

UNITED STATES INSURANCE MARKET REPORT 2016

MINING, METALS, AND MINERALS



FOREWORD

As part of our commitment to keeping you informed, Marsh is pleased to present you with this excerpt regarding the mining, metals, and minerals industry from our *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,



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.

Mining, Metals, and Minerals

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.

AHEAD IN 2016

Property insurance rates likely to remain soft, capacity abundant.

Casualty insurance rates likely to remain stable, capacity abundant.

Expense management 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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