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We also invite readers to visit the Videos & Publications page of www.willis.com, where you will find many other articles and studies of immediate and enduring value to risk managers, financial executives and corporate governance stewards of every stripe.

Marketplace Realities is updated semi-annually.

EDITORIAL STAFF
Matt Keeping | Jonathan Fried | Erin Dubord | Paulette Callen

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BRINGING THE PIECES TOGETHER

To transfer a risk is to solve a puzzle. Some of the pieces in that puzzle will belong to the company that is transferring the risk – those would include retentions, captives and other self-insurance options. But most of the pieces in the risk management puzzle come from the carrier community. This year, marketplace forces changed the size and shape of those pieces to an extent we have not seen for some time. That will impact the way we bring the pieces together to solve our risk management puzzles.

The key force driving this change in the market is consolidation. In commercial insurance (ACE/Chubb) and in health insurance (Anthem/Cigna and Aetna/Humana), some of the pieces are on the verge of getting a lot bigger, should the transactions come to fruition, giving rise to a new breed of “super carrier” as some have proclaimed. Another factor is insurers in Japan/China buying Lloyd’s syndicates or other British insurers, which is expected to continue into 2016.

Why is this wave of consolidation happening? Companies seek growth and inorganic growth – buying other companies – is a long-standing way to achieve it. Obviously, the cost synergies that come with mergers and acquisitions can boost company value.

So why now? An ongoing environment of low interest rates continues to challenge insurers’ investment income streams. An extended period of relatively low levels of catastrophic loss puts downward pressure on premium rates, another challenge to insurer revenues. With organic growth hard to come by, inorganic growth becomes all the more appealing.

There’s another motive for consolidation: as a strategic effort to adapt to a changing environment. That would be the case in the health benefits arena, where health care reform is changing the rules of the game and carriers are bracing for an uncertain future.

On the brokerage side, these same forces are at work. We at Willis, of course, are thrilled with the prospects for expanding our service and value to clients with the combinations we have announced.

In the short run, consolidation shrinks the market. As two companies become one, the marketplace offers one less piece with which to solve the puzzle of an insurance program. Our carrier trading partners would like us to believe 1+1 = 2 but historically this has not borne out on either side of the equation. But a smaller market with fewer, larger players also opens up the field to new comers that can focus on smaller, specialized niches in areas of potential growth. So consolidation often yields its opposite by thinning the competition and encouraging the emergence of new puzzle pieces.

What does this mean for the risk professional? It means the marketplace continues to evolve, which means that new options will need to be understood and investigated and old options given a fresh look. It could also mean that we should challenge insurance carriers to be bolder about the risks they take on.

As a risk adviser, it’s our role to help in the process, to help our clients bring together the pieces of their risk transfer puzzles. That’s a service needed more than ever in the current environment.

Matt Keeping
Chief Broking Officer
Willis North America
Senior Editor
Marketplace Realities
## COMMERCIAL INSURANCE RATE PREDICTIONS FOR 2016

<table>
<thead>
<tr>
<th>INSURANCE PRODUCT</th>
<th>RANGE OF CHANGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyber for POS Retailers</td>
<td>(+150)</td>
</tr>
<tr>
<td>Environmental: Combined with Casualty</td>
<td></td>
</tr>
<tr>
<td>E&amp;O, Poor Loss Experience</td>
<td></td>
</tr>
<tr>
<td>Cyber</td>
<td></td>
</tr>
<tr>
<td>Casualty: Workers’ Comp in CA</td>
<td></td>
</tr>
<tr>
<td>Employee Benefits: Insured Plans</td>
<td></td>
</tr>
<tr>
<td>Employee Benefits: Self-insured Plans</td>
<td></td>
</tr>
<tr>
<td>Kidnap &amp; Ransom</td>
<td></td>
</tr>
<tr>
<td>E&amp;O, Good Loss Experience</td>
<td></td>
</tr>
<tr>
<td>Fidelity</td>
<td></td>
</tr>
<tr>
<td>Construction: XS</td>
<td></td>
</tr>
<tr>
<td>Casualty: Primary</td>
<td></td>
</tr>
<tr>
<td>Construction: CIP</td>
<td></td>
</tr>
<tr>
<td>Construction: GL</td>
<td></td>
</tr>
<tr>
<td>Construction: WC</td>
<td></td>
</tr>
<tr>
<td>Casualty: Workers’ Comp</td>
<td></td>
</tr>
<tr>
<td>Employment Practices Liability</td>
<td></td>
</tr>
<tr>
<td>D&amp;O</td>
<td></td>
</tr>
<tr>
<td>Fiduciary</td>
<td></td>
</tr>
<tr>
<td>Political Risks</td>
<td></td>
</tr>
<tr>
<td>Health Care Professional</td>
<td></td>
</tr>
<tr>
<td>Surety</td>
<td></td>
</tr>
<tr>
<td>Trade Credit</td>
<td></td>
</tr>
<tr>
<td>Construction: CIP (GL-only non-condo)</td>
<td></td>
</tr>
<tr>
<td>Aerospace: Products/Services/Airports/Municipalities</td>
<td></td>
</tr>
<tr>
<td>Casualty: Umbrella &amp; Excess</td>
<td></td>
</tr>
<tr>
<td>Casualty: Auto</td>
<td></td>
</tr>
<tr>
<td>Construction: Builders Risk</td>
<td></td>
</tr>
<tr>
<td>Environmental: CPL</td>
<td></td>
</tr>
<tr>
<td>Environmental: PLL/EIL</td>
<td></td>
</tr>
<tr>
<td>Marine</td>
<td></td>
</tr>
<tr>
<td>Property: Non-CAT Risks</td>
<td></td>
</tr>
<tr>
<td>Property: CAT-Exposed Risks</td>
<td></td>
</tr>
<tr>
<td>Terrorism</td>
<td></td>
</tr>
<tr>
<td>Aerospace: General Aviation</td>
<td></td>
</tr>
<tr>
<td>Aerospace: Financial Institutions/Lessors</td>
<td></td>
</tr>
<tr>
<td>Aerospace: Airlines</td>
<td></td>
</tr>
</tbody>
</table>

![Graph showing range of change for various insurance products](image-url)
LOOKING FORWARD, LOOKING BACK

Looking back to our spring update, we see that again we have underestimated to a small degree the softening forces at work in the marketplace. True, the decline of Property rates we predict here is less steep than the decline we predicted in April (apparently Property rates have fallen so much in the last couple of cycles there's not much further they can fall), but Casualty rates have now joined the downward trend, and other specialty lines (Political Risks and Aviation) moved from our “flat” list to our “expecting decreases” list. In other lines (Terrorism, Trade Credit) rates are falling further than we expected and for Benefits and Kidnap & Ransom, the increases will likely be lower than we predicted earlier.

The main exception to the above is in an area of risk that is steadily becoming more of a standard consideration on the order of Property and Casualty: Cyber risk. There is no escaping Cyber exposure (for more on that see the WillisWire piece by my Marketplace Realities senior editor predecessor, Eric Joost). Cyber also impacts Errors & Omissions, as breach incidents are often covered in part by E&O policies; this was the only line that moved from the “flat” category into “expecting increases” category since the spring.

We see a small exception in Auto rates, where decreases are still expected for many buyers, but less attractive risks could see small increases.

THE OUTLOOK

For 2016, 10 lines are expecting decreases.

- Property
- Casualty
- Aviation
- Energy
- Health Care Professional
- Marine
- Political Risks
- Surety
- Terrorism
- Trade Credit

Five lines are expecting increases.

