rate increases, which in part reflects the sector's experience with significant single plaintiff losses.

EPL claim costs continued to rise, which can be attributed to the length of time it takes to resolve claims and the increase in multiple claimant disputes (class and mass actions). California-based exposure remained a concern for underwriters due to the frequency of expensive losses and the passage of the California Fair Pay Act, which is expected to fuel gender pay disparity initiatives. Underwriters were generally more flexible in providing primary wage and hour coverage options on a standalone basis, on a blended basis with primary EPL insurance, or in an excess blended layer on top of an EPL insurance program, with a wage and hour drop-down feature. The proliferation of a new version of an EPL claim, alleging that companies' websites fail to comply with the Americans with Disability Act (ADA), also occurred in 2015.

Wage and hour claims filings increased in 2015, as did related insurance offerings. There continued to be considerable wage and hour excess capacity available, especially in the Bermuda marketplace. Submission and quote activity rose in 2015, as did the number of companies budgeting to purchase wage and hour insurance. In addition to the Bermuda primary products, insurers released a new primary wage and hour form in the domestic market and developed new solutions for smaller US-based companies.

RISK TRENDS

Wage and Hour

Wage and hour claims continued to dominate workplace litigation in 2015. Employers anxiously await finalization of the Fair Labor Standards Act (FLSA) overtime rules, which are expected to increase significantly the number of employees entitled to overtime. The Department of Labor's (DOL) new guidelines on independent contractor classification, in conjunction with recent court decisions and agency guidance finding some workers to be employees rather than independent contractors, indicate heightened scrutiny around independent contractor misclassification. The National Labor Relations Board (NLRB) August ruling in *NLRB v. Browning-Ferris Industries of Penn.* expanded the concept of a "joint employer," increasing the pool of potential plaintiffs that could assert wage and hour and other employment-related claims against a company.

The DOL's ramp-up of FLSA enforcement continues to target certain industries — retail, construction, health care, financial services, and staffing agencies. DOL complaints and similar lawsuits under state wage and hour laws increasingly named directors, officers, and managers as individual defendants.

Equal Employment Opportunity Commission (EEOC) Activity

The EEOC continued an aggressive pursuit of its current Strategic Enforcement Plan, which focuses on systemic discrimination. EEOC claim filings under the ADA and the Age Discrimination in Employment Act (ADEA) both spiked in 2015. Other major EEOC areas of focus in 2015 were:

Discrimination against lesbian, gay, bisexual, and transgendered (LGBT) employees: The EEOC increased focus on the protection of these individuals under Title VII of the Civil Rights Act by relying on new legal theories of sexual orientation and gender identity/transgender discrimination.

Pregnancy discrimination: In *Young v. United Parcel Service,* the Supreme Court held that employers must make reasonable accommodations for pregnant employees. The EEOC is pursuing an aggressive agenda by seeking to extend the reach of the ADA's reasonable accommodations provisions to pregnant employees experiencing "normal" pregnancies.

Criminal and credit background checks: Despite recent litigation setbacks, the EEOC continued to focus on criminal and credit background checks in the job application process. An employer can be found to have violated Title VII of the Civil Rights Act if the use of such records had a disparate impact on a "protected class." A handful of states have passed laws to restrict the manner in which private employers may use employment background checks, including criminal records, while many other states have enacted similar "ban the box" legislation.

Emerging issues for the EEOC in 2016 and beyond include the use of social media in the hiring and employment decision-making processes, as well as employers' reliance on "big data" gathered from employees, which can lead to disparate-impact claims. The EEOC's proposed rule regarding corporate wellness programs, which likely will not become final until late 2016, would limit incentives to 3% of employee-only premium costs in order to remain voluntary and therefore not discriminatory.

Court Cases to Watch

In an employment law case that is the first of its kind since gay marriage was legalized nationwide, Wal-Mart Stores Inc. has been accused of discriminating against gay employees. Wal-Mart employee Jacqueline Cote, the plaintiff in the proposed class-action complaint in *Cote v. Wal-Mart Stores Inc.*, alleges that the company repeatedly failed to provide health insurance to her wife in violation of the federal Civil Rights Act of 1964 and a Massachusetts fair-employment law. There is no federal law against workplace discrimination based on sexual orientation. Of note, however, the EEOC found probable cause that Wal-Mart had discriminated against the plaintiffs on the basis of their gender.

Two landmark lawsuits, *O'Connor v. Uber Technologies, Inc.* and *Cotter v. Lyft*, claim that drivers for ride-hailing services Uber and Lyft are employees rather than independent contractors. Both cases are expected to go to jury trial in 2016, and the decisions could have a ripple effect on the business models of on-demand and sharing economies. In the meantime, state legislators in Ohio and Florida are moving ahead with regulations that would designate all ride-share services drivers as independent contractors. Similar laws are already in place in North Carolina, Arkansas, and Indiana.

In addition, claims involving marijuana, workplace bullying, and transgender issues are gaining traction.

Additional Exposures

- California-based exposures continue to be a key area of interest for insurers, given the frequency of single-plaintiff claims and losses in that state. Increases in retention levels and rates specific to risks with meaningful California exposures were common in 2015.
- Most insurers are no longer as flexible regarding the ability to select counsel in duty-to-defend policies or in non-duty-to-defend policies that require the use of panel counsel, and this accommodation continues to be one of the most advocated issues for clients.
- Underwriters continue to focus on whether information obtained in credit reports, pursuant to the Fair Credit Reporting Act, could have an impact on claims alleging failure to hire.
- Corporate wellness programs, to the extent such programs may be discriminatory against individuals with disabilities or genetic diseases under the ADA and Genetic Information Nondiscrimination Act (GINA), remain a topic of underwriting discussions.
- Given growing global exposure, insurers are keen to understand non-US loss history and employment exposure for large global clients. For example, privacy issues in the workplace continue to play out globally. Argentina is one example of a jurisdiction where the courts are currently considering this issue as it relates to monitoring work emails, while the use of social media continues to result in litigation seemingly everywhere.

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Financial and Professional: Fidelity/Crime

AHEAD IN 2016

Average fidelity/crime rates likely to increase slightly.

Adding explicit fraudulent impersonation coverage may result in moderate premium increases.

Abundant capacity available in the near term.

INSURANCE MARKET CONDITIONS

SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
FINANCIAL INSTITUTIONS	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
COMMERCIAL ORGANIZATIONS	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

Average fidelity rates at renewal generally increased by about 2% in the fourth quarter of 2015, owing in part to concerns over impersonation fraud, which allows someone to induce a targeted employee to initiate fraudulent electronic funds transfers. Fidelity underwriters have renewed their focus on procedures and controls related to funds transfers and data security due to the significant increase in such losses, as well as losses arising out of the theft of confidential information. Capacity remained abundant as additional insurers built up their capabilities in this segment.

RISK TRENDS

Fraudulent Impersonation

Losses from fraudulent impersonation, via telephone or email, have increased considerably over the last two years. In general, crime insurance policies available from US insurers do not adequately address all aspects of this exposure. In 2015, many US insurers developed policy endorsements to specifically respond to fraudulent impersonation losses, focusing primarily on commercial risks, which have experienced the vast majority of these losses. Development of specific coverage grants in the financial institution space has lagged, however. Policies issued by many insurers in the London market provide coverage for this exposure without the need for specific endorsement.

In the US market, fraudulent impersonation is generally provided on a sublimited basis and subject to an additional premium charge, though some insurers offer low limits of coverage for free.

Information Theft

The number of incidents involving theft of information continues to grow as do the resulting financial losses. Conflict in the courts over whether to apply a proximate cause standard (where conduct is sufficiently related) or a sole and immediate cause standard has created some ambiguity around the applicability of coverage for these losses under standard crime insurance policy forms. As a result, insurers will continue to refine policy language to ensure that it reflects insurers' intent to apply the sole and immediate cause standard. In addition to fine tuning policy language, underwriters will continue to focus on network security, data protection, and the controls and procedures around the electronic movement of funds. Insureds can expect underwriters to request specific information relating to these topics and to maintain underwriting discipline around addressing exposures arising out of information theft.

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Financial and Professional: Fiduciary Liability

AHEAD IN 2016

Rates expected to fall further for large plan sponsors in 2016.

Excessive fee cases will remain top of mind.

Stock-drop cases change landscape for fiduciary liability.

INSURANCE MARKET CONDITIONS

SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PLAN ASSETS OF $1 BILLION AND HIGHER	6.5% DECREASE TO FLAT	FLAT TO 5% INCREASE
PLAN ASSETS OF $250 MILLION TO $1 BILLION	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
PLAN ASSETS UNDER $250 MILLION	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

Employee Retirement Income Security Act (ERISA) fee cases and company stock litigation against plan sponsors and fiduciaries were prevalent in 2015 and will continue to lead discussions in 2016. The uncertainty over the implications of these cases could impact rates going forward.

RISK TRENDS

Excessive Fee Litigation

After nearly a decade of ERISA fee litigation the cases have begun to resolve and the trend is clear: Settlement amounts are on the rise. Since 2009, there have been 11 announced settlements, averaging $28.8 million (not including defense costs, which can be in the millions of dollars). Of four that occurred in 2015, the average settlement was $44.6 million.

The US Supreme Court's May 2015 decision in *Tibble v. Edison* held that the "ongoing duty to monitor" investments is a fiduciary duty, separate and distinct from the duty to exercise prudence in selecting investments. As future ERISA fee cases will likely focus on defining the scope of the duty to monitor, the *Tibble* case is another reminder of the importance of having an established process for each element of plan administration.

ERISA Stock Drop Cases

In a decision favorable to plan sponsors in November 2015, the US Court of Appeals for the Sixth Circuit held in *Pfeil, et al. v. State Street Bank & Trust Co.* that fiduciaries satisfied the duty of prudence when they analyzed investment decisions relating to employer securities. The decision stems from the US Supreme Court's ruling in *Fifth Third Bancorp v. Dudenhoeffer,* a June 2014 decision involving investments in employer stock that rejected the presumption of prudence for companies that offer company stock in a defined contribution retirement plan. With *Pfeil*, the US Court of Appeals reaffirmed the importance of adhering to a prudent process.

Affordable Care Act

The Affordable Care Act (ACA) requires employers with 50 or more full-time employees to offer health insurance to those employees or pay a tax penalty. The litigation risks for employers stem primarily from the ACA's whistleblower protections, discrimination claims under ERISA Section 510, and investigations by the Departments of Labor and Treasury regarding worker misclassification and compliance with coverage mandates. Certain insurers are willing to expand their policies and protect policyholders against errors and omissions in connection with the ACA regarding coverage related to the purchase (or attempted purchase) of insurance through a health care exchange.

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Financial and Professional: Lawyers Professional Liability

AHEAD IN 2016

Continued consolidation of law firms expected.

More law firms purchasing standalone cyber coverage.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
LAWYERS PROFESSIONAL LIABILITY (LPL)	LARGE FIRMS (500+ ATTORNEYS)	2% DECREASE TO FLAT	FLAT TO 2% INCREASE
	MIDSIZE FIRMS (200 TO 500 ATTORNEYS)	2% DECREASE TO FLAT	FLAT TO 2% INCREASE
	SMALL FIRMS (50 TO 200 ATTORNEYS)	5% DECREASE	5% DECREASE

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

Market Commentary

Capacity in the lawyers professional liability (LPL) market remained abundant at $600 million (depending on the class of insured), which helped to moderate efforts by some incumbent insurers to raise rates. Single-digit rate decreases generally occurred across the midsize and large firm LPL segments in the fourth quarter of 2015. And the moderate price decreases seen in 2015 represented a measured response to competition from incumbents, making it more difficult for new insurers to pose a significant challenge.

New markets, however, generally were willing to compete on pricing and coverage. Relationships typically remained a dominant factor as LPL buyers tend to be loyal to incumbent insurers.

RISK TRENDS

Mergers and Acquisitions

Consolidation continued at a rapid clip for law firms, from the smallest combination to those increasing a firm's global footprint. According to legal consultant Altman Weil, there were 20 law firm combinations announced in the US in the third quarter of 2015. The 68 deals announced globally through the end of September was the highest number of mergers and acquisitions recorded by Altman Weil MergerLine since it began compiling data in 2006.

Errors of Judgment

General mistakes and human errors contributed to claims against law firms of all sizes in 2015, and are likely to weigh on this industry in 2016. Claims in 2015 involved everything from simple omissions and missed deadlines to misconstrued advice and rogue practices. There have been a number of large settlements attributable to human error and/or drafting error. This kind of litigation, along with allegations of conflict of interest, create challenges when establishing a claim's defense strategy.

Cybersecurity

Preventing cyber-attacks was a focus for law firms in 2015, and will continue to be in 2016. In Marsh's *2014 Global Law Firm Cyber Survey,* 79% of respondents stated that cyber/privacy security was one of their top 10 risks. Almost 75% had internal controls in place at that time to detect noncompliance with privacy policies.

Law firms generally are purchasing standalone privacy/cyber protection that is structured to work with their LPL protection. Some insurers have tried to incorporate cyber coverage either within their base LPL forms or via endorsement. However, we have not seen a situation in which this approach has been used where all first- and third-party exposure has been adequately addressed.

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INSURANCE MARKETS BY SPECIALTY

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Aviation

AHEAD IN 2016

Airline insurance rate reductions expected.

Competitive rates likely for general aviation insurance.

Potential premium reductions for aerospace manufacturing insurance.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
AIRCRAFT PRODUCTS LIABILITY	AEROSPACE MANUFACTURERS	5% DECREASE TO FLAT	10% DECREASE TO FLAT
GENERAL AVIATION	CORPORATE	5% DECREASE TO FLAT	5% DECREASE TO FLAT
HULL AND LIABILITY	AIRLINES	25% DECREASE TO 15% DECREASE	15% DECREASE TO 5% INCREASE

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

Market Commentary

AIRLINE INSURANCE

Airline insurance buyers generally experienced a soft market in the fourth quarter of 2015, with most renewing with decreases of between 15% and 25%. Without a reduction of capacity or a major loss, these trends are expected to continue in 2016.

GENERAL AVIATION INSURANCE

In 2015, aviation insurance buyers benefitted from soft market conditions, with rates generally renewing flat or with reductions. This was the result of overcapacity in the aviation insurance marketplace and competition between insurers. Aviation premium has dropped significantly over the past few years, and total premium volume has eroded to levels that may barely be enough to cover attritional losses. However, underwriters continue to review individual risks, and minor reductions may be available in 2016 based on class of business.

AEROSPACE MANUFACTURING INSURANCE

Up to $2.25 billion in capacity was available on a primary layer basis at year-end 2015, with higher limits available through excess markets. Capacity was limited, however, in areas such as general aviation aircraft manufacturers and for insureds with loss ratios consistently above 100%. In those cases, retentions were usually established to keep premium levels competitive and minimize overall total cost of risk. Some coverage continued to expand, including excess grounding and some instances of non-occurrence grounding coverage. Overall, the market in 2015 was robust, with some insurers writing as much as $850 million of their own capital.

Despite some insurer consolidation in 2015, the market is expected to remain favorable in 2016, with small premium reductions likely.

RISK TRENDS

Safety

Despite some high-profile losses in recent years, aviation safety has improved due to:

- Enhancements in aircraft design and navigation systems.
- Improvements in crew training methods.
- Innovations in technology.

Emerging Risks

Airlines and general aviation companies face numerous challenges in their operations, including:

- Human factors, such as fatigue and overreliance on technology, which can increase the potential for a catastrophic loss.
- Cyber-attacks and data breaches.
- Growing use of commercial unmanned aerial systems, or drones.

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Captives

MARKET COMMENTARY

The captive insurance market continued to expand in the US and internationally in 2015. There are now almost 7,000 captives being used globally, including nearly 2,900 domiciled in the US. Businesses — especially middle-market companies — are exploring a variety of structures, domiciles, and coverage options, trends that should continue to drive captive growth in 2016.

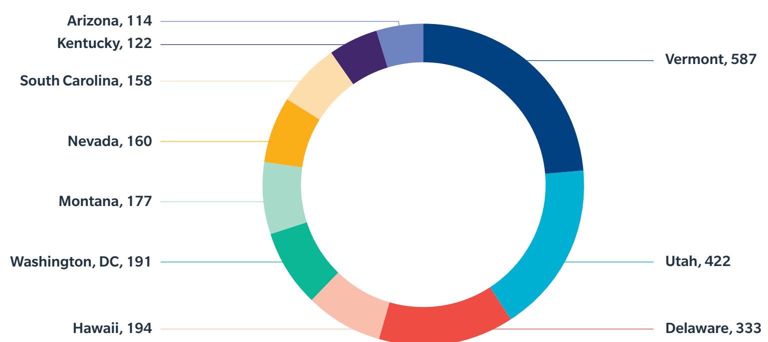
Domiciles

Bermuda and Cayman continue to offer flexibility, experience, and infrastructure to captive owners, and remain the leading domiciles globally. These and other established domiciles, including Dublin, have seen an influx of special purpose vehicles in recent years, many of which are owned by financial institutions. Although some captives have recently re-domesticated to onshore domiciles, this does not represent a large-scale trend, and the offshore market generally remains robust. Vermont remains the largest US domicile (see **Figure 1**), while Utah has emerged as the second-largest and an especially attractive location for small captives.

