



# Willis

Market Forecast 2005

**Conditions, Strategies and Options**

February 17, 2005

- **Financially robust industry segment**, despite 2004 Atlantic hurricanes, Pacific typhoons and tsunami of December 26
- Continuing **reduction in average rate levels** through 2005 ... 10 to 15%, *except* some experienced by storm-affected accounts
- **Terms and conditions** subject to careful underwriting, yet negotiable:
  - Percentage deductibles
  - Ingress / egress and civil authority
  - Service interruption
  - Demolition and increased cost of construction
  - Manuscript forms
- With **TRIA due to expire December 31**, plan now for negotiation of TRIA-related policy endorsements. Current positions of insurers:
  - Constant level of protection with or without TRIA
  - Pop-up exclusions if TRIA is not renewed or its conditions are changed
  - Potential for accumulation challenges in metropolitan areas
  - Some state regulations may influence capacity commitments
  - Stand-alone terrorism market is active and competitive – *now*
- **“Must experience be the best teacher?”**

- **A multidimensional marketplace**
  - Several carriers exiting North American casualty marketplace as new ones enter...
  - ...while established carriers compete to maintain books of business
  - Bermuda remains extremely robust...
  - ...and London marketplace is in transition
- **Market softening is not across-the-board**
  - Definite reduction in pricing levels
  - Continued underwriting discipline vis-à-vis policy forms, terms, conditions
  - Wide variation persists in the major Umbrella forms
  - Aviation exposures, professional liability, and certain contingent liability exposures remain difficult to schedule on most umbrella programs
- Increased underwriting emphasis on the insured's financial strength
- With TRIA due to expire Dec. 31, concern regarding impact on renewals
- **Do relationships carry a price tag?**

# Workers' Compensation

- **Total Cost of Risk – a Holistic Approach**
  - Risk control & claims management
  - Risk financing strategies • Overall business strategies
- **Risk Control & Claims Management**
  - Compartmentalize and evaluate the critical components: RMIS ... MCOs ... TPAs
  - Integrate financial and causative links
- **Risk Financing Strategies**
  - What is the 'right' retention?
  - Impact of “retention migration” – Avoid the “collateral trap”
  - Look for non-traditional retentions, deductible enhancement programs
  - Gather your data – impact of TRIA
- **Overall Business Strategies**
  - Where are my employees?
  - Jurisdictional reform and reviews – what they mean for you
  - Employee concentration and TRIA
- **Communicating *positive differentiation***

# Employee Benefits

- **Retirement Plans**

- Defined benefit and hybrid plans too expensive, complex
- 401(k) plans continue to prosper despite stock market volatility

- **Medical Plans – Big Picture**

- CFO / CEO interest due to cost and Sarbanes-Oxley
- Outsourcing – HIPAA, call centers
- Managed care / gatekeepers out of favor
- HMOs still popular in certain geographic areas
- Carriers – consolidation and rising margins
- Overall price increases 10+ % for last few years
- Increases of 8% to 12% likely for foreseeable future
- Retiree medical becoming virtually extinct

- **Consumer Driven Healthcare**

- Some concerns about takeaways, “anti-selection,” access to internet
- Actual results extremely positive
- Better employee engagement, education, decisions ... 95+ % re-enroll

- **Ongoing growth** of Voluntary Benefits, Managed Disability, Long Term Care and Executive Plans

# Executive Risks

- **Personal liability** of Directors and Officers – a trend or isolated events?
- **Loss trends** continue to deteriorate as pipeline of cases moves through the system
- **Pricing stability** on the horizon
  - Varies by segment
  - Overall – less volatility in premiums
- **Underwriting challenges** and outcomes from Sarbanes-Oxley, specifically Section 404
  - What happens when a firm does not get a clean opinion?
- **Trends in program design** – companies are conducting a more rigorous analysis of design options

- Superior corporate aircraft risks will see a **competitive marketplace**
- Charter fleets, commercial operators, helicopter operators, fixed base operations, ground handlers, and airports will face **limited capacity ... impacting rates**
- Non-owned aircraft policies are increasingly scrutinized
- Attaining higher limits of liability will be costly
- **Regulatory Issues**
  - Fractional owners – FAA definition of “operational control” of the aircraft
  - New European Union insurance regulations
- **Airlines and Aviation Manufacturers**
  - Capacity and rates stabilizing in 2005 ...
  - ... yet capacity will be more price and premium volume sensitive
  - Future of FAA war risk program remains an unknown

- “Disclosure Obligations and Market Solutions” – **Webcast Dec. 2, 2004**
- In light of evolving financial disclosure standards, firms are reconsidering their **environmental liability disclosure policies**
  - Flexibility in rules interpretations had caused widespread underreporting
  - Mounting pressure / need for change: SOX, SEC, FASB 143 and the rising power of SRIs
- Expanded use of **environmental insurance products**
  - To reduce or eliminate underlying uncertainties
  - To enable efficient sale of contaminated businesses and properties
  - As a superior alternative to indemnification in M&A transactions
- **Special purpose products** – Remediation Cost Cap, Liability Transfer, Blended Programs
- Continued overall market growth, with **relatively stable premiums** projected for 2005

- Limited Number of Carriers
- Owned vs. Non-Owned Networks
- Fronting Issues
  - Limits
  - Security Issues
  - Cash Flow
  - TRIA
- The new force: Direct Writing Dublin Captives

# Leveraging Captive Value in 2005

- Captive activity still robust in softening markets  
... strongest in niche areas
- Terrorism Risk Insurance Act (TRIA) captives
  - Direct access to federally provided reinsurance
  - TRIA opportunities in 2005
  - Prospects for TRIA renewal
- Employee Benefits captives
  - Developments at DOL created interest
  - Practical realities
  - What to do

# The Phenomenon of Aggregation Risk

- **Single-Site Risk** = Value-at-risk at one location
  - ⇒ Supply and demand forces drive the familiar cyclical marketplace
- **Aggregation Risk**
  - = Concentration of exposures susceptible to catastrophe loss
  - = Liabilities accumulating over time

⇒ **The marketplace will continue to lose ground:**

Growth of exposures will continue to accelerate, far outpacing inflation and the ability of today's insurers to fund for them.

- ⇒ Will 'natural monopoly' conditions lead to an expanded role for government as 'the insurer of last resort'?
- ⇒ To what extent will tort reform limit historical liability and future exposure?
- ⇒ Planning for the future today: alternative risk funding strategies

# Thank You

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