- Cyber
- Employee Benefits
- Errors & Omissions
- Fidelity
- Kidnap & Ransom

The remaining lines are predicted to deliver a mix of small increases and decreases.

- Workers’ Compensation
- Auto
- Construction
- Directors & Officers
- Employment Practices Liability
- Environmental
- Fiduciary

For more insight on how these trends affect the pieces of your risk management puzzle, contact your local Willis representative or your Willis Client Advocate®.

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Marketplace Realities & Risk Management Solutions
PROPERTY

- **Capacity** – What does the insurance market do when it finds itself in what some call an over-capacitized position? Add more capacity. At least that is what we have seen so far in 2015. Adding more gas to a burning fire, insurers continue to increase their capacity offerings and new players enter the crowded market. This increase in supply continues to promote a competitive environment, as carriers fight for positions on accounts.

- **Reinsurance** – Although many on the reinsurance side of the industry have cautioned that the market has found the floor with respect to further reductions, others are not convinced. Fitch expects reinsurance pricing will continue to fall in 2016, but by single digits as opposed to the double digits we have seen in recent years. This would be the fourth straight year of decline.

<table>
<thead>
<tr>
<th>Year</th>
<th>Reinsurance Rate Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>-7%</td>
</tr>
<tr>
<td>2014</td>
<td>-17%</td>
</tr>
<tr>
<td>2015</td>
<td>-11%</td>
</tr>
<tr>
<td>2016 (est.)</td>
<td>-5% to -7%</td>
</tr>
</tbody>
</table>

- **Consolidation/Mergers** – Insurers continue to look for ways to grow and diversify revenue streams in what is still a challenging economy. In times when interest rates continue to stagger, scale clearly matters. We saw quite a few mergers in 2015 (we call special attention to insurers in Japan/China buying Lloyd’s syndicates or other British insurers) and this is expected to continue into 2016.

- **Loss Experience** – In a word, loss experience in the broadest view remains benign. A benign 2014 has continued so far in 2015.

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall Insured Property Losses</th>
<th>Insured NAT-CAT Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>45.0</td>
<td>20.0</td>
</tr>
<tr>
<td>2014</td>
<td>34.0</td>
<td>15.0</td>
</tr>
<tr>
<td>2015 (First Half)</td>
<td>20.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>

(Sources: Munich Re, Swiss Re, Insurance Information Institute – in $billions)

- **Profitability** – Without the luxury of solid interest rates, insurers are forced to produce profitability purely on their underwriting results. Lately they’ve managed it. Property/Casualty insurers saw a 97.2% combined loss ratio in 2014, and through the first half of 2015 the combined loss ratio stood at 96%. Overall policyholder surplus of $671B remains near the record of $674B posted in 2014.

- **Alternative Capital** – The influx of alternative capital continues to pressure the reinsurance market and this capacity continues to increase every year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Use of Alternative Capital in Reinsurance Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8.4%</td>
</tr>
<tr>
<td>2013</td>
<td>10.2%</td>
</tr>
<tr>
<td>2014</td>
<td>11.5%</td>
</tr>
<tr>
<td>2015 (est.)</td>
<td>15%</td>
</tr>
</tbody>
</table>

(Sources: A.M. Best, ISO, Insurance Information Institute)

- **Exceptions** – As we have reported, habitational risk remains challenging because insurers struggle to turn a profit underwriting in this segment. Given the current emphasis on pure underwriting results, insurers can ill afford to make bold moves in an area that consistently does not produce desired results.

**PRICE PREDICTIONS**

<table>
<thead>
<tr>
<th>Type</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-CAT</td>
<td>-10% to -12.5%</td>
</tr>
<tr>
<td>CAT</td>
<td>-12.5% to -15%</td>
</tr>
</tbody>
</table>

**THE ONE THING**

Decide what you want to achieve: is it a reasonable rate decrease while maintaining insurer relationships that are valued? Or do you want to take advantage of all available capacity and maximize premium savings?

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CASUALTY - PRIMARY & EXCESS

- Casualty is clearly a buyer’s market, though underwriting discipline prevents drastic reductions in rates.
- On primary Casualty programs, collateral requirements continue to ease and the majority of Casualty markets are now accepting sureties to satisfy part of their collateral requirements.
- Due to the increased market options available for lead umbrellas, we see no pressure to increase umbrella attachments. However, for clients with large fleets or other difficult exposures, the umbrella market is more competitive at higher attachment points (e.g., $5M), so we recommend considering increased primary limits and/or buffer policies. The facultative reinsurance market, which can be very aggressive on certain risks, can be accessed as part of such a strategy.
- The liabilities associated with new technologies, such as drones and the internet of things, can be covered by a combination of specialty products (Aviation and Cyber) as well as GL. Care must be taken in determining the best options and most appropriate covers.
- Captive Developments: Two recent cases involving IRS challenges to captive insurance companies may open the doors to broader use of captives for long-tail primary Casualty risks. The decisions in the cases moved the focus from the number of entities insured to the quantity of exposure, a significant change that should more readily afford insurance company status to captives.
- Product Recall: Product recall risk is rising on the priority list of risk managers – or should be. Recalls are now a global phenomenon rather than just a North American and European issue, and a trend toward tighter regulation and stricter enforcement in the U.S. means greater risk at home as well.
  - Sensitivity around the value of brand has never been greater and with social media, information has never moved so quickly across the globe.
  - Despite these trends – and headlines featuring iconic brands facing recalls – the Product Recall market is flush with capacity, creativity and manuscript solutions for large companies. Premium rates for the two major segments of the market, food & beverage and automotive/consumer products, continue to soften or flat-line.
  - London syndicates continue to provide capacity and unique solutions for more difficult-to-place risks.
  - The domestic market in the U.S. is now strong and robust with multiple players also providing capacity and manuscript solutions.

PRICE PREDICTION

<table>
<thead>
<tr>
<th></th>
<th>Flat to -5%</th>
<th>Flat to -10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Casualty</td>
<td>Flat to -5%</td>
<td>Flat to -10%</td>
</tr>
<tr>
<td>Umbrella &amp; Excess</td>
<td>Flat to -10%</td>
<td>Flat to -10%</td>
</tr>
</tbody>
</table>

THE ONE THING

In a competitive primary and excess liability market, where underwriters are trying to maintain premium and rate discipline, insureds should seek to broaden coverage and increase limits at their next renewal.

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The One Thing
Based on changes in New York, Texas and other NCCI states, employers may want to have a test mod prepared if maintaining a mod of 1.00 or less is critical to their operations.

Workers’ Compensation

- Overall, combined ratios for Workers’ Compensation carriers continue to improve, due to previous and some continuing rate increases, and to improvement in medical inflation trends.
- The average combined ratio for Workers’ Compensation carriers in California has dropped to 100, the lowest in nearly a decade. California Workers’ Compensation premium is now 27% of the total U.S. market (up from 19% in 2009) due to rate increases, payroll trends and economic recovery.
- The number of legislative initiatives and the case law supporting alternatives to the sole-remedy Workers’ Compensation system continue to grow. Currently, employers have the opportunity to opt out of Workers’ Compensation in Texas and Oklahoma. (Interestingly, filed Workers’ Compensation rates in these states have decreased.) Other states in the South, notably South Carolina, Missouri, Florida and Tennessee, have had opt-out legislation proposed.
- The marketplace for Texas Non-Subscriber continues to expand and follows the general Workers’ Compensation deductible market rate movement. With increases in capacity, we are experiencing options for higher limits and unique program structures.
- In 2015, the National Council on Compensation Insurance (NCCI) raised the split point on experience mods to $15,500 per claim, an increase from $13,500 per claim. On July 1, Texas became an NCCI state for both Texas and interstate risks. Additionally, Texas increased its split point from $5,000 per claim to the NCCI standard, as well as raising its excess loss threshold significantly.
- New York State is not an NCCI state and, effective October 1, will increase its split point from $10,000 per claim to $15,000 per claim. New York has also substantially increased both the New York State per-claim and per-accident limitation, which may introduce more severity to some clients’ New York experience mod.