Regulation

In early 2015, the Internal Revenue Service (IRS) included the formation of small captives on its annually compiled and well-publicized list of questionable tax avoidance strategies. Any company seeking to form a small captive should follow a strict and detailed approach to ensure compliance. Best practices include a comprehensive feasibility analysis, premium and risk determination, ownership structure analysis, and actuarial and capital assessments.

FIGURE 1 | TOP 10 US CAPTIVE DOMICILES
Source: Business Insurance



AHEAD IN 2016

Captive growth likely to continue.

Tax regulators scrutinizing small captives.

More captives accessing terrorism coverage.

Meanwhile, the Federal Home Loan Bank (FHLB) system has resumed acceptance of new applications by single-parent captives formed by real estate finance firms. FHLB rates are often more favorable than other sources of financing.

In December, federal law put in place new qualification requirements (effective January 1, 2017) for insurers making the "small insurer" 831(b) federal income tax election, which allows qualifying insurers to only be taxed on investment income. Captive owners should work with their insurance advisors to determine how the new law affects them.

Coverage Lines

Owners are increasingly using their captives to write nontraditional forms of insurance, including political risk, trade credit, cyber risk, and third-party offerings, including benefits. Meanwhile, less than one-quarter of all US captives have accessed the US government's property terrorism backstop, reauthorized in early 2015 as the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA). We expect that more owners will use their captives to access TRIPRA in 2016.

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Employee Benefits

AHEAD IN 2016

Private exchange marketplace growth to continue.

Employers predict health benefit costs to increase about 4.3% per employee.

Continued employer creativity regarding workforce health.

INSURANCE MARKET CONDITIONS

Market Commentary

For US employers, the Affordable Care Act (ACA) continued to affect health benefit plan cost and employee enrollment in 2015. The law's employer mandate, which requires employers with 50 or more full-time employees to extend coverage eligibility, went into effect after a one-year delay. But the imposition of the law's 40% excise tax on high-cost health plans — the so-called "Cadillac tax" — was delayed until 2020 by the enactment of new taxation and spending legislation, giving many employers significant breathing room to continue implementing benefit cost strategies.

As the ACA continued to take hold, the private exchange marketplace gained momentum as a way for employers to provide benefits to employees.

Action was taken on several fronts to hold down growth in the average per-employee cost of health benefits to 3.8% in 2015 (see **Figure 1**). This was a slightly lower increase than the previous year's, and a third straight year of increases below 4%. According to the *National Survey of Employer-Sponsored Health Plans*, conducted annually by Mercer, one of the Marsh & McLennan Companies, total health benefit costs averaged $11,635 per employee in 2015; this includes employer and employee contributions for medical, dental, and other health coverage. Small employers were hit with higher increases than large employers, with costs rising by 5.9% on average among employers with 10 to 499 employees, but by just 2.9% among those with 500 or more.

Employers predict that in 2016 their health benefit cost per employee will rise by 4.3% on average. This increase reflects changes they will make to reduce cost; if they made no changes to their current plans, they estimate that cost would rise by an average of 6.3%. About half of all employers indicated they would make changes in 2016.

Average Annual Health Benefit Cost Increases Still Low

Perhaps because of continued success in restraining cost growth, just 5% of all large employers believe it is likely that they will terminate their employee health plans within the next five years, essentially unchanged from the previous year's figure of 4%. And while small employers are still more likely to be considering an exit strategy, the number of those with 50 to 199 employees that say they are likely to drop their plans fell from 15% in 2014 to just 7% in 2015.

High-deductible consumer-directed health plans (CDHPs) remain a key tactic for minimizing health-plan cost growth and exposure to the ACA excise tax, when (and if) it is implemented. According to the Mercer survey, fully one-fourth of all covered employees are now enrolled in CDHPs, which include an employee account — either a health savings account (HSA), the most common type, or a health reimbursement account. The largest employers have taken the lead in this; 73% of employers with 20,000 or more employees now offer a CDHP, and 30% of their covered employees are enrolled.

The Mercer survey also found that employers are moving quickly to implement telemedicine services — telephonic or video access to providers — as a low-cost, convenient alternative to an office visit for some types of non-acute care. Offerings of telemedicine services jumped from 18% to 30% of all large employers.

FIGURE 1 | ANNUAL INCREASE IN TOTAL HEALTH BENEFIT COST PER EMPLOYEE

Source: Mercer National Survey of Employer-Sponsored Health Plans

Year	Increase
2011	6.1%
2012	4.1%
2013	2.1%
2014	3.9%
2015	3.8%
2016 (PROJECTED)	4.3%

The ability to compare prices for higher-cost services is becoming a reality as well. More large employers contracted with a specialty vendor to provide their employees with a "transparency tool" — an online resource to help them compare provider price and quality. Among employers with 20,000 or more employees, 24% provided transparency tools in 2015, up from 15% the previous year.

Employers are also getting more creative in how they support workforce health, the most desirable route to long-term cost management. About one-fourth of large employers (24%) encourage employees to track their physical activity with a "wearable" device, while 30% use mobile apps designed to engage employees in caring for their health. They are broadening the focus of workforce health and wellness programs to include other elements of wellbeing, offering programs to address sleep disorders (39%, up from 32% the previous year), improve resiliency (42%), and provide help in managing finances (69%).

Among other findings of the Mercer survey relevant to insurance market trends:

- 5% of all large employers now cover egg freezing (11% in the Northeast).
- 24% cover in vitro fertilization, a number that has remained essentially the same over the past 15 years.
- 11% of all large employers cover gender reassignment surgery, up from 8% in 2014 (29% of employers with 20,000 or more employees cover it).
- 29% of large employers vary the employee contribution amount based on tobacco-use status or provide other incentives to encourage employees not to use tobacco. Among those reducing the premium for non-tobacco use, the median reduction is $400 per employee. Most employers (59%) include e-cigarettes in their definition of tobacco.

There also was a jump in the prevalence of employers that include same-sex domestic partners as eligible dependents, from 55% to 64% of all employers, and from 76% to 81% of all jumbo employers. There was no growth among large employers in the provisions excluding spouses with other coverage available (8%), but the use of spousal surcharges rose from 9% to 12% of all large employers.

PRIVATE EXCHANGES

Employers' increasing focus on cost management strategies, along with a growing emphasis on account-based plans, is likely to spur steady growth in the use of private exchanges, such as Mercer Marketplace, for employee benefits and benefits administration. Among large employers, 6% already use a private exchange for active employees or have indicated that they will do so by next year's open enrollment, a 50% increase in just one year. Significantly, an additional 27% of large employers are considering switching to an exchange within five years.

CDHPS

Helping to hold down cost growth for large employers was a jump in enrollment in high-deductible consumer-driven health plans (CDHPs) as they continued to implement new plans in 2015, according to Mercer's survey. Employers of all sizes, but especially large employers, added consumer-directed health plans in 2015 (see **Figure 2**). Offerings of CDHPs jumped from 48% to 59% among employers with 500 or more employees, and from 72% to 73% among jumbo employers.

Much of the growth in enrollment is the result of employers adding plans. Because most employers offer a CDHP alongside other medical plan choices, building CDHP enrollment over time is an ongoing challenge. An HSA-eligible CDHP costs about 18% less, on average, than a traditional PPO, and is typically the lowest-cost option for employees in terms of their paycheck deduction. However, when CDHPs are offered as an option, even among large employers that have offered the plan for at least three years, only 29% of employees, on average, elect to enroll.

VOLUNTARY BENEFITS

Meanwhile, as employers continue to move from traditional defined benefit programs to a defined contribution approach that blends employer- and employee-paid elements, growth can be expected in voluntary and ancillary benefits, through both private exchanges and traditional benefits programs. The continuing evolution of technology, product offerings, and targeted marketing strategies will help employees make more informed choices in the insurance marketplace, enhancing employers' prospects for retaining healthy, productive workforces.

FIGURE 2 | PERCENT OF EMPLOYERS OFFERING OR LIKELY TO OFFER CDHPS BY EMPLOYER SIZE

Source: Mercer National Survey of Employer-Sponsored Health Plans

	2012	2013	2014	2015	2016 (VERY LIKELY TO OFFER)
ALL EMPLOYERS (10 OR MORE EMPLOYEES)	22%	23%	27%	29%	40%
ALL LARGE EMPLOYERS (500 OR MORE EMPLOYEES)	36%	39%	48%	59%	75%
JUMBO EMPLOYERS (20,000 OR MORE EMPLOYEES)	59%	63%	72%	73%	85%

Energy

AHEAD IN 2016

Reduced rates likely for offshore property/rigs.

Lower premium income levels for onshore upstream energy.

Property insurance rate reductions will likely continue.

More mergers and acquisitions expected.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
OFFSHORE PROPERTY / RIGS	NAMED WINDSTORM	22.5% DECREASE TO 20% DECREASE	15% DECREASE TO 10% DECREASE
	OFFSHORE SHELF (NON-WIND)	20% DECREASE TO 15% DECREASE	17.5% DECREASE TO 12.5% DECREASE
	OFFSHORE DEEP (NON-WIND)	20% DECREASE TO 15% DECREASE	20% DECREASE TO 15% DECREASE
ONSHORE PROPERTY/ DOWNSTREAM	DOWNSTREAM (NON-WIND)	25% DECREASE TO 20% DECREASE	20%+ DECREASE
	DOWNSTREAM (WIND)	25% DECREASE TO 20% DECREASE	17.5% DECREASE TO 15% DECREASE
	MIDSTREAM (NON-WIND)	25% DECREASE	20% DECREASE TO 15% DECREASE
	MIDSTREAM (WIND)	25% DECREASE	12.5% DECREASE TO 10% DECREASE
CONTROL OF WELL	OFFSHORE SHELF	20% DECREASE TO 15% DECREASE	17.5% DECREASE TO 12.5% DECREASE
	OFFSHORE DEEPWATER	20% DECREASE TO 17.5% DECREASE	20% DECREASE TO 15% DECREASE
	ONSHORE	30% DECREASE TO 25% DECREASE	20% DECREASE TO 17.5% DECREASE
PRIMARY LIABILITIES	OFFSHORE AND ONSHORE	FLAT TO 5% INCREASE	FLAT
EXCESS LIABILITIES	ONSHORE AND OFFSHORE	10% DECREASE TO 5% DECREASE	5% DECREASE TO FLAT

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

Market Commentary

Overall energy insurance market capacity continued to increase in 2015, putting significant downward pressure on pricing. Although market consolidation is changing the insurance landscape, a significant withdrawal of capital is not expected — barring unforeseen events — due to the historically low interest rate environment and limited loss activity across the sector. Soft market conditions will likely continue in 2016 as insurers attempt to maintain premium levels and compete for market share.

OFFSHORE PROPERTY/RIGS

In the fourth quarter of 2015, upstream market capacity increased almost 20% compared to the same time the previous year, bringing total capacity to $7.5 billion ("working capacity" remained around $4.5 billion). Although there were no significant catastrophes during the 2015 windstorm season, there were some high-profile losses through the year, including:

- The loss of a production platform — offshore Mexico.
- A blowout — offshore Falklands.
- A floating production storage offloading (FPSO) unit fire/explosion — offshore Brazil.
- A tension-leg platform failure in the Gulf of Mexico (GOM).

Despite these notable losses, plentiful capacity and a reduced exposure base fueled competition, a trend that is expected to continue in 2016.

OFFSHORE CONTROL OF WELL

Organizations in 2015 saw rate reductions for GOM drilling as there have been no significant losses since the 2010 Macondo event. Rating and retention levels, however, were higher than other offshore developments globally. Many operators in the GOM reduced their drilling capital expenditure significantly, if not entirely, in 2015 and will be doing the same in 2016. As a result, insurers are losing significant premium income even before taking surplus capacity and competition into account.

ONSHORE CONTROL OF WELL

Premium income levels for onshore upstream energy were hit hard in 2015, a trend that is expected to continue in 2016. This is due in part to capital expenditure reductions and competition between domestic and international markets to maintain market share. Given the lower limits required and the number of onshore control of well insurance products available, rate reductions continue to outpace all other lines of energy insurance coverage.

ONSHORE ENERGY PROPERTY — DOWNSTREAM/MIDSTREAM

Energy property insurance capacity remained robust and more insurers were willing to extend capacity for US risks in 2015. Traditional marine energy insurers' appetite for midstream and terminal operations increased, except for processing/refining activities, which they are prohibited from insuring due to treaty reinsurance exclusions. Insurers managed to keep or in some cases increase their market share to offset premium reductions. Although new entrants created competition, insurers generally were able to maintain discipline on retention levels and policy language.

With few major onshore losses for energy companies in 2015, insureds typically achieved reductions of 20% or more in the fourth quarter. Insurers' actuaries are analyzing historical loss data against current rating and retention levels to determine their likely profitability in these soft market conditions.

Favorable market conditions are expected to continue into 2016; however, rising interest rates may lessen capital increases in the reinsurance treaty market. It will likely take an unexpected loss or multiple large losses coupled with a significant withdrawal of capacity to adversely impact the rating conditions in the market.

PRIMARY LIABILITIES

The fall in commodity prices led to a dramatic downturn in exposures and large premium reductions in 2015. As a result, there has been some pressure on rates to help insurers maintain adequate premium income levels. Additionally, there were a significant number of premiums returned in 2015 as policies expired and adjustments were made to reflect exposure changes. Insurers were competitive in quoting new business, including providing options for guaranteed cost and lower deductibles. Underwriters maintained focus on auto and transportation exposures.

EXCESS LIABILITIES

Rates for energy companies renewing umbrella and excess liability programs in the fourth quarter generally spanned from flat to decreases in the single-digits. Similar to primary liabilities, premium reductions occurred where payroll and overall exposures declined in 2015.

Insurers aggressively competed for business, and new entrants looked to extend capacity in lead and excess layers. A few excess liability insurers are showing signs that they are moving away from this class of business; however, new market entrants are expected to offset some of this uncertainty. Rail transportation is a challenge for excess underwriters and remains a source of significant losses for excess insurers.

RISK TRENDS

Oil Prices

Declining oil prices continue to have a significant impact on the energy sector — particularly service contractors — and its insurers. Sustained low oil prices will likely mean more competition among insurers to maintain market share and will add to depressed ratings. In 2015, energy companies experienced reduced capital expenditures, including drilling budgets and canceled exploratory and development projects. The industry is below the break-even price point for many fields, including both offshore GOM and onshore US. Although many companies realized efficiencies in 2015, difficult times will likely continue in 2016.

Mergers and Acquisitions

The decline in energy prices has fueled significant consolidations among both energy companies and their underwriters in 2015. Although insurer consolidation may suggest a reduction of capacity, many newly formed or combined insurance entities have expressed a desire to increase capacity. This trend is likely to continue in 2016 as insurers continue to seek large global platforms to compete in the long term.

Cybersecurity

The energy industry is at significant risk from cyber-attacks. As a result, there is increased focus on regulations and adherence to certain contractual risk allocations to better manage each party's risk and exposure to cyber loss. Many companies are pursuing cyber-specific insurance policies to protect their assets due to exclusions in other coverage lines. In 2016, more companies will likely consider purchasing cyber-specific policies.

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Entertainment and Events

AHEAD IN 2016

Stable insurance market likely for most buyers.

Insurers expanding global capabilities.

Insurers seeking more information about drone usage.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
ADVERTISING AND MARKETING	5% DECREASE TO FLAT	10% DECREASE TO FLAT
CONTENT PRODUCTION	5% DECREASE TO FLAT	10% DECREASE TO FLAT
CONTINGENCY	10% DECREASE TO FLAT	10% DECREASE TO 5% DECREASE

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

Market Commentary

The market for entertainment and events insurance was relatively soft in 2015. Although there are a limited number of insurers writing the coverage, capacity and competition from both US insurers and Lloyd's syndicates remains strong. In the fourth quarter of 2015, insureds generally renewed their programs flat to down 10%, although individual results varied depending on specific risk profiles and loss histories. Similar rate reductions are expected in 2016, barring unforeseen changes.

The entertainment and events insurance market generally comprises three sectors:

- Advertising and marketing.
- Content production.
- Contingency.

With relatively good loss ratios, these lines remain generally profitable for insurers, some of which are looking to expand their market presence. A number of insurers that already write coverage in the US are looking to provide more global capabilities to their clients. Meanwhile, demand continues to grow, particularly for content production coverage as companies in several industries increasingly seek to produce original content for a variety of purposes.

RISK TRENDS

Drones

The use of unmanned aerial systems, or drones, is emerging as a popular filming technique. Drones can offer a relatively inexpensive alternative to helicopters and other vehicles, but present new insurance considerations. Insurers are seeking detailed information from insureds about how drones are used, their size, and who operates them.

Terrorism

As organizations look to produce content and promote their brands outside of the US, often in unfamiliar regions, terrorism and political unrest is emerging as a key concern. In addition to the direct impacts of a terrorist attack, including the potential for loss of life and property damage, both actual and threatened acts of terrorism can delay productions and events, and damage organizations' bottom lines.

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Environmental

AHEAD IN 2016

Soft market expected to continue.

Global environmental regulations remain a critical risk.

M&A activity likely to drive purchasing.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
POLLUTION LIABILITY (SITE POLLUTION COVERAGE)	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
CONTRACTOR POLLUTION LIABILITY (CONTRACTOR OPERATIONS COVERAGE)	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE

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

Market Commentary

Soft conditions — driven by abundant capacity — defined the environmental insurance market in 2015, a trend likely to continue in 2016, barring unforeseen changes. Rates remained generally flat to showing slight decreases for both pollution legal liability (PLL) and contractors pollution liability (CPL). Some insureds with favorable loss histories, short policy terms, and in industries considered desirable by insurers saw significant rate decreases at renewal — sometimes on the order of 10% to 20% or more.

Some market dislocation occurred in real estate portfolios as several insurers showed concern with development-related risks regarding soil excavation and removal. Overall, there remained sufficient capacity and insurer choice to find coverage. Annually renewable programs that covered operational risk for new pollution conditions across most industries were competitive.

Most insurers continued to reduce their long-term exposure on individual placements from 10-year policy terms in certain insurance markets to 1-to-5 years. There are still, however, adequate markets for 10-year legacy-related placements for mergers and acquisitions, brownfields, and other legacy situations.

CLAIMS

Although insurers are somewhat reticent to share claims experience, it is clear that in certain areas, such as mold, the frequency of claims is causing concern. An influx of claims related to long-term, in-force PLL policies around legacy risks, redevelopment-related risks, and cost cap policies shaped claims development in 2015. Carriers offered shorter terms and have restructured the cost cap. There has also been a pullback on citing redevelopment risks within real estate portfolios.

RISK TRENDS

Environmental Regulation

Global environmental regulation is a prominent risk to businesses. The US is perceived as having an onerous operating environment as a result of joint and several liabilities, long-established regulatory enforcement, and a highly litigious legal framework. Companies in Asia are particularly cautious about US environmental risk. China's legal framework now mimics the US in terms of joint and several liability, while also placing the burden of proof on alleged polluters.

Brownfields Redevelopment

With a stable economy, there has been a marked increase in redevelopment in brownfields. Real estate developers see an opportunity to meet demand in the residential and commercial space.

Mergers and Acquisitions

The rapid pace of M&A activity has led to an increase in environmental insurance purchases to help facilitate transactions. This has been most evident in the middle market M&A space, with higher risk industries such as chemical, petrochemical, and manufacturing.

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Marine

AHEAD IN 2016

Cargo and STP capacity expected to further expand.

Isolated large losses in 2015 may lead insurers to seek increased rates and retentions.

Further erosion likely of overall hull premiums.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
MARINE CARGO	MIDSIZE ORGANIZATIONS	LESS THAN 5% DECREASE TO FLAT	LESS THAN 5% DECREASE TO FLAT
	LARGE ORGANIZATIONS	5% DECREASE TO FLAT	5% DECREASE TO FLAT
CARGO STOCK THROUGHPUTS	MIDSIZE ORGANIZATIONS	5% DECREASE TO FLAT	FLAT
	LARGE ORGANIZATIONS	7.5% DECREASE TO FLAT	LESS THAN 5% DECREASE TO FLAT
MARINE LIABILITIES		10% DECREASE TO FLAT	7.5% DECREASE TO FLAT
BLUE WATER P&I		2% INCREASE	3% INCREASE
BLUE WATER HULL		15% DECREASE TO 10% DECREASE	10% DECREASE TO FLAT
BROWN WATER HULL / P&I / POLLUTION		15% DECREASE TO 5% DECREASE	5% DECREASE TO FLAT

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

Market Commentary

The marine insurance market significantly softened in 2015, largely driven by a continued influx of capacity, a soft reinsurance market, and reduced losses. Although there were a high number of mergers among marine underwriters in 2015, these consolidations did not affect the overall market. Buyers of marine cargo and stock throughput (STP) insurance generally experienced rate reductions in 2015, mainly driven by insurers aggressively seeking new business as well as additional capacity from US and London markets. Barring unforeseen events, these trends are expected to continue in 2016.

MARINE LIABILITIES, HULL, AND PROTECTION AND INDEMNITY

Insurer competition continued to drive rate reductions, which accelerated in 2015. Continuing trends include:

- Increased use of verticalized placements (multiple orders at different rates).
- Increased packaging of marine interests to increase the premium mass.
- Underwriters seeking larger lines to increase their premium volumes.
- Underwriters targeting business outside of their traditional scope and appetite.

Collectively, the International Group of P&I Clubs (IG) increased its free reserves to record amounts in 2015. This was due to:

- A low frequency of loss at attritional levels.
- Gradual improvements in overall crew quality.
- Improved vessel designs that reduced crew injuries.
- Better standards.
- Lower high-value claims.

Meanwhile, several shipping segments are in deep distress due to overcapacity and reduced demand. In response, the IG clubs are moderating the general increases

required to below the perceived rate of claims inflation. At the same time, all of the clubs are resisting pressures to reduce rates, noting that while the frequency of attritional claims has reduced, the average value of claims within an individual club's retention (up to $9 million per occurrence) has continued to increase. To provide owners some relief, several clubs are continuing or newly considering methods of deferring the debiting of portions of the full premium until the policy year loss results can be assessed.

Competition for primary marine liabilities has increased as some underwriters seek to capture higher rates for their capacity. This subtle shift in underwriting appetite has not sufficiently reduced the over-abundance of capacity available for excess limits. Competitive pressures on ratings have limited underwriters' abilities to differentiate terms between risks; the minimum rating applies to most placements above working layers.

INSURER CONSOLIDATIONS

There were six significant insurer mergers announced in 2015 affecting the marine marketplace. Once the mergers are completed, each consolidation is expected to generate double the total premium of the 13 IG clubs. As of yet, there has been no sign of any possible consolidation among the clubs. The last merger activity among protection and indemnity (P&I) clubs was in 1998.

MARINE CARGO AND STOCK THROUGHPUT (STP)

Capacity in the marine cargo and STP market grew to approximately $2.2 billion in 2015, driven by the addition of new syndicates in London and growth in the Asian marine marketplace. Client demand remained high for STP programs, which offer an attractive alternative to traditional property insurance for coverage of inventory. The marketplace for project cargo, including delay in start-up, was active, with capacity typically abundant and rates competitive.

Overall, the market was generally stable and competitive for most risks. Rates were generally flat, although single-digit reductions were consistently achieved for organizations with good long-term loss records. For those with poor loss records, some insurers attempted to negotiate rate increases, with mixed results.

Cargo and STP capacity is expected to further expand in 2016. Overall, cargo and STP terms and rates will likely remain competitive for most risks. Although there is more marine STP capacity than before, organizations with large stock values in high catastrophe zones are likely to be reviewed in detail by insurers. Meanwhile, higher retentions and the use of modeling, analytics, and captives are expected to increasingly be considered, particularly when meaningful premium credits are to be achieved.

RISK TRENDS

Losses

Several large, high-profile, transit losses — the sinking of the cargo ship El Faro and the Port of Tianjin explosion — along with some notable stock/inventory losses in 2015 may lead some insurers to attempt to raise rates and pressure organizations for higher retentions in 2016.

Greater Underwriting Scrutiny

Marine cargo and STP insurers have become more focused on their potential exposures to catastrophic events, driven by increases in the values and accumulations of insured goods onboard vessels, within port areas, in distribution centers, and in warehouses. For operations in countries or geographies known for high theft rates or with limited transit and storage infrastructure, many marine insurers require higher deductibles. Certain products, such as automobiles, temperature-sensitive products, and high-value consumer goods may become more difficult to insure as some insurers have withdrawn from or reduced their participations in these classes of business.

Shipment values, shipping route details, and loss control measures are important when determining insurance limits and to achieve competitive terms. For STP, organizations should provide insurers with a complete statement of stock values with construction, fire protection, and security details.

Economic Environment

The blue water dry-bulk shipping segment continues to suffer from tonnage overcapacity and reduced demand. Following the slowdown of the Chinese economy, bulker freights have further declined. Underwriting concerns over insured values and budgeted maintenance may emerge in 2016.

Similarly, the offshore oil/gas support vessel segment has suffered a dramatic turn in demand following the drop in energy prices and deceased development. Large numbers of vessels are impaired, which may bring concern regarding the aggregation of exposures in windstorm-exposed areas and potential injury claims following layoffs.

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Political Risk

AHEAD IN 2016

Insurance rates generally expected to decline, apart from highest risk areas.

Insurers agreeing to broader coverage terms for foreign investment insurance.

Major global elections scheduled for 2016 and 2017.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
FOREIGN INVESTMENT INSURANCE (EXPROPRIATION AND POLITICAL VIOLENCE COVERAGE)	10% DECREASE TO 5% DECREASE, EXCEPT FOR HIGH-DEMAND OR HIGH-RISK AREAS	FLAT, EXCEPT FOR HIGH-DEMAND OR HIGH-RISK AREAS, WHICH MAY SEE INCREASES OF 10% OR MORE
CONTRACT FRUSTRATION/ NON-PAYMENT INSURANCE	5% DECREASE	5% DECREASE

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

Market Commentary

The market for political risk insurance softened in 2015, and for insureds renewing in the fourth quarter:

- Rates for foreign investment insurance generally fell 5% to 10%.
- Rates for contract frustration insurance and non-payment insurance fell 5%, on average.

Although insurers are troubled by recent events in Ukraine, Libya, Paris, and elsewhere, they generally have viewed these events as isolated incidents. Large-scale political risk losses have typically not materialized in recent years, and insurance market capacity remains abundant as existing insurers add more capital and new entrants aggressively compete for business.

The result is an overwhelmingly favorable marketplace for companies with low- to medium-risk portfolios, many of which have been able to lock in low rates with insurers for three to five years. Some insureds have also secured favorable coverage terms — for example, broader policy definitions of political violence that include attacks with political, religious, and ideological motivations. Barring unforeseen losses, these favorable trends should continue in 2016.

However, conditions are generally less favorable for programs involving high-demand and high-risk countries. Rates for portfolios that included Turkey and Brazil rose as much as 10% in the fourth quarter; coverage for Russia is generally difficult to obtain. Coverage for regions such as sub-Saharan Africa is expensive when purchased on a standalone basis, but may be priced favorably if part of a broader global portfolio.

RISK TRENDS

Emerging Market Slowdowns

After years of strong growth, we are now seeing slowdowns in several large emerging market economies, including Brazil and China. Economic turmoil in Brazil has led to deep voter dissatisfaction, raising concerns of political unrest and violence. A protracted downturn in China, meanwhile, could have serious repercussions globally.

Upcoming Elections

A number of major elections will take place in 2016 and 2017 that could have significant geopolitical implications. Presidential elections in the US, Iran, and South Korea in 2016 are expected to be crucial in shaping political landscapes. Political risk in greater China could increase in the run-up to Hong Kong's 2017 election of a new chief executive. And three elections in 2017 could be critical to the future of the European Union: A French presidential election, a German federal election, and a UK referendum on continued membership in the EU.

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Surety

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
CONTRACT SURETY	LARGE CONTRACTORS	FLAT	FLAT
	MIDSIZE CONTRACTORS	FLAT	10% DECREASE TO FLAT
COMMERCIAL SURETY	FORTUNE 1000	10% DECREASE TO FLAT	10% DECREASE TO FLAT
	SMALL COMMERCIAL	10% DECREASE TO FLAT	10% DECREASE TO FLAT

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

Market Commentary

The surety industry outlook for 2016 is positive, owing to continued market stability and a generally strong construction backdrop. For the tenth consecutive year, surety underwriters typically saw profitability in 2015. Surety capacity continued to expand, with new entrants and many underwriters willing to take larger exposures.

INTERNATIONAL SURETY

International surety is a growth area for surety markets. Surety bonds have become a useful alternative for organizations that do not want to tap bank lines of credit when doing business overseas, and in many cases, it's a less expensive option in the selected country. Major underwriters have expanded their foreign surety writings.

CONTRACT SURETY

Construction projects in 2015 increased at a 10% annualized rate through October, according to *Dodge Data & Analytics,* providing continued growth prospects for the contract surety segment. Large public construction infrastructure opportunities drove the upturn, with homebuilders experiencing another growth year. Sales of newly built, single-family homes rose 10.7% to a seasonally adjusted annual rate of 495,000 units in October 2015, according to data from the US Department of Housing and Urban Development (HUD) and the US Census Bureau. However, funding for public works has lagged, prompting a move to alternative funding methods, such as public-private partnerships (P3s), as a means to accomplish improvements.

AHEAD IN 2016

Positive outlook, assuming continued strength in construction industry.

International surety is a growth area.

Demand guarantees are an emerging risk trend.

COMMERCIAL SURETY

The commercial surety market is expected to grow further in 2016. The combination of new market entrants and increased available capacity from existing sureties is keeping rates competitive.

RISK TRENDS

Demand Guarantees

An emerging risk trend involves substituting surety bonds, which are conditional guarantees, for letters of credit — cash equivalents — when faced with liquidated damages and other difficult terms in construction contracts. Exploring options to bond in lieu of bank guarantees could provide an opportunity to save bank lines for other business needs, and manage downside risk.

Contract Terms

Owners continued to push construction risks downstream to contractors. Savvy contractors are using the services of skilled surety brokers to help them negotiate for less onerous final contract terms and conditions.

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Trade Credit

AHEAD IN 2016

Rates generally expected to fall in 2016.

Claims continue to increase in Eastern Europe and Latin America.

More financial institutions pursuing accounts payable insurance programs.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
TRADE CREDIT	5% DECREASE	10% DECREASE TO 5% DECREASE

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

Market Commentary

The market for trade credit insurance remains generally favorable for buyers. Most insureds renewed their programs with rate reductions of 5% in the fourth quarter of 2015; larger rate reductions were possible for portfolio programs covering multiple debtors (as opposed to single-debtor programs). Despite a rise in claims in 2015, generally favorable rate trends are likely to continue in 2016, barring unforeseen developments.

In addition to falling oil prices, which contribute to rising bankruptcies in many oil-exporting countries, insurers are concerned about an increase in claims in:

- Eastern Europe, resulting from sanctions levied against Russia following its annexation of Crimea in 2014.
- Latin America, particularly in Brazil as a result of that country's recession.

Despite this, capacity remains abundant into 2016.

RISK TRENDS

Accounts Payable Programs

Although trade credit insurance has primarily been used to insure accounts receivables, more companies, are now pursuing accounts payable insurance programs through their financial institutions. Generally, this insurance is being used to address issues related to working capital, which can be difficult for many sub-investment grade buyers to secure cost effectively.

Multi-Country Programs

Standalone trade credit insurance coverage remains difficult to secure for Russia, Eastern Europe, and Argentina. Elsewhere — including Brazil, China, and Southern Europe — coverage is available, but may be expensive. Multinational companies with exposures to these countries are often purchasing multi-country trade credit insurance policies, which allow underwriters to spread risk across several countries. Multi-country policies can be customized to provide broad coverage for as many as 20 countries, and are often available with more favorable terms and conditions than single-country policies.

Syndication

Many insureds are building syndicated trade credit insurance programs as insurers seek to share risk rather than cover an entire company's program. Many syndicated programs featured top-up insurance provided by one insurer in excess of a primary policy underwritten by another.

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Cybersecurity Consulting and Risk Advisory

AHEAD IN 2016

Cyber threats will continue to evolve.

Critical infrastructure targeting could become more severe.

Increasing organizational attention on building cyber resilience.

INDUSTRIES FACE EVOLVING CYBER RISKS

As Risk Dynamics Change, Enterprise-Wide Approach Ever-More Critical

More than any risk issue in recent memory, cybersecurity cuts across industry sectors, company size, and geography. Managing cybersecurity has evolved from finding a means to stop data breaches to developing comprehensive, effective cyber risk management strategies.

No industry is immune from a cyber event, though some have been particularly prone to attacks, including those in the, financial, health care, and retail sectors. And as the threats have evolved, companies have realized that cybersecurity requires a leadership approach that involves stakeholders from across the organization. To have an effective cybersecurity program in place, it is particularly important for risk managers, chief information officers (CIOs), and chief information security officers (CISOs), to come together to discuss, plan for, and respond to cyber incidents.

Effectively managing cybersecurity as an enterprise risk requires a thorough understanding of an organization's exposures and risk management program gaps. No matter the industry, boards of directors and others are increasingly demanding more and better information about cyber risk. A 2015–2016 National Association of Corporate Directors (NACD) Public Company Governance Survey noted that 31% of responding directors were either "dissatisfied" or "very dissatisfied" with the quality of information they receive about cybersecurity.

Information and understanding of cybersecurity is often held, collectively, by the IT security leaders and the risk managers; however, there is generally not enough integrated understanding. Businesses today need to make informed decisions about investments and program adjustments to maintain business resiliency in the face of cyber threats — a major challenge for cybersecurity risk management for 2016 and beyond.

Changing Risk Dynamics

Corporations today face a variety of cyber exposures:

Critical infrastructure: Damaging or destroying physical property through cyber means is considered by many to be the "next wave" of cyber risk. Threats include those to industrial control systems (ICS) and supervisory control and data acquisition (SCADA) systems that act as controllers of major critical infrastructure components. This has been an active concern for almost 20 years, with recent small- and larger-scale incidents intensifying discussions and attention to this issue. A recent attack against a utility in Ukraine that shut down a power grid for several hours has attracted wide attention as a potential harbinger of future attacks.