Price Prediction

-2.5% to +2.5%, up to +10% in California

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AUTO LIABILITY

- The marketplace for Auto rewards aggressive marketing, with single-digit reductions for large auto fleets with good loss experience. Large fleets with unfavorable loss experience or problematic exposures (e.g., long haul and heavy trucks) face upward pressure on rates and deductibles.
- Smaller auto fleets, which tend to be written on a guaranteed cost, are not seeing the same downward rate trends as large fleets.
- Umbrella underwriters are no longer asking for higher attachment points for risks with large fleets and heavy trucking exposures, since in most cases attachment points have been raised to acceptable levels over the past few renewal cycles. At attachment points of $5M and higher, the umbrella market becomes more competitive. Again, companies with poor loss experience are still facing pressure on attachments and rate increases.
- Self-driving vehicles keep getting closer to our streets and highways. Recently, the National Highway Transportation Safety Administration (NHTSA) established five levels of automation, ranging from Level 0 (no automation and the driver in complete control) to Level 4 (full self-driving automation).
- Additionally, NHTSA has introduced a proposal that will require electronic stability control (ESC) on all new heavy vehicles.
- Many companies with large auto fleets are benefiting from reconfiguring their towers to introduce shorter layers in their lead umbrella and taller quota shared layers in their excess; a competitive combination of domestic, London, Bermuda and global capacity is yielding the best terms.

PRICE PREDICTION

-10% to +5%

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EMPLOYEE BENEFITS

- **The employee benefits industry is consolidating.** Anthem's announced acquisition of CIGNA and Aetna's announced acquisition of Humana would reduce the number of insurers with a national footprint. If regulatory approval is granted, we expect the acquisitions to be completed by late 2016 or 2017.

- The Cadillac Tax is gaining attention on Capitol Hill as policymakers recognize that the tax could significantly impact a larger number of employers than originally anticipated due to the continued rise in health care costs.

- While many employers remain steadfast in their commitment to avoid the excise tax by reducing coverage and shifting costs to employees, a recent Willis survey showed that 41% of employers are still waiting to modify plan designs until closer to the effective date of the Cadillac Tax.

- Many employers are offering employees the option to purchase supplemental insurance products to help cover higher deductible and coinsurance levels.

- In conjunction with the Cadillac Tax debate, is the discussion about the potential to tax employer sponsored health plans. The impact of this change, even in modified form, would be substantial because of the significant impact to employer total cost outlay.

- Employer compliance with PPACA reporting obligations related to the shared responsibility requirements is proving difficult. The IRS has indicated that good faith efforts will be sufficient to avoid penalties but has not offered details.

- **The industry continues to embrace wellness programs but is moving from a return-on-investment (ROI) focus on medical costs to a value-on-investment (VOI) focus on a broader set of criteria,** including absenteeism, presenteeism, worker performance and employee satisfaction.

- New prescription drugs in the biologic and biosimilar categories are contributing to a rise in prescription costs.

- Adoption of private exchanges continues to increase, supporting a significant, ongoing trend toward consumerism in benefit selection.

**PRICE PREDICTION**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Self Insured</td>
<td>+4% to +5%</td>
</tr>
<tr>
<td>Fully Insured</td>
<td>+7.5% to +8.5%</td>
</tr>
</tbody>
</table>
CYBER RISK

- Total annual Cyber premiums have reached $2B. Some industry observers expect premiums to reach $20B by 2025.
- Adoption of Cyber coverage increases as the continual threat of Cyber breaches becomes only more apparent.
- **Cyber renewals are seeing primary premium increases of up to 15% for most buyers and up to an eye-opening 150% for POS retailers and large health care companies** – with additional increases on excess layers.
- Smaller organizations (those with revenues less than $1B) typically face lower premium increases.
- Retailers are taking steps to reduce their exposure:
  - Moving to EMV (pin and chip technology)
  - Implementing point-to-point encryption in credit card transactions
  - Strengthening file integrity monitoring (FIM)
  - Employing robust malware detection
- Excess Cyber losses have caused a few markets to stop writing large accounts and others to increase their premiums significantly in upper layers of $75M+ placements.
- Despite reduction in capacity by some carriers, available limits in the marketplace are approximately $350M to $400M. Capital markets are reviewing Cyber to determine if they can provide additional relief.
- **Underwriting requirements continue to rise, including conference calls with third-party security experts. Insurers are also increasing retentions, reducing capacity and exiting certain sectors.**
- Despite the increases facing buyers on renewal, carriers are still encouraging adoption of the coverage. First-time buyers (except for POS retailers and large health care organizations) will continue to see a marketplace with favorable terms, conditions and pricing, though not as favorable as in the past, given the shifting competitive environment and paid losses.
- Uptake of Cyber insurance in Europe and elsewhere continues to be dramatic. For most non-U.S. buyers without U.S. operations, Network Business Interruption coverage has offered greater value than Data Privacy Liability coverage, although that could change with some reputation-damaging incident or a broadening of government regulation.

PRICE PREDICTION

| Renewals for non-POS retail; large health care | Flat to +15% |
| Renewals for POS retailers & large health care | +10% to +150% |
| First-time buyers | Competitive market conditions |

THE ONE THING

In approaching the markets, be ready to identify key investments in security and privacy protections over the past policy year that will help differentiate you from your peers.

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**Directors and Officers (D&O)**

- **Carrier M&A Activity Has Not Impacted Capacity (Yet):** Even with several significant markets (like Ace/Chubb, XL/Catlin, Tokio Marine (Philadelphia)/HCC) merging, opportunities continue across most market segments and industries. While the Ace/Chubb transaction and leadership changes in key markets have increased focus on tower structure and counterparty risk, resulting changes have been modest, generally limited to rearranging layers. Nevertheless, credible markets stand ready to fill in gaps that might arise.

- Competition continues to present opportunities to improve terms or move to a preferred carrier.
  - **Public Companies:** For clean primary, a slight decrease to flat is common. Excess, particularly higher excess, keeps giving back premium. On average, rates are moving plus or minus 5% with first-quality primary carriers less often effectively seeking rate increases for accounts. For more challenging exposures, markets with thinner overall premium seem less willing to take risk, which is likely to mean higher premiums, particularly for lower layers.
  - **PNP:** Private companies and nonprofits have seen relatively firm pricing. Rate increases remain likely for health care companies, homeowner/condominium associations, educational institutions and nonprofit entities.
  - **Financial Institutions:** We are typically seeing flat to -5% on the primary with excess rates dropping in the range of -6% to -12%. Large rate increases are becoming rarer.
  - **Excess Side-A:** We are still looking for a floor. Liberalization features in some ABC programs have contributed to pulling rate out of this segment as the importance of the lead Side-A role in those programs is diminished.

- **Regulatory/Enforcement:** As predicted, we are seeing more from the Department of Justice (DOJ) and the SEC. Cyber expands as a priority, and pressure to hold executives accountable continues to rise. The DOJ’s recent Yates Memorandum (outlining six requirements that will strengthen pursuit of corporate wrongdoing) and Senator Elizabeth Warren’s letter to SEC Chief Mary Jo White are indications that executives remain in the crosshairs of public opinion.