The connected world: More of the physical systems and data on which companies and consumers depend are moving online. Society is still in the early stages of the Internet of Things (IoT), but it is fast becoming a reality. The World Economic Forum's *2016 Global Risks Report* notes the importance of such hyperconnectivity: "[T]he failure to understand and address risks related to technology, primarily the systemic cascading effects of cyber risks or the breakdown of critical information infrastructure, could have far-reaching consequences for national economies, economic sectors, and global enterprises." A survey in the report cites cyber attacks and related incidents as being the most likely and most impactful global risk in North America.

Espionage: Well-organized and funded cyber threat actors — including national militaries, intelligence services, organized crime, and terrorists — can meticulously target the critical networks and operations of an organization. Sophisticated hackers often spend a considerable amount of time planning specific, purposeful intrusions to capture crucial corporate data or intellectual property. Malware is often only discovered in corporate networks after many months. No industry is immune.

Vendors and Third Parties: Companies can also be exposed due to weaknesses in the cybersecurity posture of their business partners. Third parties with some degree of access to network resources and data — which is often the case with business partners, vendors, service providers, infrastructure providers, and others — are seen by sophisticated cyber-attackers as possible "soft targets" that will enable them to infiltrate the corporate network. In many recent cyber incidents, vendors unwittingly provided the gateway for the cyber-attacks that made headlines.

Industry Issues

All industries face cyber threats, and share many attributes related to means of attack, defenses, and regulatory concerns. But there are, of course, differences by industry, including:

Education: Academia ranks in the top three industries that are most susceptible to cyber risk, according to security firm Kroll. Simply put, the networks at educational institutions house the type of information that hackers covet — from Social Security numbers to health care data — while the typically open academic environment can make those networks easier to penetrate. Networks tend to have a wide range of user types, can be spread across geographies, operate 24/7/365, and include a diversity of connected devices.

Financial institutions: Cyber criminals would seem to have a natural motivation to attack financial institutions (FIs): It is, of course, where the money is. The industry is also a highly regulated one, and cybersecurity is at the top of regulators' minds. In a 2015 report, the Office of the Comptroller of the Currency (OCC) cited a need to raise awareness at banks about cybersecurity and an increased focus on cybersecurity at third-party technology service providers. Also in 2015, the Federal Financial Institutions Examination Council (FFIEC) released on behalf of its members (including the OCC) the Cybersecurity Assessment Tool, aimed at helping financial institutions identify their risks and assess their preparedness. In material related to the assessment, the FFIEC lays out guidance for CEOs and board members regarding their roles in cybersecurity.

Health care: Because health care data is extremely valuable to criminals, the industry is a regular target. According to the Department of Health and Human Services Office for Civil Rights (OCR), 2015 saw 255 incidents in the industry that affected more than 500 individuals each. Three of those breaches alone involved a total of nearly 100 million records, according to OCR. And the industry can expect to be a high-profile target in 2016. One reason is the ongoing high level of merger and acquisition activity, which can further open the doors to hackers as organizations merge various systems, vendors, and records.

Retailers: The retail industry continued to be hit by cyber-attacks in 2015, and there is no indication of a letup. Retailers' point-of-sale systems are a main inroad for cyber thieves, and a new system for conducting credit card transactions went into place in 2015. Initiatives to advance the use of EMV-compliant credit cards (EMV standing for Europay, MasterCard, Visa) aim to push retailers to use point-of-sale systems based on chip technology rather than the magnetic strips that make it easier for fraudsters. Other moves — such as end-to-end encryption and a focus on tokenization — can help retailers in the battle. But as retailers beef up in-store defenses, they can expect an increase in online fraud and attacks.

Others: A major development for all industries in 2015 was a court decision that endorsed the Federal Trade Commission (FTC) assertion that it had authority to regulate cybersecurity based on its mission to guard against "unfair trade practices." This was a landmark ruling that effectively gives the FTC a prominent role in cybersecurity.

The Enterprise Cybersecurity Program

No matter your organization or industry, successful enterprise cybersecurity starts at the top — the company's leadership and board of directors — and flows throughout the business, from cashiers and sales clerks to managers across departments. Key tenets of a successful cybersecurity program include:

- Establishing a culture, environment, and organic program of true data-driven cyber risk management.
- Ensuring that program objectives and policies reflect and support business requirements.
- Building a cybersecurity controls environment of administrative, physical, and technical controls that implement policy.
- Developing business resiliency plans and implementing scenario-based training aimed at preparing to respond in the event of network intrusions or disruptions.
- Honing a cybersecurity workforce that has the capacity and skills necessary for the configuration, operation, and continuous monitoring of security controls.

Cyber-attacks and technology risks have become a part of everyday business. Organizations that build and continuously improve upon a strategy of cyber resilience should find themselves with a competitive advantage, no matter their industry.

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Chemical

AHEAD IN 2016

Underwriters seeking detailed submissions, including critical engineering information.

Excess casualty capacity expected to grow.

Greater awareness of product restrictions in environmental policies.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	LARGELY CAT-EXPOSED (GREATER THAN 50% OF VALUES)	10% DECREASE TO 5% DECREASE	3% INCREASE TO 10% INCREASE
	MODERATELY CAT-EXPOSED (10% TO 20% OF VALUES)	15% DECREASE TO 7.5% DECREASE	5% DECREASE TO 3% INCREASE
PRIMARY CASUALTY	GUARANTEED COST	5% DECREASE TO FLAT	2% DECREASE TO 7% INCREASE
	LOSS SENSITIVE	10% DECREASE TO FLAT	2% DECREASE TO 4% INCREASE
EXCESS CASUALTY		5% DECREASE TO FLAT	FLAT
ENVIRONMENTAL	POLLUTION LIABILITY	5% DECREASE TO FLAT	5% DECREASE TO FLAT
	CONTRACTOR POLLUTION LIABILITY	5% DECREASE TO FLAT	5% DECREASE TO FLAT
POLITICAL RISK		5% DECREASE TO FLAT	FLAT

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

Market Commentary

Insureds in the chemical sector generally benefited from favorable insurance conditions in the fourth quarter of 2015 and are expected to do so again in 2016, barring unforeseen changes in conditions. Chemical companies with good loss histories, solid financials, and best-in-class operations were typically able to secure competitive terms. Companies with less favorable loss profiles often found insurers to be more aggressive on rates and closely monitoring deductible levels.

The aggressive stance for business by newer market entrants offset the effects of some insurer consolidations in 2015. Insurers generally offered more capacity to better-rated risks and/or companies with thorough underwriting submissions that included detailed engineering reports and loss information.

PROPERTY

Chemical clients generally saw an abundance of capacity and typically achieved double-digit rate decreases in 2015, especially for programs without significant losses. Depending on the hazard class, deductibles varied greatly. For example, insureds with vapor cloud explosion (VCE) risks may not have seen major changes in deductibles compared to insureds with less hazardous exposures. Moving into 2016, it is expected that natural catastrophe perils such as windstorms, floods, and earthquakes will remain a priority for chemical companies and insurers. Barring unforeseen events, the generally downward rate trend is expected to continue in 2016. A robust engineering service program with quality reports and updated maintenance and capital improvement information will likely remain critical to a successful renewal.

CASUALTY

The primary casualty market for chemical companies in 2015 was stable compared to previous years, with most buyers renewing flat or with slight rate decreases in the fourth quarter. Large chemical companies typically self-insured their general liability exposures. As chemical companies are generally confident in their safety protocols, retentions for workers' compensation and auto liability were significant in 2015.

Capacity in the excess casualty market increased as Lloyd's of London underwriters competed aggressively for new business. Some insureds achieved broad coverage and more competitive pricing on lead umbrella layers from Lloyd's syndicates. Assuming the industry's loss history remains positive, this trend is expected to continue in 2016.

Cyber liability and rail risks remained significant concerns for underwriters. Due to hacking and data privacy risks, insurers typically inquired about data sharing, type of data collected, and data security protocols, among other items. And because of growing concerns over losses arising out of overturned railcars, insurers have been asking about specific exposures, including the product carried, size of fleet, and percentage of owned versus non-owned. Auto liability for those excess insurers underwriting lower layers was also a concern. In 2016, flat to increasing rate trends for lead layer attachments below $25 million are expected for auto liability; however, the overall competitive excess marketplace will likely offset potential increases.

ENVIRONMENTAL

Ample capacity and increased merger and acquisition (M&A) activity were key drivers of the environmental insurance market in 2015. In the fourth quarter, rates remained generally flat for programs without favorable loss histories, with some organizations experiencing slight decreases. Short-term, renewable programs were typically favored by chemical firms purchasing environmental insurance. Companies with adverse loss histories typically saw modest increases or exclusions on their policies. Some insurers are restricting coverage for certain chemical products that were recently added to regulatory action lists.

The marketplace for complex, legacy transactions involving mergers and acquisitions (M&A) or brownfields activity continued to be competitive; however, a smaller number of insurers were able to deliver on policy terms in excess of 10 years. There remains significant insurance market creativity in crafting coverages for these risks.

POLITICAL RISK

Chemical companies were typically able to purchase broad coverage for political risk in all geographies at competitive rates in 2015, except in countries experiencing political unrest. Although geopolitical and macroeconomic instability may seem to be increasing, the market remains soft due to several new market entrants over the past three years. Soft market conditions are likely to continue in 2016, although conditions could change if underwriters see significant losses. Companies with significant exposures in emerging markets should ensure they are properly covered well before a potential loss event occurs.

RISK TRENDS

Cybersecurity

The increase in M&A activity in the chemical space — mainly driven by economic challenges and the influence of shareholder activists — has increased chemical companies' cyber exposures. The integration of acquired companies can create cybersecurity vulnerabilities involving the breach of proprietary data. With increased focus on cyber risks, chemical companies are evaluating the operational risks they may face should they experience a breach in cybersecurity.

Product Risks

Product recalls, chemicals presenting a toxic inhalation hazard, the transportation of chemicals by rail, and products that use nanotechnology have become increasingly difficult to insure. Insureds should be prepared to address underwriters' questions regarding such risks and to differentiate their operations from their competitors.

Natural Hazards/Supply Chains

Despite limited natural disaster losses in 2015, catastrophes such as floods, earthquakes, and windstorms can be difficult to insure for chemical companies. Chemical companies' supply chains can be complex, often involving the shipment of materials both to and from the US. Organizations should continue to focus on mitigating preventable risks and preparing for unforeseen events. Chemical companies should review the adequacy of insurance coverage for business interruption risks related to natural catastrophes. Risk managers can work with risk engineers to make recommendations, and with risk advisors to quantify exposures and develop natural hazard modeling to share with underwriters. Providing complete and accurate data from reliable sources regarding loss estimates can help organizations achieve favorable outcomes at renewals.

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Communications, Media, and Technology

AHEAD IN 2016

Property market softening likely to continue.

Slight rate increases likely for E&O liability.

Watching for impact of insurer consolidation within the D&O space.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
CASUALTY	GENERAL LIABILITY	5% DECREASE TO 5% INCREASE	10% DECREASE TO 5% INCREASE
	WORKERS' COMPENSATION	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	UMBRELLA	5% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
FINANCIAL AND PROFESSIONAL	DIRECTORS AND OFFICERS LIABILITY FOR PUBLIC COMPANIES	7% DECREASE TO 2.5% DECREASE	5% DECREASE TO 5% INCREASE
	EMPLOYMENT PRACTICES LIABILITY	4% DECREASE TO 1.5% INCREASE	FLAT TO 5% INCREASE
	FIDUCIARY LIABILITY	6.5% DECREASE TO FLAT	FLAT TO 5% INCREASE
	ERRORS AND OMISSIONS	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

PROPERTY

The property insurance market in 2015 further softened for communications, media, and technology (CMT) companies, with insurers aggressively pricing both renewal and new business opportunities. Barring catastrophe losses or other unforeseen events, these trends are expected to continue in 2016. Established CMT insurers offer the most "all risk" capacity, while less established CMT markets push to expand market share, which has increased capacity and put downward pressure on rates.

Large loss exposures and contingent time element coverage issues are key for CMT companies with large, diverse supply chains. Exposure to large losses is increasing for insurers due to continued mergers and acquisitions (M&A) activity, especially in the communications sector and among makers of software and hardware. As companies use fewer suppliers, insurers are paying more attention to their aggregation of risk. Cloud services are also changing the dialogue as insureds and insurers alike consider the impact that large events at cloud providers could have on accessibility to data and services.

FINANCIAL AND PROFESSIONAL

Many CMT companies in 2015 experienced modest rate increases for errors and omissions (E&O) liability. This was due in part to cyber insurance rate increases. Typically, cyber insurance is embedded within CMT companies' E&O programs. Companies that support and service a significant amount of data will likely see bigger increases than others. Insureds should articulate to underwriters their efforts around data management and security protections, and comply with rules and regulations that govern how they process, store, or transmit credit card information.

The excess insurance market typically saw rate increases in 2015, a trend that will likely continue into 2016. Minimum premiums are facing the largest percentage increases in the excess market. Generally, any minimum premium increases are

offset as the excess market offers more limits in terms of cyber drop-down, a trend that is expected to continue in 2016, barring unforeseen events. Total market capacity for technology E&O is more than $800 million; however very few, if any, companies are purchasing limits of more than $500 million.

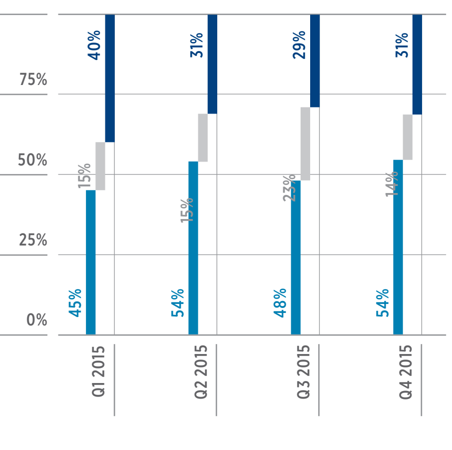
In 2015, director and officers (D&O) liability rates generally softened for companies with stable stock prices and no claims history. Decreases in rates were due in part to increased capacity and competitive pricing on excess layers of insurance. Increases in the primary levels were typically driven by changes in risk profiles such as market capitalization increases and financial results. These trends are expected to continue in 2016, barring unforeseen events. Also, insurance market consolidation has created a smaller pool of primary insurers, the effects of which remain to be seen, but which could cause additional increases in rates in the near future.

CASUALTY

The overall casualty insurance market was generally stable, with many CMT companies with minimal losses achieving rate decreases in the fourth quarter of 2015 (see **Figure 1**). Ample capacity

FIGURE 1 PERCENT OF US GENERAL LIABILITY CMT CLIENTS WITH RATE CHANGES

Source: Marsh Global Analytics
Numbers may not add up to 100% because of rounding.



and insurer competition contributed to generally declining rates, a trend that is expected to continue in 2016, barring unforeseen events.

Companies that marketed their insurance programs typically saw multiple competitive quotes from insurers. Incumbent insurers often were willing to pre-negotiate a renewal rate several months in advance and often at a moderate 5% rate decrease to prevent their insureds from marketing their program. This applied more to general and excess liability than to workers' compensation or auto liability. Workers' compensation prices remained relatively stable in 2015 and are expected to continue to do so in 2016; however, pricing often depends on the company's exposures in particular states.

All CMT insurers have taken a stance with respect to the new "access and disclosure" exclusion to varying degrees. Many CMT companies that did not previously have the exclusion in their general liability policy saw them added into policies effective in 2015. Insurers varied in their flexibility as to which version of the exclusion they attached.

Other coverage issues that surfaced in 2015 included the use of unmanned aircrafts, or drones. Moving into 2016, CMT companies using drones should hold discussions with their insurance advisors and general liability and aviation insurers about the best way to add coverage.

RISK TRENDS

Mergers and Acquisitions

M&A and corporate restructuring activities are occurring across all CMT sectors. This has created significant insurance challenges, including capacity issues. Acquiring companies often need to rethink their insurance needs as they merge the risks of the acquired company into their programs while insurers assess the additional capacity. CMT companies spinning off particular units can be challenged by how to separate insurance programs. M&A activity can also exacerbate a company's cyber risks as data security protocols are merged.

Information Infrastructure and Data Security

The technology risks of cyber-attacks, data fraud and theft, and breakdowns in critical information infrastructure are strongly connected to each other and to risks such as terrorist attacks and global governance failures. CMT companies are more aware than ever of the potential impact of these risks on their ability to continue operating in the event of a disruption. Recent high-profile losses within the CMT industry have sparked interest among companies to better understand the effects of a cyber-attack on business interruption.

Emerging Business Models

Companies working in the sharing economy — the peer-to-peer based sharing of goods and services typically facilitated by community-based online services — can often experience dramatic shifts in their risk profiles. For example, a company that created an online application for driver services no longer is just a technology platform provider; they are assuming the traditional risks of a transportation company. Sharing economy companies are quickly working to better understand their evolving risk profile as there have been significant losses. More claims and coverage issues are expected in 2016.

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Construction

AHEAD IN 2016

Single-digit increases likely for commercial general liability.

Rate increases likely for subcontractor default insurance.

Contractors pollution liability (CPL) to remain competitive.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PRIMARY LIABILITY (INCLUDING COMMERCIAL GENERAL LIABILITY (CGL), WORKERS' COMPENSATION/EMPLOYERS LIABILITY, AND AUTO LIABILITY)	ALL	FLAT TO 4% INCREASE	FLAT TO 7% INCREASE
EXCESS CASUALTY	ALL	2% DECREASE TO FLAT	FLAT TO 5% INCREASE
BUILDERS RISK	ALL OTHER PERILS	10% DECREASE	5% DECREASE TO FLAT
	CAT-EXPOSED	10% DECREASE	5% DECREASE TO FLAT
A/E PROFESSIONAL	ALL	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
CONTRACTORS PROFESSIONAL	ALL	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
PROJECT PROFESSIONAL	PROJECT PROFESSIONAL LIABILITY	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	OWNERS PROTECTIVE PROFESSIONAL INDEMNITY	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	CONTRACTORS PROTECTIVE PROFESSIONAL INDEMNITY	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
CONTRACTORS POLLUTION LIABILITY	ALL	10% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
	PROJECT-SPECIFIC	10% DECREASE TO FLAT	10% DECREASE TO FLAT
CONTRACTORS POLLUTION AND PROFESSIONAL LIABILITY	ALL	FLAT TO 10% INCREASE	5% DECREASE TO 10% INCREASE

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

Market Commentary

PRIMARY CASUALTY

Primary liability insurance rates — including commercial general liability (CGL), workers' compensation/employers liability, and auto liability — for construction firms are likely to generally renew in the range of flat to 4% increases into 2016, barring unforeseen changes in market conditions. The marketplace in 2015 remained generally competitive, a key component to achieving favorable results. New York-based risks, however, continue to be challenged by losses stemming from the state's labor laws. Residential contractors also faced challenges in the form of deductibles, premium, and coverage due to construction defect claims. Depending on the insured's specific risk profile, challenging environments continued in Colorado, Florida, Washington, Nevada, and California. Insureds with adverse loss experience can expect to face deductible and premium rate increase challenges in 2016.

EXCESS CASUALTY

Organizations buying excess casualty insurance generally experienced competitive rates and coverages due to an overabundance of capacity in the umbrella and excess marketplace. Lead umbrella attachment points, particularly for primary automobile liability, continued to face scrutiny in terms of adequacy. In New York, however, the first $10 million to $15 million of capacity was extremely limited, which at times significantly increased attachment points and premium rates, a trend that is expected to continue.

PROFESSIONAL LIABILITY

New market capacity was at record levels in 2015 with the addition of two significant entrants. Professional liability insurers remained competitive, a trend that will likely continue in 2016, particularly for those firms with good loss ratios.

ENVIRONMENTAL

The market for contractors pollution liability (CPL) is likely to remain competitive in 2016, especially for small and midsize firms. Premium increases seen in 2015 were generally driven by adverse loss history, revenue increases, or changes in operations. Layered programs involving multiple underwriters remained popular and were often necessary in light of capacity restrictions or aggregation issues for large contractors.

Project-Specific Policies

GL WRAPS

The growing demand for wrap-ups in 2015 was offset by increased capacity, which kept rates competitive in most jurisdictions, particularly for commercial grade nonresidential projects. There were new entrants for primary capacity, and excess markets offered competitive pricing, particularly on higher layers. However, New York's labor laws remained a challenge for insurers due to claims activity.

WORKERS' COMPENSATION

Owners in 2015 were more selective in their use of owner-controlled insurance programs (OCIPs) with workers' compensation. However, for large capital projects with dedicated project management, risk management, and safety teams, workers' compensation is still a viable alternative under OCIPs. Demand for contractor-controlled insurance programs (CCIPs) continues to increase. In some circumstances, owners may sponsor general liability under an OCIP and contractors may offer workers' compensation under a CCIP. These trends are expected to continue in 2016.

BUILDERS RISK

Demand for builders risk insurance grew in 2015 due to increased investments, particularly in the real estate segment. The increased demand for coverage coupled with limited catastrophe losses generally resulted in increased capacity, competitive terms, and decreased rates. London-based insurers that penetrated the US market in 2015 also pressured domestic builders risk insurers, resulting in some cases in rate reductions.

PROFESSIONAL LIABILITY

Project-specific architecture, engineering, and construction (AEC) coverage remained costly in 2015; however, competition from new market entrants may lower costs slightly in 2016. Owner's protective insurance remained a popular and less costly alternative. Contractor's protective professional indemnity provided flexible, cost-effective protection in support of design-build and engineering, procurement, and construction (EPC) contracts. On new projects, owners typically demanded higher limits from design firms and introduced more restrictive indemnification agreements for subcontractors and subconsultants. Residential projects continued to be challenged by AEC insurers, particularly in California and Florida.

ENVIRONMENTAL

Project-specific policies covering pollution legal liability and contractors pollution liability continued to be used for large, complex projects in 2015. Owners and lenders environmental insurance requirements are often higher than any single insurer's capacity, resulting in the need for layered programs. Ample excess capacity is generally available to meet the needs of most projects, and primary and excess layers were competitively priced. These trends are expected to continue in 2016.

RISK TRENDS

Subcontractor Default

The demand for subcontractor default insurance grew in 2015 due to an increased availability of work. Increased claim activity caused insurers to generally seek 5% rate increases for the coverage, a trend likely to continue in 2016.

Definition of Occurrence

Claim resolution issues on coverage relating to the definition of occurrence may affect some organizations. Solutions such as alternative policy language will vary according to risk profile and policy language; a potential coverage grant around the definition of occurrence that amends the insuring agreement may be available from certain insurers. The case law around the definition of occurrence is expected to continue to evolve throughout 2016, with potentially broad and more restrictive interpretations in many jurisdictions.

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Education

AHEAD IN 2016

Rate increases likely for most property, casualty, and financial and professional lines.

Key claims issues: Sexual molestation, brain injuries, on-campus violence.

Underwriters scrutinizing drone use.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	LARGE ORGANIZATIONS	10% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT
	SMALL ORGANIZATIONS	10% DECREASE TO 5% DECREASE	5% DECREASE TO FLAT
CASUALTY	LARGE ORGANIZATIONS	FLAT TO 5% INCREASE	3% DECREASE TO 5% INCREASE
	SMALL ORGANIZATIONS	FLAT TO 5% INCREASE	FLAT TO 7% INCREASE
INTERNATIONAL	LARGE ORGANIZATIONS	FLAT TO 15% INCREASE	10% DECREASE TO FLAT
	SMALL ORGANIZATIONS	FLAT TO 15% INCREASE	5% DECREASE TO FLAT

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

Market Commentary

PROPERTY

A surplus of capacity and strong competition have contributed to generally favorable property insurance market conditions for education institutions. In the fourth quarter of 2015, buyers typically experienced rate decreases, with some able to secure double-digit rate decreases. Insurers are aggressively pursuing new business, and are more willing to consider multiyear commitments with staggered rate decreases over the term of the agreement. The market is likely to remain competitive in 2016, and rates are expected to continue to fall, barring unforeseen events.

With concerns growing about on-campus shootings, the crisis management coverage introduced by one leading education property insurer is becoming more widely available; buyers will likely demand higher sublimits for this coverage in 2016. Meanwhile, insureds continue to struggle to provide good information to underwriters about the valuation of research, particularly the potential lost income associated with the loss of research.

CASUALTY

The casualty insurance market for education generally remained firm, with most insureds renewing with single-digit rate increases. In the fourth quarter of 2015:

- General liability rates were typically flat to up 7%.
- Automobile liability rates were typically flat to up 5%.
- Umbrella and excess rates were typically flat to up 5%.
- Workers' compensation rates were typically flat to up 15%.

Barring unforeseen changes, similar rate trends are expected in 2016.

Although the frequency of casualty claims is not increasing, severity continues to grow. As losses accumulate, many insurers remain unwilling to provide full coverage for sexual molestation claims stemming from childcare operations, summer sports camps, campus housing, fraternities, and athletics. Insurers are also troubled by large settlements for slips and falls, sports injuries, vehicle-related incidents, violent acts (by students, police, and sports fans), and suicides, and most continue to take a cautious approach to the industry.

Rising medical costs — compounded by the aging of the education workforce — are driving the cost of workers' compensation claims higher. Some larger schools are considering retaining more risk to gain control over their workers' compensation costs. Meanwhile, carriers are offering deductible options with or without collateral and offering to unbundle claims administration programs in an effort to retain some guaranteed cost business.

EDUCATORS' LEGAL LIABILITY

Rates for educators' legal liability insurance — which includes directors/trustees and officers liability (D&O), employment practices liability (EPL), and educators' errors and omissions (E&O) liability — were generally stable in 2015. In the fourth quarter, rates increased, on average, by 2% to 3% for not-for-profit institutions. Rate increases were largely a result of an increase in EPL losses and Equal Employment Opportunity Commission (EEOC) filings. Other key concerns include antitrust claims, gainful employment claims, and class-action litigation related to allegations of misleading job placement statistics, which have been especially problematic for law schools. Claims alleging violations of Title IX and the failure of institutions to educate students are also on the rise, with the accompanying legal costs growing faster than the costs of other liability events.

The professional liability market for publicly traded and for-profit education institutions remains limited, and pricing is tight. These organizations are often forced to purchase D&O and EPL programs separately from E&O coverage.

CYBER

As casualty insurers have added cyber exclusions for bodily injury and property damage arising out of access to or disclosure of confidential or personal information, education institutions are increasingly purchasing standalone cyber insurance to protect against data breaches and other technology exposures. The number of Marsh education clients purchasing cyber insurance increased to 36% in the first half of 2015, up from 19% in the same period in 2014. Pricing for cyber insurance has generally stabilized, and market capacity remains abundant.

RISK TRENDS

Drones

Insurers are closely scrutinizing the use of unmanned aerial systems, or drones, in education settings. Institutions' use of drones includes research experiments, training of engineering students, security, and athletic photography. Students, meanwhile, often build and operate drones for personal reasons, and outside parties also operate drones on education institutions' premises. Insureds should be prepared to provide underwriters with detailed information on drone use and their drones' size, ownership, and intended purpose.

Traumatic Brain Injuries

Insurers concerns about traumatic brain injuries (TBI) continue to grow. Many education institutions have faced lawsuits for sports-related injuries in collegiate athletic programs, particularly those related to football, hockey, soccer, and lacrosse. Underwriters continue to evaluate this exposure and have taken action by requiring additional information at renewal, including:

- Number of athletic participants.
- Sample waivers and releases.
- Baseline testing data.
- Information about concussion awareness training for coaches, athletic trainers, and medical staffs.

If adequate controls are not in place, some insurers are adding participant injury and neurodegenerative injury exclusions to liability programs. In 2014, United Educators required completion of a traumatic brain injury warranty statement for intercollegiate football, supported by supplemental information and other policy language changes, including aggregate TBI limits.

Crisis Management

Active shooter events, workplace violence incidents, and other crises remain a top concern for K-12 schools, colleges, and universities. In addition to the potential for physical harm against students, faculty, and others, these events can disrupt normal operations and damage reputations and bottom lines.

If not already in place, education institutions should work with risk advisors, law enforcement, and others to develop location-specific crisis management and post-event response plans, and to test such plans ahead of a potential crisis. Among other topics, these plans should address:

- Communication between faculty, students, and other stakeholders.
- Evacuation and lockdown strategies.
- Working with law enforcement.
- Counseling for injured or affected students and families.
- Community and media relations.
- Post-incident reviews.

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Financial Institutions

AHEAD IN 2016

General property and casualty insurance rate softening likely to continue.

Regulator focus on cybersecurity and preparedness.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
FINPRO	DIRECTORS AND OFFICERS LIABILITY	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	EMPLOYMENT PRACTICES LIABILITY	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	ERRORS AND OMISSIONS	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE
	FI BOND	5% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
	FIDUCIARY	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
PROPERTY	NON-CAT-EXPOSED ORGANIZATIONS	10% DECREASE TO 5% DECREASE	17.5% DECREASE TO 10% DECREASE
	LARGELY CAT-EXPOSED ORGANIZATIONS	15% DECREASE TO 5% DECREASE	15% DECREASE TO 7.5% DECREASE
CASUALTY	GL GUARANTEED COST	9% DECREASE TO 3.5% INCREASE	10% DECREASE TO 5% INCREASE
	GL LOSS SENSITIVE	4.5% DECREASE TO 10% INCREASE	5% DECREASE TO 5% INCREASE
	AUTO GUARANTEED COST	3% DECREASE TO 10% INCREASE	5% DECREASE TO 10% INCREASE
	AUTO LOSS SENSITIVE	3% DECREASE TO 10% INCREASE	5% DECREASE TO 10% INCREASE
	WORKERS' COMPENSATION	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	UMBRELLA/EXCESS LIABILITY	5% DECREASE TO 5% INCREASE	5% DECREASE TO 10% INCREASE

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

Market Commentary

PROPERTY

Property insurance rates for financial institutions generally softened in 2015, driven by limited catastrophe losses, plentiful capacity, new capital entrants, and lower treaty costs. In some cases, large banks experienced significant reductions with enhanced terms and conditions. Barring unforeseen events, these trends will likely continue in 2016.

Insurers continue to scrutinize coverage terms with a focus on business interruption. Organizations that present underwriters with comprehensive business continuity plans and detailed information about their properties — including construction type, age, year built, and other factors — may see generally positive responses from insurers at renewals. Many financial institutions are considering insurers that offer multiple products and risk transfer solutions across all coverage lines. This strategic approach has helped build a stronger relationship and support some coverage lines that may have had a negative claims experience.

While the overall property marketplace is favorable for financial institution clients, standalone coverage for lender-placed, real estate-owned, and mortgage impairment continues to be limited given the number of insurers participating in the space. The loss experience as well as available

underwriting data will often dictate the results for these coverages.

The passage of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015 had a positive impact for financial institutions, particularly for those in central business districts in the US.

CASUALTY

The casualty insurance market softened in 2015, a trend that continued into the fourth quarter, generally resulting in rate decreases for organizations with good loss profiles. Financial institutions with concentration issues in major cities experienced flat rates, or in some cases, rate reductions. Capacity loosened slightly for workers' compensation risks; however, some insurers continued to carefully monitor aggregation issues of specific organizations in major cities. These trends are expected to continue in 2016, barring unforeseen changes in conditions.

Many insurers in 2015 excluded cyber coverage from commercial general liability policies, causing many organizations to consider standalone cyber insurance. Coverage and "give backs" for bodily injury and property damage vary among insurers, with many seeking to include their own endorsement language. Excess insurers sought to do the same on lead umbrella and excess liability placements. Organizations in 2016 may consider working with insurance advisors regarding bodily injury and property damage losses stemming from a cyber event as cyber policies typically do not cover such exposures.

FINANCIAL AND PROFESSIONAL

While financial and professional liability insurers generally sought rate increases in 2015, the market remained competitive, with plentiful capacity. Increased regulatory oversight, regulatory investigations, and the cyber risk landscape continue to challenge underwriters, particularly in the primary and low excess portions of programs. Barring unforeseen circumstances, financial institutions can expect generally flat overall rates in 2016; however, errors and omissions (E&O) and cyber liability could experience greater volatility. Rates for directors and officers liability (D&O), employment practices liability (EPL), and fidelity bonds for financial institutions will likely remain flat for most firms in 2016, barring unforeseen events. Certain industries — including asset management firms and insurers — are more likely to achieve rate decreases in excess insurance pricing due to the highly competitive environment.

RISK TRENDS

Cybersecurity

The severity of recent cyber-attacks highlighted the importance of cyber insurance for many financial institutions. Rating agencies warned some banks of the risk of a credit rating downgrade due to lack of preparation for cyber incidents. Standard & Poor's is questioning, in particular, whether banks have cyber insurance policies.

The notification and investigation costs of a data breach are a significant concern for financial institutions, and regulatory scrutiny of cybersecurity procedures poses a particular issue for investment companies. Marsh clients with revenues of more than $1 billion have increased their cyber insurance limits by 42% on average since 2012. Over the same time period, financial institutions expanded their coverage by 22%.

Regulatory Compliance

Banks, investment firms, and insurers face regulatory scrutiny in a number of areas, including:

- The Securities and Exchange Commission (SEC) in 2015 advanced rules aiming to increase oversight of mutual funds.
- The National Association of Insurance Commissioners (NAIC) now requires all midsize and large US insurers to file an Own Risk Solvency Assessment (ORSA). The concept, now embedded in the International Association of Insurance Supervisors (IAIS) standards, gauges insurers' current and future risks through an internal risk assessment process that informs regulators of an insurer's ability to withstand financial stress.
- Banks continue to adjust to rules and procedures imposed by the Sarbanes-Oxley and Dodd-Frank acts.
- Cybersecurity will remain a priority for various regulators, including the Federal Financial Institutions Examination Council (FFIEC) and its members.