- **It May Be “The Economy, Stupid!”** In addition to macro environmental headwinds that could make lofty expectations reflected in today’s valuations tough to achieve, volatility seems on the rise, too. This dubious combination spells potential D&O liability.

- **Election Year:** Main Street vs. Wall Street themes could fuel already lively sentiment looking to blame individuals for financial performance failures.

- **M&A:** M&A activity yields D&O claims. Expect pricing and term pressure for risks with significant M&A activity.

- **Effective Global Coverage:** More companies are purchasing international D&O policies in conjunction with their U.S. policies. Global markets may present more than just capacity opportunities, and carriers have continued to innovate and improve offerings.

**Price Predictions**

<table>
<thead>
<tr>
<th>Category</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>-5% to +5%</td>
</tr>
<tr>
<td>Public Company – Primary</td>
<td>-5% to +5%</td>
</tr>
<tr>
<td>Public Company – Excess</td>
<td>-5% to -15% (includes Side-A)</td>
</tr>
<tr>
<td>Private Companies</td>
<td>Flat to +7%</td>
</tr>
<tr>
<td>Nonprofit Entities</td>
<td>Flat to +10% (life science, +5% to +10%; health care: +10% to +15%)</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>Flat to -5% (Excess -7% to -10%)</td>
</tr>
</tbody>
</table>
EMPLOYMENT PRACTICES LIABILITY (EPL)

- The EPL market remains competitive, with capacity of more than $800M in the U.S., Bermuda, and Europe combined.

- Rates have held constant since Q1 2015, with primary rates rising and falling mildly, in the range of -3% to +3%, unless loss experience or exposure base dictates a greater increase.
  
  The overall decrease in claim frequency and severity has made it difficult for insurers to justify greater increases across their entire books, with some exceptions:
  
  - Insurers continue to view California-based risks with more scrutiny, given the high severity and frequency of claims in that jurisdiction. The recently proposed equal pay bill (aimed at curbing gender-based pay disparity) only adds to the scrutiny.
  
  - For financial institutions, the increase in large single-plaintiff settlements/verdicts (e.g., the recent $18 million sexual harassment verdict in favor of a female intern at a private equity firm) continues to be a key area of concern for underwriters.

- In light of the decision by the National Labor Relations Board (NLRB) regarding when an employer can be considered a “joint-employer” for purposes of the National Labor Relations Act (NLRA), we expect to see more claims centered on the issue of who qualifies as an employer or an employee under various employment laws, including Title VII, other anti-discrimination statutes and the Fair Labor Standards Act (FLSA). This issue could have particular impact on the franchise industry and other industries where contingent workforce arrangements are common.

- The EEOC made headlines in February and April when it announced two class-action settlements, one for $12.7 million and the other for $12.2 million. The first involved a race discrimination suit brought on behalf of black and Hispanic union employees who alleged they were underpaid and overlooked during job recruitment, while the other involved allegations of a hostile work environment against minority employees of an oil-drilling company. These settlements signaled that, despite a lower number of EEOC charge filings in 2014, the agency remains aggressive in pursuing its systemic discrimination initiative.

- Proposed amendments to the “white-collar” exemptions under the FLSA, as well as the U.S. Department of Labor’s guidance on how to determine whether a worker is an independent contractor or employee, could have a significant impact on wage and hour exposure. Companies must remain vigilant in addressing pay practices and classification issues. To help cover these risks, additional markets in Bermuda, London and the U.S now offer defense and indemnity coverage.
  
  - Flexibility in retention levels and markets’ willingness to offer blended Wage & Hour/ EPL policies have attracted more buyers to the Wage and Hour product.

- Efforts in the U.K. and Germany to improve the percentage of women on boards and in leadership positions seem to be gaining momentum and may improve the EPL risk profiles of global companies. Companies are nonetheless advised to implement adequate policies and procedures to address potential reverse discrimination exposures.

PRICE PREDICTIONS

<table>
<thead>
<tr>
<th>Category</th>
<th>Price Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>-3% to +3% (at expiring retentions); California: +5% to +15% (retention increases)</td>
</tr>
<tr>
<td>Large Global Companies</td>
<td>-3% to +3% on primary; -% to -5% on excess</td>
</tr>
<tr>
<td>Mid to Large Domestic Firms</td>
<td>-3% to +3% on primary; -3% to -5% on excess</td>
</tr>
<tr>
<td>Private And Nonprofit Entities</td>
<td>Flat to +10%; (primary and excess)</td>
</tr>
<tr>
<td>Smaller Employers (&lt; 200 Employees)</td>
<td>+5% to +15% (primary and excess)</td>
</tr>
</tbody>
</table>

THE ONE THING

Given the NLRB’s decision on the status of contingent workers, companies should review their contracts with temporary employment agencies, professional employer organizations, independent contractors and others with similar arrangements to ensure clarity around obligations, indemnification and potential EPLI coverage implications of these arrangements.

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Be sure to routinely review, update and test your organization’s incident response plan, as this will benefit you in both the short and long term.

## ERRORS & OMISSIONS

- **Rising claims will turn the slight decreases that we predicted for early 2015 into slight increases for many buyers in the months ahead.** Competition from new carriers and traditional carriers seeking to expand market share, however, is limiting upward pressure on rates to low single digits or even flat renewals.

- The marketplace continues to contemplate the effect of large data/privacy losses from the retail sector and other large technology losses. **Higher quotes have been issued by some carriers, but the long-term effects of these events are still undecided.** The losses have mainly affected Cyber for the retail and health care sectors and the increases have averaged 15% – 20% (with greater increases in some cases) in lower layers of retail Cyber towers.

- **Industry sectors at risk for large claims and litigation will continue to see the most pronounced upward pressure on rates.** Large technology companies and companies with new media services, for example, could continue to see increases due to expanding global privacy laws.

- Technology service providers are now more routinely being asked to provide higher evidence of insurance coverage.

- **Carriers have increased the availability of both pre- and post-breach vendor resources for clients purchasing Cyber policies.**

- Accounts with poor loss experience are facing related price and deductible increases as well as possible changes in wording.

- Some carriers have decided to withdraw from the retail, health care, and financial institution sectors when Cyber exposures are significant. This is also the case for E&O programs with Cyber included as part of the offering.

- Excess markets have seen more competition due to increased capacity and rates have been flat, with savings sometimes available. **Even with some markets pulling out, competition has been sustained by new entrants routinely coming into the E&O and Cyber spaces.**

- Wording enhancements are still available. Insurers continue to add or enhance Network Security and/or Privacy Liability coverage and provide broader terms for First-Party Cyber exposures. Companies with manuscript wording can expect to have their coverage improved.

- Most insurers are standing firm on deductibles. As the number of claims has continued to rise there has been a push by carriers to have insureds increase retentions.

- Authorized global E&O limits are approximately $750 – $850M. Typical insureds should be able to buy from $500M to $600M.

## PRICE PREDICTION

<table>
<thead>
<tr>
<th></th>
<th>Price Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self Insured</td>
<td>+4% to +5%</td>
</tr>
<tr>
<td>Fully Insured</td>
<td>+7.5% to 8.5%</td>
</tr>
</tbody>
</table>

## E & O CAPACITY

![E & O Capacity Chart](chart.png)
FIDELITY

■ Loss results reflect the fact that several of the largest Fidelity markets lost money or earned only marginal profits in 2014, but with the balance of the market achieving favorable results, we have not seen any carrier looking to make a material correction in pricing.