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Health Care

AHEAD IN 2016

Medical professional liability rates generally declining.

Consolidation and adoption of post-reform business models.

Focus on cyber risk.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
MEDICAL PROFESSIONAL LIABILITY	HEALTH CARE	10% DECREASE TO FLAT	FLAT TO 5% DECREASE
DIRECTORS AND OFFICERS LIABILITY	HEALTH CARE	FLAT TO 5% INCREASE	5% INCREASE TO 15% INCREASE
MANAGED CARE ERRORS AND OMISSIONS	MANAGED CARE	5% INCREASE TO 10% INCREASE	5% INCREASE TO 10% INCREASE
HEALTH PLAN REINSURANCE AND PROVIDER EXCESS LOSS	HEALTH CARE	MEDICAL "TREND" INCREASE TO CLAIMS-DRIVEN INCREASE	MEDICAL "TREND" INCREASE TO CLAIMS-DRIVEN INCREASE

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

Market Commentary

The health care industry continues to evolve as it adapts to provisions of the Affordable Care Act (ACA). Reimbursements from both commercial and government payers continue to decline, and commercial insurers are transitioning to risk-based contracting. Organizations in all health care segments seek to round out their service offerings and move toward accountable care models; this has driven merger and acquisition (M&A) activity and the formation of strategic alliances.

MEDICAL PROFESSIONAL LIABILITY

Rates for medical professional liability (MPL) generally continued to decline in 2015. In the fourth quarter, rates at renewal were typically flat to 10% down for most health care buyers. Conditions were less favorable for individual insureds that suffered losses or are in geographies with significant recent increases in settlement values and jury verdicts. Although MPL rates are expected to continue to fall in 2016, the impact of increased frequency of catastrophic claims looms.

Consolidation means there are now fewer buyers in the market for MPL coverage. However, capacity continues to increase as insurers that had previously focused on specific regions or market segments now expand. Some insurers are concerned about the growing frequency and severity of catastrophe claims, but are generally competing aggressively to retain existing business and gain new accounts.

Although the accumulation of catastrophe losses has not affected pricing to date, it has helped slow the rise in insurers' calendar year combined ratios in recent years through the impact of prior year reserve takedowns. Accident year combined ratios continue to trend up.

DIRECTORS AND OFFICERS LIABILITY

Rates for directors and officers (D&O) liability generally increased, but at a slower pace than in the past. The evolution of health care business models and industry consolidation has contributed to increasing litigation costs and claims frequency. However, the drastic increase in antitrust and other claims that was predicted prior to the ACA's passage has not materialized to the expected degree, and capacity remains abundant. Rates generally increased in the low single digits in the fourth quarter of 2015, and similar conditions are expected in 2016.

MANAGED CARE ERRORS AND OMISSIONS

The market for managed care errors and omissions (E&O) was stable in 2015. Premium increases occurred for most insureds as insurers typically sought increases based on both rates and exposure levels. In the fourth quarter, companies

renewed their programs with increases generally in the 5% to 10% range.

Most E&O insurers are seeking to selectively modify coverage language to narrow exposures associated with:

- Post-ACA business models.
- The potential for cyber liability claims to affect E&O policies.
- Regulatory activity.

PROVIDER EXCESS LOSS/ HEALTH PLAN REINSURANCE

Health care providers, plans, and others are exploring risk-based contracts for Medicare, Medicaid, and commercial patient populations. The adoption of these contracting methods, including capitation and bundled payments, may expose health care organizations to higher financial losses for patients with catastrophic accidents or illnesses. That has contributed to growing industry interest in the purchase of provider excess loss insurance and health plan reinsurance.

RISK TRENDS

Cybersecurity

Several high-profile data breaches in early 2015 involving health insurers have led to dramatically heightened industry awareness of cyber risk. The potential loss or theft of personal data and protected health information — coupled with increasing regulatory demands from the Health Insurance Portability and Accountability Act (HIPAA), the Health Information Technology for Economic and Clinical Health (HITECH) Act, and a variety of state privacy breach notification laws — creates significant financial and reputational risks for health insurers, providers, and others.

As some commercial insurers exclude coverage for cyber risk from managed care E&O policies, health care organizations are increasingly purchasing standalone cyber insurance coverage. According to Marsh data, health care organizations had the highest cyber insurance take-up rates by sector in the first half of 2015, at 41%, up from 37% at the end of the first half of 2014. In addition to more companies purchasing the coverage for the first time, existing buyers typically secured higher limits. The take-up rate for cyber insurance among health care organizations will likely increase again in 2016.

Workplace Violence

The frequency of workplace violence incidents — primarily precipitated by patients and their family members — is increasing in hospitals and other health care settings, according to US Bureau of Labor Statistics (BLS) data. Violent incidents also occur in home care settings, which are becoming more common given changing approaches to patient care under the ACA.

Hospitals and other health care organizations should ensure that they have effective and well-tested plans in place to protect employees, patients, and others. Among other items, these plans should address:

- Employee education and training.
- Communication between employees and other key stakeholders, including law enforcement.
- Employee and victim assistance programs.
- Post-incident reporting obligations.
- Insurance coverage, including workers' compensation, professional liability, and general liability.

Church Benefit Plans

Employee benefit plans sponsored by religious organizations — including religious hospitals — are typically exempt from the Employee Retirement Income Security Act of 1974 (ERISA). As a result, these so-called "church plans" often do not provide the same level of disclosures as are given to participants in ERISA-compliant plans. Insurers have been notified of many potentially large lawsuits against religious hospitals alleging that their plans do not make sufficient disclosures and are not operated in the best interest of plan participants. Defending against these lawsuits is likely to be expensive.

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Life Sciences

AHEAD IN 2016

Product liability market likely to remain favorable.

Directors and officers liability rates firming.

Merger and acquisition activity to continue.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PRODUCTS / EXCESS	DRUGS AND BIOLOGICS	15% DECREASE TO 5% DECREASE	5% DECREASE TO 5% INCREASE
	MEDICAL DEVICES	15% DECREASE TO 5% DECREASE	5% DECREASE TO 10% INCREASE
CLINICAL TRIALS	ALL CLASSES	FLAT	FLAT
MARINE CARGO	MIDSIZE ORGANIZATIONS	LESS THAN 5% DECREASE TO FLAT	LESS THAN 5% DECREASE TO FLAT
	LARGE ORGANIZATIONS	5% DECREASE TO FLAT	5% DECREASE TO FLAT
DIRECTORS AND OFFICERS	ALL SIZES	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
	LARGE ORGANIZATIONS	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
PROPERTY	ALL SIZES	10% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT

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

Market Commentary

PRODUCT LIABILITY

Product liability rates generally decreased across segments of the life sciences industry in 2015, driven by abundant capacity, new insurers entering the market over the last two years, and limited losses. Life sciences companies' revenue exposures generally increased, helping to support many insureds' ability to negotiate rate decreases. Barring significant losses, market conditions are expected to remain favorable in 2016. Risks continue to be scrutinized with some areas facing pressure. For example, orthopedic/implant medical devices companies could see rate increases upwards of 10%, coverage restrictions, and capacity restrictions, particularly where there have been losses. However, medical device companies with implantable products — outside the orthopedic area — generally experienced flat rates.

In 2016, organizations should prepare to supply underwriters with information on quality controls, US Food and Drug Administration (FDA) oversight and responses, and active and pending litigation. Some insurers are investing in third-party data intelligence services to bolster their risk analyses, signaling that insurers may have additional tools to scrutinize risks as more data becomes available to underwriters.

CLINICAL TRIALS

Clinical trial insurance rates for life sciences companies were generally flat to down 5% in 2015, a trend that is expected to continue, barring significant claims activity. Capacity was ample and may increase slightly in 2016 as more insurers look to underwrite the coverage. Clinical trials often present companies with complicated administrative burdens; many seek to execute trial duration policies to minimize these burdens. Going into renewals, companies need to ensure that their policies meet the specific requirements of the country in which the trial takes place.

MARINE CARGO AND STOCK THROUGHPUT

Overall, the marine insurance market for life sciences companies was generally stable and competitive in 2015. Rates were generally flat, although single-

digit reductions were often achieved for organizations with good long-term loss records. For those with poor loss records, some insurers attempted to negotiate rate increases, with mixed results.

Cargo and stock throughput (STP) capacity is expected to further expand in 2016. Overall, cargo and STP terms and rates will likely remain competitive for most risks. Although there has been an increase in marine STP capacity, organizations with large stock values in high-risk catastrophe zones are likely to be reviewed in detail by insurers. Many life sciences insureds continue to seek manuscipted STP and cargo coverage solutions, including “suspect damage” and “control of damaged good” provisions to address quality control product impairment protocols.

FINANCIAL AND PROFESSIONAL

Directors and officers (D&O) liability rates hardened for life sciences companies, with rates at renewal generally flat to 5% increases in the fourth quarter of 2015, a trend that is expected to continue. This was due in part to securities lawsuits stemming from the tremendous amount of merger and acquisition (M&A) activity within the industry. Life sciences companies and financial institutions are typically the most challenging classes of business from a D&O perspective. While the market firmed in 2015, companies that actively met with underwriters and differentiated their risks often saw favorable terms.

PROPERTY

Property insurance rates for life sciences companies continued to soften in 2015 due to abundant capacity, limited catastrophe (CAT) losses, and an influx of alternative capital. Companies typically experienced double-digit rate decreases in 2015, and those that restructured their programs with incumbent insurers generally saw the greatest reductions. These trends are expected to continue into 2016, barring unforeseen changes in conditions.

Supply chain and interdependency risks are at the forefront for life sciences companies due to the complex chain of production and strategic sourcing. The need or desire to increase critical coverages such as contingent business interruption (CBI) can be challenging; however, organizations that present underwriters with detailed location information have had success increasing limits. Moving into 2016, companies should continue to focus on their internal and external supply chains, CAT model data quality, and business continuity planning.

RISK TRENDS

Mergers and Acquisitions

The complex and long-term nature of research and development (R&D) combined with lower R&D productivity and higher costs resulted in companies seeking drug development alliances and M&A opportunities. In 2014, the pharmaceutical industry saw the second-highest level of M&A activity of all industries. More than $340 billion in M&A deals closed through the third quarter of 2015, double the amount of 2014. Although most lawsuits stemming from M&As are typically settled out of court, they can still result in significant defense costs.

Regulatory and Legal Landscape

The FDA’s proposed generic labeling change based on safety monitoring activities is awaiting final ruling. This major development is being closely monitored by the insurance industry; the final ruling could negatively impact cost, coverage, and capacity for generic drug manufacturers. However, a gradual transition is anticipated as numerous industry constituents address the issues in the final ruling.

Many early stage development biotechnology companies with high stock valuations face challenges in managing shareholder expectations regarding the drug discovery cycle and commercialization phase, resulting in stock volatility and a higher rate of securities litigation. The evolving global regulatory climate and increased sourcing from less regulated, developing regions are also drawing scrutiny from the FDA and others concerned with product quality and safety.

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Manufacturing and Automotive

AHEAD IN 2016

Stable insurance market across most lines.

Growing regulatory scrutiny for automakers.

Organizations rethinking supply chains.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	LARGE ORGANIZATIONS	15% DECREASE TO 5% DECREASE	20% DECREASE TO 5% DECREASE
	MIDSIZE ORGANIZATION	15% DECREASE TO 5% DECREASE	15% DECREASE TO FLAT
WORKERS' COMPENSATION	GUARANTEED COST	10% DECREASE TO FLAT	10% DECREASE TO 13% INCREASE
	LOSS SENSITIVE	10% DECREASE TO 5% INCREASE	10% DECREASE TO 8% INCREASE
GENERAL LIABILITY	GUARANTEED COST	10% DECREASE TO 5% INCREASE	6% DECREASE TO 10% INCREASE
	LOSS SENSITIVE	10% DECREASE TO 5% INCREASE	10% DECREASE TO 3% INCREASE
EXCESS LIABILITY	LEAD	5% DECREASE TO 5% INCREASE	1% DECREASE TO 6.5% INCREASE
	EXCESS LAYERS	10% DECREASE TO 5% INCREASE	1% DECREASE TO 6.5% INCREASE
MARINE CARGO	GENERAL MANUFACTURING	5% DECREASE TO FLAT	5% DECREASE TO FLAT
	AUTO	5% DECREASE TO 5% INCREASE	5% DECREASE TO FLAT
CARGO STOCK THROUGHPUT	GENERAL MANUFACTURING	LESS THAN 5% DECREASE TO FLAT	LESS THAN 5% DECREASE TO FLAT
	AUTO	FLAT TO 30% INCREASE	FLAT TO 20% INCREASE

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

Market Commentary

PROPERTY

Consistent with the overall property insurance market, capacity and competition remained strong in 2015, and conditions were generally favorable for manufacturing and automotive industry buyers. In the fourth quarter, most organizations renewed with rate decreases ranging from 5% to 15%, depending on their specific loss profiles and catastrophe exposures. Rates are likely to decline further in 2016, and insurers will continue to scrutinize terms and conditions for flood, storm surge, and contingent business interruption (CBI).

Several companies are looking to increase key sublimits, primarily for CBI and high-hazard flood risk globally. These limits were significantly reduced in 2012 following the earthquake and tsunami in Japan and floods in Thailand. The availability of more refined data on suppliers, coupled with the favorable market conditions since 2012, has made insurers more amenable to allowing increases in tier-1 and tier-2 CBI limits.

CASUALTY

Consistent with the overall casualty insurance market, manufacturing and automotive companies experienced generally soft conditions in 2015. Capacity remains strong, and insurers continue to compete aggressively for business. In the fourth quarter of 2015, most insureds renewed with single-digit rate decreases. Rate increases were still possible, especially for insureds with less favorable loss histories. But these were generally less frequent and smaller in magnitude than in the fourth quarter of 2014. Barring

unforeseen changes, generally favorable rate trends should continue in 2016.

DIRECTORS AND OFFICERS LIABILITY

With strong capacity in the market, rates for directors and officers (D&O) liability continue to fall. For manufacturers and automakers renewing in the fourth quarter:

- Primary D&O rates were typically flat.
- Total D&O program rates fell 3.5% on average.

Competition was especially strong for larger companies, which were often able to secure double-digit rate decreases in the fourth quarter. Barring unforeseen changes, these generally favorable market trends should continue into 2016. However, companies with challenging loss profiles are likely to see rate increases of 10% or more in 2016.

In September, the Environmental Protection Agency found that a leading automaker had installed on its vehicles software designed to overcome emissions tests; this news, along with a large drop in the company's stock value, has led to a number of class-action and shareholder derivative lawsuits. Regulators and D&O insurers alike are more closely scrutinizing all automakers and questioning them about the policies they have in place to prevent the use of so-called "defeat devices." Underwriters are also concerned about the Securities and Exchange Commission's continued focus on individual accountability and the renewed focus of both the SEC and Department of Justice on prosecuting violations of the Foreign Corrupt Practices Act.

CYBER

Excluding automakers with large consumer financing arms, the cyber insurance market for manufacturing and automotive companies — which typically purchase cyber insurance to protect against denial of service attacks and business interruption rather than privacy risk — coverage is priced competitively. In the first half of 2015, the percentage of Marsh manufacturing clients purchasing cyber insurance increased by 76% compared to the same period in 2014.

MARINE

Marine cargo and stock throughput (STP) were generally less profitable lines for marine insurers in 2015, yet capacity continues to increase. With the addition of new marine operations in the US, syndicates in London, and growth in Asia, global capacity reached approximately $2.2 billion in 2015. This has kept the market generally stable and competitive for most risks.

For manufacturers and automakers renewing their marine programs in the fourth quarter, rates were generally flat. Results varied based on individual circumstances; single-digit reductions were common for organizations with positive loss profiles, while insurers sought to increase rates for companies with poorer loss histories.

Marine insurers continue to tighten capacity available to auto transit and open-lot storage risks. Insurers are also more closely scrutinizing port accumulations, especially for automakers, following the August 2015 explosion at the Port of Tianjin in China, the world's fourth-largest port by tonnage. Losses as a result of the explosion may force some insurers to further reduce or eliminate capacity for auto STP and/or cargo programs with port or open lot accumulation risks. Insurers are also concerned about automakers' hail, flood, sinking, and other catastrophe exposures. Some insurers have reduced capacity or sought higher rates for insureds that have suffered heavy CAT losses, but some of this capacity has been replaced by newly formed insurers.

RISK TRENDS

Product Risk and Recall

Regulators have shown a willingness to mandate and enforce vehicle recalls. According to the National Highway Traffic Safety Administration, automakers recalled nearly 64 million vehicles in 2014 — nearly 10 million more than in the previous three years combined. A large-scale product recall can cost an automaker billions of dollars in product replacement/repair expenses, administrative expenses, and reputational damage. To protect against these costs, many automakers have expressed interest in purchasing product recall insurance, the market for which continues to grow.

Supply Chains

The 2014 labor strike involving dockworkers at major US West Coast ports and the 2015 explosion at the Port of Tianjin demonstrated how vulnerable global supply chains can be to a disruption at even one port. Following these events, many manufacturers and automakers reviewed their global supply chains and specific points of vulnerability. Coupled with the increasing cost of operating in China, growing supply chain risks have contributed to the ongoing trend of US-based manufacturers "re-shoring" jobs and production back to the United States and to locations closer to key sales markets. American automakers, for example, have reinvested in Mexico, which offers well-developed infrastructure and an ideal location from which to sell to countries throughout the Americas.

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Mining, Metals, and Minerals

AHEAD IN 2016

Property insurance rates likely to remain soft, capacity abundant.

Casualty insurance rates likely to remain stable, capacity abundant.

Expense management critical.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	METALS AND MINERALS	10% DECREASE TO 5% DECREASE	10% DECREASE TO 5% INCREASE
	COAL	10% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT
CASUALTY	METALS AND MINERALS	FLAT TO 5% INCREASE	FLAT TO 8% INCREASE
	COAL	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
FINANCIAL AND PROFESSIONAL	METALS AND MINERALS	5% DECREASE TO 1% DECREASE	3% DECREASE TO 3% INCREASE
	COAL	FLAT TO 10% INCREASE	3% DECREASE TO 3% INCREASE

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

Market Commentary

The sustained downward movement in commodity prices continued in 2015, and mining companies faced constant pressure to contain risk and insurance costs.

PROPERTY

Capacity in the property insurance market remains abundant, creating competition and keeping rates competitive. Large producers, those with extensive underground operations, or that are financially stressed, may be slightly challenged by insurers to increase rates. However, with the competitive tension among insurers, rate relief has been consistently achieved, even for clients with recent claims activity. Barring any significant industry loss, these trends are expected to continue in 2016.

CASUALTY

Casualty pricing was generally stable in 2015 for companies with good loss experiences, a trend that is expected to continue. An exception is for California risks, where rates at renewal typically ranged from flat to a 10% increase.

Excess liability rates remained stable in 2015. With mining companies trying to reduce overhead costs by retaining more risk, safety and loss control efforts were critical.

SURETY

While the surety market remained a cost-effective means to free up capital for some companies, it hardened in 2015. With commodity prices not expected to increase in the short term, it is anticipated that surety capacity and terms will continue to tighten throughout 2016.

RISK TRENDS

Financial Issues

Falling commodity prices, increasing operating and capital costs, debt maturity schedules, cash flow, reserve accounting/adequacy, stressed balance sheets, merger and acquisition (M&A) activity, and regulatory scrutiny all have put significant pressure on mining companies. In a difficult financial environment, many companies have canceled new facilities and projects and/or idled existing ones, disposed of assets, and announced major layoffs.

Regulation and Litigation

Increased scrutiny from regulatory agencies as well as litigation from environmental groups continues to challenge new and existing mining projects.

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Power and Utilities

AHEAD IN 2016

Property rates likely to continue softening.

New AEGIS alliance in the casualty market takes hold.

Cyber insurance take-up rates will likely continue increasing.

Mergers and acquisitions, coal plant retirements, and new technologies drive risk assessment needs.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	POWER AND UTILITIES CLIENTS	20% DECREASE TO 5% DECREASE	17% DECREASE TO FLAT
EXCESS CASUALTY	AEGIS	4% INCREASE TO 7% INCREASE	10% INCREASE
	EIM	FLAT TO 4% INCREASE	3% INCREASE TO 6% INCREASE
	STOCKHOLDER OWNED INSURERS	5% DECREASE TO FLAT	5% INCREASE TO 10% INCREASE
PRIMARY CASUALTY	NON-REGULATED OPERATIONS/MERCHANT	9% DECREASE TO 4% INCREASE	5% DECREASE TO 10% INCREASE
	REGULATED OPERATIONS	3% DECREASE TO 5% INCREASE	8% DECREASE TO 4% INCREASE
FINANCIAL AND PROFESSIONAL	D&O	5% DECREASE TO 2% INCREASE	3% DECREASE TO 2% INCREASE
	FIDUCIARY	5% DECREASE TO FLAT	4% DECREASE TO FLAT

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

Market Commentary

PROPERTY

The property insurance market continued to soften for power and utilities companies in 2015, driven in part by limited industry losses. Insureds typically experienced renewal rate reductions between 5% and 20% in the fourth quarter of 2015, often coupled with expanded catastrophe loss limits and improvement in coverage terms and conditions. Program deductibles generally remained unchanged. Barring unforeseen market changing events, these trends will likely continue in 2016.

During 2015, many organizations moved away from the standalone terrorism market due to cyber exclusions and purchased coverage through the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA), which follows underlying policy language. This trend is expected to continue into 2016 as the terrorism market continues to evolve. Although many underlying policies exclude cyber perils, some provide coverage for resulting damage and may possibly extend coverage for a cyber terrorism event. In response to this market shift, the standalone market is now offering limited resulting damage cover from cyber perils in an effort to maintain market share.

CASUALTY

The casualty insurance market for power and utilities companies remained generally stable in 2015.

- Both AEGIS and EIM generally delivered consistent results for most members in 2015. While AEGIS continues to reevaluate premium levels for members with unfavorable loss histories, most rate changes were nominal.
- Uncertainty in the stockholder-owned excess liability market was mainly driven by consolidations and at least one market exit. However, increased capacity and new entrants offering capacity to the power and utilities sector offset any potential adverse market impact. As a result, renewal premiums generally ranged from flat to 5% reductions for most insureds.

AEGIS' announcement that it will be dissolving the Liberty Mutual Alliance and

creating a new alliance with Everest Re effective January 1, 2016, caused some stir within the industry. The new alliance will quote AEGIS member primary casualty programs, including offering statutory primary and excess workers' compensation coverage for nuclear power plant risks. Having underwritten the industry for a number of years, Liberty Mutual has confirmed it intends to compete to retain existing client relationships under the previous alliance, and offer insurance to new industry sector clients.

FINANCIAL AND PROFESSIONAL

During the fourth quarter of 2015, market capacity for directors and officers (D&O) liability remained abundant and rates on average reflected reductions over expiring. Energy companies exposed to commodity price risk or liquidity issues experienced some renewal challenges. However, most primary D&O layers generally renewed flat, with modest total program decreases driven by price reductions on excess layers.

- Marketing excess layers generally led to substantial program savings with new market capacity typically offering competitive excess quotes.
- The regulated utility sector continues to see more favorable claims trends and fewer new securities filings.
- Cyber insurance purchasing continues to increase in the power and utilities sector, including a trend to purchase increased limits.
- Nuclear Energy Insurance Limited (NEIL) entered the cyber market with $25 million of competitive excess capacity attaching over $50 million. NEIL's excess cyber capacity was developed in partnership with AEGIS and EIM and is available only to NEIL members.

NUCLEAR

Nuclear energy capacity remained stable and in excess of demand in 2015. Despite large claim settlements, rates are expected to remain generally stable in 2016, barring unforeseen market changing events. Nuclear property risks in the US continue to benefit from additional capacity available through European markets. American Nuclear Insurers recently announced that nuclear liability capacity for power generators is expected to increase by 20% in 2017. Capacity for non-generation nuclear liability risks remains in demand but difficult to obtain. International markets have recently showed interest for these risks and may offer products in 2016. Statutory workers' compensation coverage for nuclear power plant risks continues to be available in the market.

RENEWABLE ENERGY

The renewable energy market in 2015 saw substantial growth, particularly in the solar sector. During the fourth quarter of 2015, rates generally remained flat to down 10% for loss-free wind and solar programs. Construction insurers will likely increase their underwriting focus for renewable energy projects in 2016. Builder's risk capacity for new renewable energy projects remains abundant, with limits approaching $800 million on a given risk. Some renewable markets are also expressing interest in quota share programs.

Capacity remained plentiful for operational property insurance, with typically stable rates for companies with good loss experience. Many wind assets have come off warranty over the past year and typically experienced increased insurance rates, larger deductibles, and/or restricted coverage. Underwriting focus on coverage for catastrophic events such as high wind has increased as more projects are constructed in exposed areas. Insurers are beginning to institute minimum and maximum deductibles on risks located in high hazard areas. Overall, insurance market conditions generally remained favorable in 2015, a trend that is expected to continue in 2016, barring unforeseen market changing events.

RISK TRENDS

Mergers and Acquisitions

M&A activity is expected to continue into 2016. Owners of conventional generation are expected to continue to assess asset valuations and transfer assets as market conditions allow.

Coal Plant Retirements

Coal plant retirements driven by obsolescence, new environmental regulations, and low gas prices will likely create a need for new transmission line and/or generation build. These retirements will also require a deeper understanding of potential site environmental risks. Near-term new generation is expected to be in the form of combined cycle gas generation and possibly renewables.

Generation and Storage

Distributed generation solar projects are expected to continue to drive the renewable space in the US in 2016 and beyond. The development and use of energy storage technologies is also expected to grow and impact regional energy plans. Both technologies present unique exposures.

DRONES

The use of unmanned aircraft systems — commonly called drones — is increasing as the industry seeks to leverage technology and innovation. Many issues are in play as regulators attempt to understand and regulate the technology. Both aviation insurers and industry mutual insurers have begun modifying their policy forms to address the exposure, with different coverage levels expected for manned and unmanned aviation operations.

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Public Entity

AHEAD IN 2016

Stable insurance market across most lines.

Tort immunity continues to be challenged.

Insurers concerned about emerging drone risks.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
INTEGRATED PROGRAMS SUBJECT TO SELF-INSURED RETENTION	5% DECREASE TO 15% INCREASE	5% INCREASE TO 10% INCREASE
PACKAGE PROGRAMS WITH LOW DEDUCTIBLES OR GUARANTEED COST	FLAT TO 10% INCREASE	5% INCREASE TO 10% INCREASE
EXCESS WORKERS' COMPENSATION	5% DECREASE TO 15% INCREASE	5% INCREASE TO 15% INCREASE
LEAD UMBRELLA	FLAT TO 15% INCREASE	FLAT TO 5% INCREASE
EXCESS UMBRELLA	FLAT TO 15% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

PROPERTY

Property insurance market conditions remained stable in 2015, with most insureds renewing in the fourth quarter with rate reductions typically ranging from of 5% to 12.5%. Continued stability is expected in 2016. Underwriters continue to emphasize the accuracy of property information, including construction, occupancy, protection, and exposure (COPE) data. Insurers are also closely scrutinizing flood risks, which remains among the biggest challenges for insureds.

CASUALTY

The casualty insurance market for public entities was generally stable in 2015; these conditions should continue into 2016, barring unforeseen changes.

Capacity remains abundant, although insurers are concerned about significant transit losses and challenges to law enforcement immunity from tort actions, particularly in California and other Western states. One insurer has withdrawn from California, and is selectively underwriting public entities elsewhere.

The excess workers' compensation market is becoming more competitive, although some insurers are not willing to underwrite risks with high employee concentrations. Some insurers are also requiring higher retentions for police and firefighter exposures, typically in states with presumptive injury laws.

RISK TRENDS

Cybersecurity

More than 67,000 information security incidents were reported by federal agencies in fiscal year 2014, compared to just under 30,000 in 2009, according to the Government Accountability Office. The cyber insurance market for public entities continues to grow; more insurers appear willing to offer limits of up to $10 million, although layering of programs is required in some cases.

Drones

Public entities' use of unmanned aerial systems, or drones, is rapidly increasing. Insurers concerned about the potential risks have taken varied approaches to coverage. Some have offered coverage as an extension to general liability policies; others consider drone use to be purely an aviation exposure.

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Real Estate and Hospitality

AHEAD IN 2016

Competitive rates likely across most lines.

Habitational segment remains challenging for casualty insurers.

Growing interest in cyber insurance solutions.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	NON-CAT-EXPOSED ORGANIZATION	10% DECREASE TO 5% DECREASE	10% DECREASE TO 5% DECREASE
	MODERATELY CAT-EXPOSED ORGANIZATIONS (1% TO 30% OF VALUES IN CAT ZONES)	15% DECREASE TO 5% DECREASE	15% DECREASE TO 5% DECREASE
	LARGELY CAT-EXPOSED ORGANIZATIONS (MORE THAN 30% VALUES IN CAT ZONES)	15% DECREASE TO 5% DECREASE	12% DECREASE TO 5% DECREASE
CASUALTY	UMBRELLA/EXCESS LIABILITY	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE
	GENERAL LIABILITY	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE
	WORKERS' COMPENSATION	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE
	AUTOMOBILE LIABILITY	FLAT TO 5% INCREASE	FLAT TO 5% INCREASE
MANAGEMENT LIABILITY	PUBLIC REITs	5% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
	REAL ESTATE INVESTMENT ADVISORS	5% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
	REAL ESTATE OPERATING COMPANIES	5% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE

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

Market Commentary

PROPERTY

The property insurance market for commercial real estate owners and operators remained favorable to buyers in 2015, driven by an oversupply of capital and market competition. In the fourth quarter, renewal rates were generally down 5% to 15% for most buyers, including hospitality and gaming organizations. However, conditions were less favorable for portfolios with poor loss experience. Rate reductions are expected again in 2016, barring unforeseen losses. Insurers generally are offering significant rate reductions to retain existing accounts. Also:

- Insurers are seeking to hold all other peril deductible levels constant in order to avoid picking up more attritional losses.
- Catastrophe percentage deductibles are decreasing for many buyers, most notably around named windstorm.
- Following passage of the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA) several real estate companies switched their terrorism programs from standalone placements into "all risk" property placements.

Property insurance market conditions for pure multifamily portfolios were generally favorable for buyers in 2015. In the fourth quarter, rate reductions of 5% to 15% were typical, depending on loss experience. The number of insurers willing to quote at $10,000 or $25,000 deductibles and retentions is limited. Multifamily owners and operators able to take higher deductibles and/or retentions (of $100,000 or more) are generally seeing larger rate reductions.

CASUALTY

The casualty insurance market conditions were competitive for most real estate risks in 2015. In the fourth quarter rates generally renewed:

- Flat to up 5% for commercial real estate.
- Flat to up 10% for habitational properties.
- Flat to down 5% for hospitality clients.

Individual buyers' experience was generally influenced by loss histories, year-over-year exposure changes — including changes in occupancy type — and length of time since previous marketing efforts. Some jurisdictions — including New York — are also drawing greater underwriting scrutiny. Diversified real estate portfolios saw ample capacity in the marketplace, and competition tempered significant rate increases. In some cases, buyers were able to secure rate reductions.

The habitational segment remains a challenge for insurers and general liability insurance rates increased faster than for any other segment. Few insurers are willing to write portfolios with significant habitational components, particularly on a guaranteed cost basis; this trend is expected to continue in 2016, barring any unforeseen changes. Many insurers are now requiring maintenance deductibles, which some carriers will use to mitigate potentially larger rate increases. Other concerns for underwriters include:

- The legalization of medical and recreational marijuana, which could create general liability claims involving tenants.
- Physical violence on properties, for which owners are increasingly being held responsible by courts.

The student housing sector generally experienced rate increases in 2015; among other risks, insurers are concerned about potential liability related to tanning beds and fitness equipment. Standalone hospitality portfolios also saw greater rate increases than mixed portfolios, driven in part by growing legionella claims. However, rate decreases were still possible for hospitality clients with especially strong risk profiles.

FINANCIAL AND PROFESSIONAL

The market for management liability insurance, including directors and officers liability, softened in 2015. New capacity continues to enter the market and competition remains strong. In the fourth quarter, renewal rates were typically flat to down 5%. Results varied, however, based on individual risk profiles.

Despite generally favorable conditions, insurers are concerned about trends in the real estate investment trust (REIT) sector. For example, consolidation among REITs has led to an increase in merger objection litigation. In addition, activist investors are emerging in the REIT sector, often seeking the sale of assets, changes in dividend policies, board seat nominations, or even wholesale change of company management.

ENVIRONMENTAL

The environmental insurance market remained competitive for most real estate and hospitality industry buyers in 2015. Capacity remains abundant, and insurers are competing aggressively for most accounts. In the fourth quarter, rates were generally flat, although rate reductions were possible for buyers with strong risk profiles. A competitive and generally stable market for most insureds is expected in 2016, barring any unforeseen changes.

Real estate companies are showing a tendency toward redevelopment of existing properties, which can present significant environmental risk. Insurers' appetite for redevelopment risk is limited; some insurers are seeking rate increases for portfolios that include properties being redeveloped on brownfield or industrial sites.

Insurers are also concerned about a rise in mold and legionella claims for hospitality and multifamily clients. Insureds that have suffered significant losses may face a more difficult market.

RISK TRENDS

Cybersecurity

A recent data breach involving a large multifamily property operator has raised concerns about data and privacy exposures for real estate companies. Multifamily property owners and operators and third parties that they work with often retain personally identifiable information about residents and employees, including Social Security numbers. Interest in cyber insurance is especially strong in the hospitality and gaming sector.

Data Quality

To position themselves to achieve the best possible outcomes at renewal, real estate companies should work with their insurance advisors to review and improve the quality of their property and casualty data:

- Location, occupancy, construction type, and other property data are critical to catastrophe modeling.
- Casualty insurers expect insureds to provide detailed exposure data, including occupancy rates and payroll information, historical loss data, and workers' compensation class codes.

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Retail/Wholesale, Food and Beverage

Expanded wage and hour coverage likely.

Cyber insurance rate increases to continue.