■ While employee theft remains the leading source for claims under both Commercial Crime and Financial Institution Bonds, the increasing use of technology by non-employee criminals to steal money or other property continues to rise at an unprecedented rate.

— The most common loss scenario continues to be impersonation fraud, or as it is more commonly known, social engineering, in which a fraudulent email, purportedly from an officer of the insured, a client or vendor, is sent to an insured's officer or employee requesting transfer of money or other property.

— Despite the national press coverage of these schemes, rather than see losses decrease, we have seen losses grow unabated in both size and frequency. These frauds are often quite complex and successful, with the largest known to date pulling in $46 million dollars. (The victim was a publicly traded company.)

— While some financial institutions have fallen prey to these schemes, the overwhelming majority of losses impact the commercial client.

■ The majority of Commercial Crime policies do not afford coverage for impersonation fraud, and as a result, underwriters have been under enormous pressure over the past 12 to 18 months to afford insureds a way to insure the exposure.

— Most markets now have a product offering, but underwriters continue to move very cautiously. Markets predominantly offer only sub-limited coverage, often not more than $1 million (and frequently less), and in almost all cases an application is required.

— The applications focus on the internal controls implemented to confirm the authenticity of incoming instructions to move money or securities, and most applications contain a warranty making the application part of the Crime policy.

— Other companies simply build authentication warranties into the insuring agreement.

■ In 2016, we expect impersonation fraud losses will continue to be a leading threat to insureds and will only drop off when companies adopt robust internal controls and authentication methods.

■ Capacity within the Fidelity market remains relatively unchanged, as does the market's appetite for risk. Fortune 500 financial institutions will continue to find a limited number of markets willing to write a primary layer for their Crime policy or Financial Institution Bond. However, these large risks will find much more competition for the excess layers, and mid-market clients will continue to benefit from an abundance of capacity.

■ Despite the difficult results from 2014 for some leading markets, we expect pricing to remain flat or up slightly in 2016.

PRICE PREDICTION

Flat to +5%

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FIDUCIARY

- Fiduciary Liability capacity has been stable and it should remain that way even with the current M&A environment consolidating some capacity.
- **Primary Fiduciary Liability placements should continue to see stable pricing in 2016.**
- Financial institutions should see stable pricing ahead. FI clients will likely take a closer look at their Fiduciary programs this year as they review the impact of the new Department of Labor (DOL) Fiduciary definition on their E&O programs, and look to avoid potential traps or gaps in coverage.
- Exposure trends suggest Fiduciary markets may someday soon feel loss pressure, but it seems, for now, that pressure has not arrived. Markets continue to look to Fiduciary as well-priced, desirable business.
- **Fee cases continue to push settlement limits.** Asset managers may experience heightened underwriting scrutiny if they offer their proprietary investment vehicles as plan offerings.
- The much anticipated Supreme Court decision in *Tibble v. Edison International* left us wanting. Expressly undecided: What constitutes a breach of the fiduciary “duty to monitor” investments in an employer-sponsored contribution plan? So, while we wonder how *Tibble* and *Fifth Third Bancorp v. Dudenhoeffer* will ultimately impact Fiduciary claims, we can expect that uncertainty to make it harder in the near term to defend and settle Fiduciary cases.
- Multiyear options do not generally seem to be motivating clients to move from incumbent primary markets.
- On the issue of settlor liability coverage, the majority of carriers now offer language explicitly acknowledging the coverage.

**PRICE PREDICTION**

<table>
<thead>
<tr>
<th>Category</th>
<th>Price Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>-5% to +5%</td>
</tr>
<tr>
<td>Companies with Large Concentrations of Their Stock in Benefit Plans</td>
<td>-3% to +7%</td>
</tr>
<tr>
<td>Companies Without/Limited Company Stock in Their Plans</td>
<td>-3% to -7% (on excess layers)</td>
</tr>
<tr>
<td>Esop-Owned Firms</td>
<td>+5% to +10%</td>
</tr>
<tr>
<td>Private and Nonprofit Entities</td>
<td>-3% to +3%</td>
</tr>
</tbody>
</table>

**CONTACT**

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HEALTH CARE PROFESSIONAL LIABILITY

- We expect the Health Care Professional Liability (HPL) market to stay soft through year end and beyond, with flat to low single-digit decreases at typical renewals. Accounts with good loss experience that are not marketed annually may occasionally see low double-digit reductions.
- This line will likely remain one of the most stable and profitable P&C lines into 2016.
- HPL is a very competitive line and recent marketplace entrants will further the trend. The competition has helped keep pricing low for health care industry buyers.
- Loss frequency remains low and while severity is increasing, it is actuarially predictable and thus has yet to materially impact overall underwriting results. The number of large verdicts, however, must be watched, as it is one of the industry’s few negative factors.
- Another continuing source of downward pressure on rates is a steady decline in demand, due to consolidation in the health care industry and the increased use of captives and risk retention groups (RRGs) in recent years. There are few buyers.
- A few states have overturned tort reform laws in recent years but we do not see a trend. The overwhelming defeat of Proposition 46, the attempt to overturn the longstanding MICRA law in California last year, is a positive sign for reform advocates. Many states modeled their reform laws on MICRA.
- Due to the long tail of HPL, health care reform has not yet affected claims. But changes wrought by the Affordable Care Act will shape malpractice risk and underwriter response, as many health care organizations manage ACA implementation and clinically integrate their organizations.
- Many buyers may need to adjust terms and conditions to address evolving risks, such as cyber/network privacy risk, regulatory risk, and pay-for-performance reimbursement, as well as executive risks.
- Regulatory risk coverage is available, and while the retentions are significant and the pricing can be high, some buyers are purchasing these policies to address a meaningful risk in the era of reform.

PRICE PREDICTION

Flat to -5%

THE ONE THING
With new market entrants eager to write HPL, explore all options: domestic, Bermuda and London.

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The soft market won't last forever, and buyers should take the present opportunity to ensure that their premiums have reached their most competitive level and their coverage is as broad as the market will allow. That means rigorously testing the market from both a finance and risk management standpoint.

**AEROSPACE**

Aerospace insurers, despite poor results in many sectors, are under pressure to maintain market share. This dynamic, together with the continuing abundance of capacity despite merger and acquisition activity in the broader insurance market, *continues to drive rates and premiums down.*

- **Airlines** – There are three catalysts that could reverse the current downward trend in airline pricing:
  - Reduction in market capacity due to unsustainable premium levels, reduction in participation in order to minimize the “risk-to-reward” ratio, capital shifting to other opportunities that yield a greater ROI, and consolidation of major insurers
  - A significant catastrophe or series of major losses – 2014 demonstrated that loss experience alone will not be enough to change market conditions
  - Attritional losses that erode underwriters’ results to unsustainable levels

- **Products Manufacturers/Service Providers** – As of the end of Q2 2015, this segment had seen an overall average reduction of about 7.5%, with manufacturers (particularly sub-manufacturers), fuelers and airport service companies seeing the largest premium reductions. Capacity remains plentiful and risk appetite remains high. Less flight-critical, component-product manufacturers are especially attractive to insurers.

- **Airports and Municipalities** – Pricing remains relatively flat with occasional reductions to retain business or gain market share. Retentions are at all-time lows. Current conditions are not likely to change in the near future due to both capacity and attractive multiyear contracts.