Stricter food safety regulations coming.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	NON-CAT-EXPOSED ORGANIZATIONS	10% DECREASE TO 5% DECREASE	10% DECREASE TO 5% DECREASE
	MIDSIZE, CAT-EXPOSED ORGANIZATIONS (TIV LESS THAN $250 MILLION)	15% DECREASE TO 5% DECREASE	15% DECREASE TO 5% DECREASE
	LARGE, CAT-EXPOSED ORGANIZATIONS (TIV MORE THAN $250 MILLION)	15% DECREASE TO 5% DECREASE	12% DECREASE TO 5% DECREASE
PRIMARY LIABILITY	GUARANTEED COST	10% DECREASE TO 5% INCREASE	10% DECREASE TO 5% INCREASE
	LOSS SENSITIVE	10% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
WORKERS' COMPENSATION	GUARANTEED COST	10% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	LOSS SENSITIVE	10% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
EXCESS CASUALTY	LEAD	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	EXCESS LAYERS	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
FINANCIAL AND PROFESSIONAL LIABILITY (EXCLUDING CYBER INSURANCE)	PUBLIC COMPANIES	5% DECREASE TO 5% INCREASE	5% DECREASE TO 10% INCREASE
	PRIVATE COMPANIES	5% DECREASE TO 10% INCREASE	5% DECREASE TO 15% INCREASE

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

Market Commentary

PROPERTY

The property insurance marketplace for the retail, wholesale, food, and beverage (RWFB) sector softened in 2015, with buyers generally achieving rate reductions in the fourth quarter. Due to the lack of natural catastrophe (CAT) losses in 2015, capacity remained plentiful and insurers competed for business, despite some industry consolidation. More excess and surplus lines insurers moved into the property space in 2015, creating additional competition and pressure on incumbent insurers. As a result, some RWFB organizations saw double-digit rate decreases. Barring unforeseen events, the property insurance marketplace is expected to remain soft into 2016.

CASUALTY

The casualty insurance marketplace remained competitive for RWFB companies with good loss experiences, particularly for businesses with loss-sensitive programs. Casualty rates were generally stable in the fourth quarter of 2015, and are likely to remain so into 2016, barring unforeseen events. Difficult-to-insure risks for RWFB companies included children's products and imported products, especially those from China. Capacity remained strong with the exception of monoline and California workers' compensation.

Insurers are focusing on loss experience, safety programs, pre- and post-loss activities, "named insured" wording, acquisition activity, attachment points, and fleet size and composition. Cyber exclusions are included on almost all placements; specific language can vary greatly, and should be reviewed carefully by insureds.

In 2016, risk management focus areas for RWFB companies continue to include food safety practices, product liability, and fleet exposures. Larger clients with significant product liability exposures are taking a fresh look at their program structure in terms of limits, retentions, and coverage triggers to maximize possible recovery in the event of a catastrophic loss. Insureds continue to benefit by starting the marketing and renewal process early and making detailed submissions that include descriptions of pre- and post-loss control measures.

FINANCIAL AND PROFESSIONAL

In 2015, rates for financial and professional lines generally fell for RWFB companies, excluding cyber insurance and employment practices liability (EPL) in California. A number of new directors and officers (D&O) liability market entrants created pricing pressure and increased competition, predominantly among excess insurers. Rate reductions for D&O insurance and ancillary lines are expected to continue into 2016 for most buyers. Conditions for insureds with poor risk profiles and loss histories, however, remain less favorable, with some organizations seeing slight increases.

More insurers were willing to underwrite wage and hour coverage in 2015, offering lower retentions and rates, a trend that is expected to continue in 2016. This was a significant shift in how the product was originally offered; coverage was previously costly and out of reach for small retailers. Insurers now have a better understanding of exposures and losses and have adjusted their underwriting models; many insurers now offer blended wage and hour and EPL coverage. In 2016, companies should also monitor the National Labor Relations Board's (NLRB) ruling on joint employer liability status, which could bring sweeping changes to the restaurant and retail/wholesale franchisor model.

CYBER

Cyber insurance rates for retailers increased significantly in 2015, largely driven by high-profile, high-cost retail sector losses in 2014 and 2015; for some Marsh retail clients, rates increases were up to 25% and 50% through the fourth quarter. At times in 2015, capacity for retailers was also constrained, with insurers closely managing limits and attachment points.

In 2016, conditions should improve for RWFB organizations as industry loss experience stabilizes and new capacity enters the market. The benefits will be felt most by organizations with good loss experience and updated, EMV-compliant payment systems incorporating end-to-end encryption. For these clients, more capacity should be available, though some may still see rate increases. Companies with more complex payment environments or without updated systems may see more significant increases or capacity constraints.

RISK TRENDS

Cybersecurity

The retail industry experienced a large number of high-profile data breaches in 2014 and 2015. Companies that were hit hard in the past few years are still working through the financial costs, regulatory scrutiny, and reputational damage. Moving into 2016, it is critical for retailers to continue performing cyber risk assessments and strengthen their internal controls, including encryption capabilities, as hackers will only become more sophisticated. Cyber analytics and modeling can help make appropriate resource deployment decisions, including determining insurance retentions and coverage limits. A robust underwriting process, which includes meetings with underwriters to go over network security controls and presenting information on prior breaches, can help RWFB organizations during renewals.

Workers' Compensation

Workers' compensation continues to be the largest component of RWFB companies' total cost of risk (TCOR). Businesses are using data, analytics, and models to understand how they can reduce losses. Many employers are focusing on job-specific training (for example, clerical, warehouse, and truck drivers) to reduce workplace injuries and costs. The impact of the increasing prevalence of the medical and legal recreational use of marijuana on workers' compensation remains to be seen and is an area for companies to watch. Companies are also continuing to monitor the impact of the Affordable Care Act on workers' compensation costs.

Food Safety and Regulatory Oversight

Recent high-profile food contamination outbreaks have brought food safety to the forefront for many RWFB organizations. The Food Safety Modernization Act of 2010 (FSMA) has placed more responsibility on food and beverage manufacturers and processors to identify and control the risks in their supply chains and systems before they become a problem. In 2015, the US Food and Drug Administration (FDA) finalized three FSMA rules that govern food manufacturers' protocols for preventing food-borne illness. RWFB companies will need to pay particular attention to ensure they are in compliance with these and other regulations.

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Sports and Events

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	NON-CAT-EXPOSED ORGANIZATIONS	10% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT
	MIDSIZE CAT-EXPOSED ORGANIZATIONS (TIV<$250 MILLION)	10% DECREASE TO 5% DECREASE	5% DECREASE TO FLAT
	LARGE CAT-EXPOSED ORGANIZATIONS (TIV >$250 MILLION)	10% DECREASE TO 5% DECREASE	FLAT
PRIMARY CASUALTY	LARGE ORGANIZATIONS	10% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
	MIDSIZE ORGANIZATIONS	10% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
EXCESS CASUALTY	LARGE ORGANIZATIONS	10% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
	MIDSIZE ORGANIZATIONS	10% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
FINANCIAL AND PROFESSIONAL	LARGE ORGANIZATIONS	5% DECREASE TO 2% INCREASE	FLAT TO 5% INCREASE
	MIDSIZE ORGANIZATIONS	5% DECREASE TO 2% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

PROPERTY

Property insurance rates for sports and events companies continued to soften in 2015 as abundant capacity drove down rates. These trends are expected to continue in 2016, barring unforeseen events. Many insureds that did not market their property program in the last two or three years did so in 2015, often achieving significant premium savings.

CASUALTY

Except for organizations with increasing claims activity, casualty insurance rates were typically flat to down 10% in the fourth quarter of 2015. With potential employment increases in certain sectors of the sports and events industry, workers' compensation variable costs will remain a risk driver in 2016.

FINANCIAL AND PROFESSIONAL

Although there have been no significant cyber claims from sports organizations, high-profile losses have led to a better awareness of the exposure. As a result, cyber insurance take-up rates among sports companies increased in 2015; companies that had previously purchased the coverage increased their limits. This trend is expected to continue in 2016.

AHEAD IN 2016

Terrorism and other safety concerns top of mind.

Potential increase in cyber take-up rates.

RISK TRENDS

Safety and Security

The Paris terror attacks, which included bombings near France's national sports stadium, put safety and security at the forefront for many organizations.

Business Interruption

Recent examples of civil unrest and stadium roof collapses highlighted the severity that a disruption can have on a sports company's operations. More companies are using valuation services and forensic accounting firms to better understand their revenue sources.

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Transportation: Rail

Soft property market conditions likely.

Stable casualty market conditions expected.

Stronger accident compensation requirements in Canada.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	ROLLING STOCK	5% DECREASE TO FLAT	5% DECREASE TO FLAT
	OPERATING RAILWAY	10% DECREASE TO 5% DECREASE	10% DECREASE TO 5% DECREASE
LIABILITY	REGIONAL/ SHORT LINES	FLAT TO 3% INCREASE	3% INCREASE TO 5% INCREASE LEAD EXCESS LAYERS/ 5% INCREASE TO 10% INCREASE FOR HIGH EXCESS LAYERS
	CLASS I	3% DECREASE TO FLAT	SLIGHT DECREASE TO FLAT
	COMMUTER/ PASSENGER	FLAT TO 3% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

PROPERTY

With relatively few losses occurring in 2015, the property insurance market for rail companies generally softened. In the fourth quarter of 2015, most rail property owners renewed with rate decreases of approximately 5% to 10%. Competitive market conditions are expected to continue into 2016 for insureds with strong loss profiles, barring unforeseen events.

Rail insurers are aggressively competing for business and offering attractive pricing and terms and conditions. Insurers generally are offering capacity in different positions on property programs and/or expanding capacity. Insureds with significant losses typically did not see the same level of rate decreases, but generally avoided increases due to market competition.

Insurers remain concerned about flood exposures for both freight and passenger railways. With insurers focused on maintaining minimum pricing levels, railways that purchased flood insurance on critical assets may not have seen rates decline as much as those that did not purchase the coverage . However, where competition has been especially strong, underwriters may be slightly more generous with flood pricing in order to win or retain business.

RAILROAD LIABILITY

The casualty insurance market for railways generally remained stable to firm in 2015. Rates were generally flat to up 3% in the fourth quarter of 2015. Larger rate increases generally were tempered by new capacity entering the marketplace, particularly from Lloyds syndicates. In some cases, underwriters were willing to offer slight decreases in rates in order to maintain their positions with certain accounts. Stable market conditions are expected to continue in 2016, barring unforeseen events.

RISK TRENDS

Rail Act (Canada)

In June, the House of Commons of Canada passed the Safe and Accountable Rail Act, amending the Canada Transportation Act and Railway Safety Act. The new law:

- Strengthens the liability insurance requirements for federally regulated railways.
- Establishes a supplementary, shipper-financed compensation fund to cover damages resulting from railway accidents involving the transportation of certain dangerous goods.

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Transportation: Road

AHEAD IN 2016

Auto liability rate increases expected.

Insurers scrutinizing safety programs and use of technology.

Classification of drivers as employees adding to payroll and benefits costs.

Umbrella/buffer auto insurers increasing attachment points and raising rates.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
CARGO/SHIPPERS INTEREST	ALL SEGMENTS	10% DECREASE TO FLAT	10% DECREASE TO FLAT
PROPERTY	NON-CAT-EXPOSED ORGANIZATIONS	10% DECREASE TO FLAT	10% DECREASE TO FLAT
	MODERATELY CAT-EXPOSED ORGANIZATIONS (1% TO 30% OF VALUES IN CAT ZONES)	10% DECREASE TO FLAT	8% DECREASE TO 2% INCREASE
	LARGELY CAT-EXPOSED ORGANIZATIONS (MORE THAN 30% OF VALUES IN CAT ZONES)	10% DECREASE TO FLAT	8% DECREASE TO 2% INCREASE
GENERAL LIABILITY	LARGE ORGANIZATIONS (SALES GREATER THAN $5 BILLION)	FLAT TO 5% INCREASE	FLAT TO 10% INCREASE
	MIDSIZE ORGANIZATIONS (SALES LESS THAN $5 BILLION)	3% INCREASE TO 5% INCREASE	FLAT TO 10% INCREASE
AUTO LIABILITY	MIDSIZE AND LARGE ORGANIZATIONS (EXCLUDING FRONTED PROGRAMS)	5% INCREASE TO 10% INCREASE	3% INCREASE TO 10% INCREASE
EXCESS CASUALTY	MIDSIZE AND LARGE ORGANIZATIONS	5% INCREASE TO 20% INCREASE (UP TO 50% FOR AL BUFFER LAYERS)	FLAT TO 10% INCREASE
WORKERS' COMPENSATION	GUARANTEED COST (EXCLUDING CALIFORNIA)	10% INCREASE TO 20% INCREASE	10% INCREASE TO 20% INCREASE
	LOSS SENSITIVE	3% INCREASE TO 15% INCREASE	3% INCREASE TO 15% INCREASE

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

Market Commentary

PROPERTY

Soft property market conditions continued for transportation companies in 2015. Capacity remains abundant, and natural catastrophe losses have been limited. In the fourth quarter of 2015, motor truck cargo rates were generally flat to down 5%. Individual results varied, however, based on loss histories.

CARGO/SHIPPERS INTEREST

Although widely offered by international freight forwarders, shippers interest offered by carriers and load brokers is continuing to increase in popularity. As more insurers write this class of business, rates are trending down, although losses on domestic shippers interest programs consistently underperform programs covering international shipments. Carriers or brokers that have experienced losses may see commodity restrictions, minimum premiums, and/or deductibles introduced.

CASUALTY

Transportation companies' automobile losses continued to develop in 2015, leading insurers to quote rates more conservatively. In the fourth quarter, general liability rates were typically flat

to up 5% and auto liability rates were up 5% to 10%. Excess casualty rates were generally up 5% to 20%. With no indication that losses will subside in the near future, rates are expected to continue to increase in 2016, barring unforeseen changes in conditions.

Some insurers have withdrawn from both the primary and umbrella/excess marketplace and are no longer offering renewal quotes. Other primary insurers are:

- Limiting their exposure to specific regions.
- Requiring separate quotes for private passenger vehicles.
- Increasing minimum deductible levels for both auto liability and workers' compensation.
- Avoiding monoline workers' compensation placements, particularly for California-based transportation companies. Some insurers are also not willing to write workers' compensation without also writing automobile liability.

Some primary insurers appear more amenable to reducing rates if there is competition for a particular placement. However, insurers are generally seeking rate increases for companies for which exposures have decreased.

As losses increase, some insurers are retreating from the umbrella/excess marketplace and/or increasing their attachment points. Some insurers are also quoting smaller limits to reduce their transportation exposures.

Primary and umbrella/excess insurers are increasingly focused on safety and other compliance measures and are often unwilling to participate in risks with inadequate compliance, safety, accountability (CSA) scores. Following passage of the Fixing America's Surface Transportation Act (FAST Act), the Federal Motor Carrier Safety Administration (FMCSA) is only making CSA scores available to motor carriers; the agency said it is working to return data to the public view. In the interim, insureds will be required to provide their CSA scores to insurers with their underwriting submissions.

Truck Brokerage

Many primary insurers continue to exclude truck broker liability from automobile coverage; in these cases, truck broker placements must be completed on a monoline basis. Negligent hiring claims continue to trouble insurers, and fewer are willing to participate in the primary to $15 million layer. Rates will likely continue to increase in 2016, barring unforeseen changes in conditions.

RISK TRENDS

Driver Shortage

Motor carriers continue to experience a shortage of qualified drivers, due in part to growing federal safety regulations and long routes that often keep drivers away from home for long periods. Companies continue to consider increasing pay and offering incentives to new hires. Some are also working with customers to reduce waiting times and pickup and delivery locations to make routes more driver-friendly.

Independent Contractors

In 2014, the United States Court of Appeals for the Ninth Circuit ruled that a trucking company's drivers were employees — and not independent contractors — under California and Oregon wage and hours laws. Other federal and state courts have since followed with similar rulings, which will likely add payroll and benefits costs for transportation companies. To help eliminate this exposure, some motor carriers are requiring independent contractors to obtain their own operating authority and purchase primary general liability, automobile liability, cargo legal liability, and workers' compensation insurance on their own.

Litigation and Regulation

Many courts take a negative view of the transportation industry and are concerned with a lack of compliance with industry mandates, Federal Transportation Safety Administration (FTSA) rules, and state laws. This concern has contributed to a number of judgments exceeding $40 million for single-auto accidents, which in turn has led to changes in excess auto liability insurer pricing models.

In November 2015, the FMCSA announced the adoption of a final rule to help further safeguard commercial truck and bus drivers from being compelled to violate federal safety regulations. The rule provides the FMCSA with the authority to take enforcement action not only against motor carriers, but also against shippers, receivers, and transportation intermediaries.

The recently signed FAST Act also includes a number of key provisions affecting transportation regulations. These include:

- Reforms to CSA scoring, including removing scores and percentiles from public view, and a study of the FMCSA's safety measurement system (SMS).
- The development of recommendations for the FMCSA's treatment of preventable crashes.
- The allowance of hair testing in drug tests.
- A commercial driver's license pilot program.
- Removal of national hiring standards for truck brokers.

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