- **General Aviation** – The Business Aviation/Industrial Aid sub-sector has seen less flexibility in pricing due to insurers’ loss experience over the past few years; however, reductions in rates and improved terms and conditions are still widely available and new business is being treated more aggressively. The commercial rotor-wing sub-sector is experiencing continued rate softening and widening of coverage. Loss experience for rotor-wing operators has been generally favorable due to an increasing focus on safety and investment in helicopter technology. One of the most talked about emerging risks in the industry is the influx of unmanned aerial vehicles into the public airspace. Many underwriters have developed specific policy forms to cover such risks; however, pricing and availability of certain types of coverage are not consistent because this is a relatively new exposure.

- **Financial Institution/Lessors** – The industry is seeing consolidation. To underwriters, this segment is seen as less catastrophic and therefore more attractive. There is a significant amount of capacity both domestically and abroad.

- **Space** – The satellite insurance market (for launch and in-orbit risks) has seen more than a decade of positive results, which has attracted significant market capacity and driven down premium rates each year. There is, however, substantial differentiation between launch risks, with the best performing launch vehicles attracting rates that are roughly a third of those applied to launch vehicles with recent performance issues. For in-orbit risks, one-year policies are at historical lows, with standard GEO satellites now attracting premium rates in the region of 0.5% or less.

**PRICE PREDICTIONS**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Price Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Airlines</strong></td>
<td>-20% to -15%</td>
</tr>
<tr>
<td><strong>Products Manufacturers/Service Providers</strong></td>
<td>-10% to flat</td>
</tr>
<tr>
<td><strong>Airports and Municipalities</strong></td>
<td>-5% to flat</td>
</tr>
<tr>
<td><strong>General Aviation</strong></td>
<td>-20% to flat</td>
</tr>
<tr>
<td><strong>Financial Institutions/Lessors</strong></td>
<td>-20% to flat</td>
</tr>
</tbody>
</table>

**CONTACT**

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CONSTRUCTION

- **Construction activity in the U.S. continues to grow** and is broader-based than in recent years.
  - Commercial building, including office construction and hotels, leads the way.
  - Senior living construction remains stable.
  - Apartments and other multifamily construction, however, may decelerate.
  - Sports, entertainment and gaming investment has brought new construction on a broad geographic basis.
  - While the single-family housing market is up, the millennial generation appears not to be as eager for home ownership as previous generations.
  - Infrastructure and civil work continues around the U.S., particularly at the state level.

The **construction insurance marketplace remains competitive**, as we see no end to what has become an extended soft/flat market.

- **Property** – We expect 2015 to remain very competitive even in high CAT areas, especially in Builders Risk and Marine coverages (inland and water). Terms and conditions remain ultra-competitive due to an abundance of capacity, which continues to grow, as carriers continue to expand their net and treaty capacities. Further, new formidable players continue to enter the space.

- **General Liability** – Pricing remains flat or down for risks with little or no loss activity. The exception is New York State, which remains difficult due to local laws. Overall, there is significant capacity and competition with underwriters focusing on creative solutions and products.

- **Workers’ Compensation** – Competitive, subject to state-by-state rate and benefit rules.

- **Excess/umbrella Liability** – Significant capacity but with pricing and program structure challenges in the lead $25M position, especially for risks with challenging profiles.

- **Auto Liability** – Flat to slightly up depending on fleet size and loss record. This line leads rate increases due to loss experience in the U.S.

- **Professional Liability** – Competition continues through 2015 with new entries into the marketplace. For-sale residential continues to be the most challenging sector for Professional Liability.

- **Controlled Insurance Programs (CIPs)**
  - Pricing, overall, is stable. The excess market is very competitive, especially above $25M.
  - General Liability-only insurers are typically Excess & Surplus lines markets accessed via wholesale brokers.
  - Availability in New York and for habitational work is very limited. Outside of NY, insurers continue to offer $250,000 deductibles but are attempting to push insureds to accept higher retentions with improved pricing.

**PRICE PREDICTIONS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Liability</td>
<td>Generally flat</td>
</tr>
<tr>
<td>Excess Liability</td>
<td>Flat to +5%</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>Flat</td>
</tr>
<tr>
<td>Builders Risk</td>
<td>Flat to -10%</td>
</tr>
<tr>
<td>Controlled Insurance Program (CIP)</td>
<td>Flat (-5% to -7% for GL only, non-condo risk)</td>
</tr>
</tbody>
</table>
ENERGY - DOWNSTREAM

- **The relentless softening of the downstream market continues unimpeded.** Only one major loss has been recorded in our database so far this year, although we understand others have occurred in recent weeks.

- **As 2015 is likely to yield overall underwriting profits for this class, the scramble for premium income and market share will likely intensify.**

- While some observers have forecast a withdrawal of capacity for this class in the past, it seems clear that no carriers are actually withdrawing.

- Downstream insurers continue, in general terms, to compete on price and price alone, with little if any movement on offering broader coverage or lower retentions.

- Regional insurers are emerging in the global arena. We expect other regional players to follow suit in the months ahead.

- Pressures on the long-standing global leaders from the composite market and the deterioration in premium income levels have pushed these leaders to cut costs. This should further strengthen a reversal of the previous trend toward market regionalization and a move back to a more conventional, single global market for downstream risks.

- The major composite markets now face an opportunity to differentiate themselves with a truly cross-class offering to their major clients.

PRICE PREDICTIONS

Accelerated Softening

ENERGY - UPSTREAM

- **In the first half of the year, softening intensified.** Even programs written by the most conservative section of the market achieved modest reductions, while programs led by insurers seeking to improve their profile and increase market share enjoyed much more dramatic reductions.

- The market has stood firm on policy wordings, but undoubtedly the growth of the facultative reinsurance market has served to put pressure on existing retention levels.

- This softening is slowing in the second half of 2015. **A series of major losses (most of which will be paid for by insurers out of the 2014 year account) materialized during the first half of 2015.** We have seen four losses above $100M already in 2015.

- We have also seen signs of a retrenchment by certain Lloyd’s syndicates which are adopting a philosophy of scaling back their participation in this class until the worst of the softening process is over.

- However, the major Lloyd’s and composite insurers are brandishing increased capacity and market muscle – some after having merged with other companies, a trend which is very likely to continue in the months ahead.

PRICE PREDICTIONS

Decelerated Softening

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ENVIRONMENTAL

CARRIER UPDATE

- The environmental marketplace has seen no new entrants recently and faces a period of consolidation with two pending mergers (XL/Catlin and ACE/Chubb), which could result in a tightening of capacity for larger, layered programs.

- Meanwhile, premium rates remain flat or down slightly for preferred classes of monoline pollution business, and have increased for combined (Environmental + Casualty/Professional) policy forms and non-preferred classes of monoline business, due in part to claim activity.

- Combined form carriers that offer supporting lines coverage (i.e., Workers’ Compensation and Commercial Auto) continue to distinguish themselves from their competitors.

- We are seeing upward price pressure from veteran markets feeling the effects of long-tail losses, which have reduced their appetite for longer-term programs and coverage for known conditions.

- Changes in underwriting appetites may necessitate the involvement of multiple carriers to create program continuity.

MARKET UPDATE

- Sustained construction activity and soft market conditions have fueled demand for Contractors Pollution Liability products and their combination with Builders Risk coverages, especially in conjunction with wrap-up products.

- Redevlopment and M&A activities continue to pose difficulties for underwriters who want to protect themselves from longer-term and potential moral hazard exposures associated with known conditions and voluntary testing.

- The attractiveness of the limited Cleanup Cost Cap product continues to be a challenge due to restrictive program design, with no evidence of meaningful programs having been written since its market reentry three years ago.

- Regulatory changes in China, South Korea, Mexico, Canada, South America and the European Union continued to raise demand for global environmental coverage.

- The 2014 Ebola outbreak has increased interest in coverage for disinfection costs.

CLAIM UPDATE

- Insureds are more aware of the value of establishing an environmental claim protocol, including incident reporting and notice, before claims happen.

- Carrier attempts to broaden coverages for standard P&C lines (General Liability, Builders Risk, Property, Auto) have increased the potential for overlapping coverage with environmental policies, although the severity and complex nature of environmental claims necessitate a close look at potential gaps in traditional Property and Casualty lines.

- Indoor Air Quality (IAQ) related claims (e.g., mold, Legionella) are on the rise.

- Highly publicized catastrophic claims have increased regulatory scrutiny on transportation/railroad, mining, energy and pipeline exposures, resulting in the reevaluation of these sectors by underwriters and inspiring a new push to shift liability to users of the facilities.

- The frequency of environmental claims continues to rise by 20%-30% each year.

2016 RATES

<table>
<thead>
<tr>
<th>Carrier Type</th>
<th>Rate Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractors Pollution Liability</td>
<td>-10% to flat</td>
</tr>
<tr>
<td>Site Pollution Liability (PLL/EIL)</td>
<td>-10% to flat</td>
</tr>
<tr>
<td>Combined Environmental + Casualty/Professional</td>
<td>+10% to +25%</td>
</tr>
</tbody>
</table>
Insurance buyers in every sector should consider Assault/Workplace Violence coverage, given the threat of workplace violence.

**KIDNAP & RANSOM (SCR)**

- Rates remain stable, with higher costs for companies with significant exposures in Northern Africa and the Middle East.
- **Buyers with exposures in the U.S. and low-risk overseas locations can expect flat renewals, with potential rate decreases up to 5%**.
- **Increasingly, insurers are offering Assault/Workplace Violence coverage as a policy extension to address the threat of shooters and other on-premises assaults. Every organization is potentially at risk, and this cover acknowledges an employer’s duty of care to its employees and customers as well as providing financial and reputational protection.**
- **Kidnapping risk for employees, business travelers and family members remains high in many parts of the globe.**
  - In **Latin America**, **Mexico** tops the list. Although official kidnap rates declined slightly in early 2015, the longer trend is expected to continue. In **Colombia**, criminal groups have surpassed FARC (Fuerzas Armadas Revolucionarias de Colombia, a terrorist/revolutionary group) as the most likely to target foreigners, although the frequency of kidnapping is stable. Unrest in **Venezuela** is likely to fuel abductions there. Incidents continue to be reported in **Honduras, Argentina, Peru, El Salvador, Chile and Brazil.**
  - In the **Middle East and North Africa**, war and political turmoil continue to fuel risks to staff, particularly in **Yemen, Libya, Syria, Lebanon** (increasing most in the Bekaa Valley) and Iraq. Islamic extremists are increasingly active in kidnaps in Egypt, and al-Shabaab continues to present an extreme threat in **Somalia**. Northern swaths of the Sahel are exposed to kidnappings by such organizations as Al Qaeda in the Islamic Maghreb (AQIM).
  - **Nigeria** remains the most exposed country of **sub-Saharan Africa**, with threats from Boko Haram in the northeast and criminal groups elsewhere. Nasarawa State in central Nigeria has seen a rise in the kidnap rate of foreign nationals working in engineering and construction. **Kenya** continues to see a challenging security situation near Somalia on its northern border areas. Nairobi and Mombasa remain prone to kidnap for ransom. **Mozambique** has been the site of a number of kidnappings. This may increase with the further arrival of foreigners to service the natural gas fields in the north.
  - In **Asia**, **Pakistan and India** remain the hotspots, particularly in remote areas, closely followed by **Bangladesh**. In the **Philippines**, Manila remains a focus of criminal gangs while the southern islands are exposed to kidnap by Islamic extremists, generally for ransom. Reports from **China** indicate a reduction in reported kidnappings due, possibly, to the tightly controlled media and careful control of school holidays, depriving criminals of the opportunity to strike during journeys to and from school.
  - In **Eastern Europe and the former Soviet states**, wealthy Russians face kidnapping or extortion in St. Petersburg, Moscow and Sochi. The North Caucasus presents the highest risk to foreigners. In **Ukraine**, the war-torn areas of Luhansk and Donetsk have seen an increase in kidnappings perpetrated by militias abusing their authority.

**PRICE PREDICTION**

Flat to +5%
**MARINE**

**HULL & MACHINERY**

- Carriers continue to make capacity available for Hull & Machinery coverage, as the risks are uncorrelated to catastrophic risks such as earthquake, hurricane and flood. This makes Hull a strategically appealing way for carriers to diversify their portfolios.

- **Steady capacity and relatively benign loss experience sustain an ongoing soft market.** Most marine Hull underwriters, while bewailing the state of their marketplace, are still reporting reasonable profits, even if these may be a fraction of what they would have expected on a dollar-per-ton basis in previous years.

- **Relatively high profile losses in 2014 seem to have had little impact on rates but some experts highlight marketplace forces that could work against the softening pressure:** the increasing costs of large tankers and, more recently, fires on container tonnage.

- Surplus capacity not only results in a soft market but also ensures there are plenty of underwriters to choose from. Buyers, however, should be cautious, as some of the lower-cost markets have exhibited less enthusiasm or ability to pay claims.

**CARGO**

- **Competition remains fierce for new business and the right account can still achieve significant premium reductions when remarkeTed.**

- Continued insurer competitiveness is further demonstrated through increasing limits, reducing deductibles and ensuring broader coverage – including profit commissions.

- Certain loss-prone classes are seeing increases in premium, but for the most part, renewals continue to attract reductions.

**KEY HIGHLIGHTS**

- Continued increases in international trade volumes are relieving some of the pressure on insurers to increase premium.

- Insurers will be looking for increases or flat renewals for CAT-exposed accounts.

- Deductibles remain generally stable.

- **Continued global political unrest exposes potential gaps in cover for insurrection, terrorism and political violence.**

- Insurers remain willing to provide extended cover and increased limits in order to retain clients.

**PRICE PREDICTION**

<table>
<thead>
<tr>
<th>Cargo</th>
<th>Flat to -10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hull</td>
<td>Flat to -10%</td>
</tr>
<tr>
<td>Marine Liability</td>
<td>Flat to -10%</td>
</tr>
</tbody>
</table>

**THE ONE THING**

Buyers should carefully consider which aspect of their insurance program they wish to improve given the favorable position they are likely to find themselves in at the negotiating table.
POLITICAL RISK

- **Iraq** – Due to persistent conflict with the Islamic State (ISIS) and protests against the Iraqi government in response to corruption scandals and power shortages, the Political Risk insurance (PRI) market remains essentially closed to new Iraqi exposures.

- **Russia** – Russia's military intervention in Syria has sparked fresh debate on President Putin's support for the Syrian President Bashar al-Assad and his intentions on the international stage. Meanwhile, the economy is troubled by the combined impact of lower oil prices, the additional budgetary burdens caused by the Ukrainian crisis, and tightened Western sanctions. Degrading credit ratings are already affecting smaller banks. Analysts have warned of Russian retaliation against foreign firms. In many private market insurer's portfolios, Russian exposure is among the largest aggregate exposures, so such retaliation could produce a CAT event in the PRI market. Most markets continue to be off-risk for new Russia deals; however, they are considering some limited lines on a very selective basis.

- **Former Soviet States** – Low oil prices have created concerns in many of the oil-producing Central Asian states and some experts foresee Russia testing NATO resolve by actively supporting Russian-speaking populations in the Baltic States, Moldova, Georgia, Belarus, Kazakhstan and elsewhere. Markets remain open in most, although Belarus is challenging.

- **Ukraine** – Violence persists, and the IMF-assisted bailout in the country still faces significant uncertainty. Markets are essentially closed to risk in eastern Ukraine and look at risk in western Ukraine on a case-by-case basis, although some markets still will not write any new Ukraine risk.

- **Brazil** – President Rousseff faces growing impeachment threats and a worrisome budget deficit. Electricity and water shortages may also trigger instability in coming months. Brazil's credit rating is now in the junk category and investors are facing an economy plagued with high inflation, recession, and a low currency value. Noteworthy is that some markets are beginning to approach their aggregates on their Brazilian capacity. Capacity and pricing for Brazil risk could be affected in the not so distant future.

- **Argentina** – Inflation is high and exports are declining due to an overvalued peso. The October election and aftermath could produce some civil strife.

- **China** – China's GDP growth is slowing and there is risk to the regime in the form of middle class social unrest, as seen in Hong Kong and continued unrest in Xinjiang. Tensions in the South China Sea appear to escalate as China builds another island in an attempt to bolster its claims to the area and to hydrocarbons beneath the seabed. In the longer term, sea lanes are a concern if tensions continue to escalate.

- **Mexico** – The government continues to be plagued by cartel violence and economic reforms; the peso is at a record low and growth rates are less than modest.

- **Turkey** – Embattled by an overflow of refugees from Syria, Kurdish separatism, and the growing threat of ISIS, Turkey faces several serious challenges.

- **Hungary** – Hungary is struggling with the enormous Syrian refugee crises. Prime Minister Viktor Orban has made controversial, nationalistic statements and critiqued the European Union's openness to immigration, in line with the rhetorical distance he continues to create between Hungary and the E.U. Such rhetoric could lead to more protectionist or anti-foreign behavior.

**PRICE PREDICTION**

Flat to -5%
SURETY

- The Surety market remains competitive, as new players continue to compete for market share. A good example of this race for market share is ACE’s acquisition of Chubb. Sureties are aggressively pursuing new business as the construction economy continues its gradual recovery. The competitive environment is pushing sureties to focus on middle market contractors and commercial surety.

- 2016 forecast: moderate topline premium growth for the industry, with moderate claim activity.

- The Surety industry continues to enjoy strong profits and we see the trend continuing. For the 2014 calendar year, the Surety & Fidelity Association of America (SFAA) reported a direct loss ratio of 15.4%, making 2014 the eighth consecutive year of profitability for the industry. From 2013 to 2014, direct written premium grew by 4.7% and the direct loss ratio decreased by -4.94%. Through Q1 of 2015 we have seen this trend continue with a reported direct loss ratio of 13.3%.

- Points of contention in contract negotiation surround extended warranties, consequential damages and other onerous conditions that owners are asserting with contractors. Contractor profit margins, meanwhile, remain under pressure, narrowing their margin for error.

- With increased M&A activity, we have seen commercial Surety play a key role in facilitating acquisitions and investment strategies. Since Surety remains the most cost effective form of capital, many companies are maximizing their Surety capacity to replace ILOC’s and release restricted capital at preferred terms.

- As with previous economic cycles, the current increase in construction activity will put pressure on contractors’ working capital, which will trickle down to subcontractors. This will lead to the potential of more subcontractor defaults, underscoring the need for general contractors to emphasize subcontractor prequalification and to consider requiring Surety bonds from subcontractors or utilizing a subcontractor default insurance product. It is more important than ever for general contractors to have a defined plan to mitigate the risk associated with subcontractor defaults.

- We continue to see alternative procurement methods such as P3 becoming more prevalent, with more than 30 states having some form of P3 legislation. While conventional Surety bonds continue to support billions of dollars in P3 projects, lenders remain focused on having more liquid security than traditional Surety bonds typically offer. Several carriers continue to work towards addressing this demand for liquidity with the rating agencies and lenders.

PRICE PREDICTION

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<tbody>
<tr>
<td>Contract</td>
<td>Flat</td>
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<tr>
<td>Commercial</td>
<td>-5% to flat</td>
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**Evolving Terrorism risks, a new spectrum of Terrorism-related risk transfer products and new market entrants make it essential to update Terrorism risk management strategies.**

**TERRORISM**

- The re-extension of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), the absence of major Terrorism losses in the West, and abundant capacity in the insurance sector are **creating downward pressure on rates, except for buyers seeking to cover risks located in major metropolitan areas.**

- Despite the absence of a major attack, the threat of terrorist attacks has increased with the demonstrated financial strength and global reach of such terrorist organizations as ISIS, Boko Haram and Al Qaeda. Increasing evidence of lone-wolf style attacks is making prevention harder and targeting more indiscriminate.

- **The stand-alone Terrorism insurance market offers creative and flexible alternatives to TRIPRA-supported programs and can theoretically provide more than $4.3B per risk.**

- With TRIPRA extended through 2020, we see resurgence in the use of captives to access TRIPRA indemnities to provide coverage for catastrophic Terrorism events otherwise unavailable in the traditional Property and Casualty marketplace, such as coverage for Nuclear, Chemical, Biological, and Radiological terrorism.

- The Terrorism and Political Violence insurance marketplace is evolving, with the introduction and development of new risk transfer options, including:
  - First-Party Cyber coverage
  - Threat of a Malicious Act
  - Deadly Weapon Protection
  - Post-Event Loss of Attraction

- The use of models for Terrorism risk continues to expand with the ongoing refinement and increasing sophistication of the tools.

**TERRORISM CAPACITY ($ MILLION)**

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<tr>
<th>Year</th>
<th>Property Terrorism</th>
<th>PV</th>
<th>NCBR</th>
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<tbody>
<tr>
<td>2010</td>
<td>$1,000</td>
<td>$1</td>
<td>$1</td>
</tr>
<tr>
<td>2012</td>
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</tr>
<tr>
<td>2015</td>
<td>$5,000</td>
<td>$5</td>
<td>$5</td>
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**PRICE PREDICTION**

<table>
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<tr>
<th>Tier</th>
<th>Prediction</th>
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</thead>
<tbody>
<tr>
<td>Non-Tier 1</td>
<td>-15% to -5%</td>
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<tr>
<td>Tier-1</td>
<td>-10% to flat</td>
</tr>
</tbody>
</table>

**CONTACT**

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Terrorism Practice Leader
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wendy.peters@willis.com
TRADE CREDIT

- Soft market conditions linger for Trade Credit insurance rates and retention/deductible levels, but reductions continue to level off. Overall, however, abundant capacity is still available (outside of the retail industry), and we expect a buyer’s market for 2016.

- **Capacity for Latin America is more scarce due to economic uncertainty in the region.**

- Claim volume and collection actions remain moderate domestically but have escalated in Latin America. Claim severity has increased, with a small uptick in the number of claims.

- Receivables Purchase Programs and Securitization wraps are much more active and the trend will continue over the next year. Several banks are increasingly using Trade Credit insurance as a collateral enhancement to become more competitive.

- Supplier Credit programs are garnering more attention and we see this trend continuing for the next year.

- **Despite ongoing conflicts in the Middle East and the Ukraine, the overall global economy remains mostly stable.** However, the continued cooling of major emerging markets such as China and Brazil continues to cause concern in the credit markets.

- Elsewhere, falling premium rates continue to offer significant opportunities for small, medium and multinational corporations wishing to transfer the risk of non-payment of receivables.

PRICE PREDICTION

Flat to -5%