MARKETPLACE REALITIES 2014

INNOVATION AND CONTINUITY

Willis

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Marketplace Realities is updated semi-annually.

EDITORIAL STAFF

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INTRODUCTION

INNOVATION AND CONTINUITY

Through the first half of 2013 much insurance talk swirled around the arrival of new capital. Cat bonds. Insurance-linked securities. New Property capacity arriving from sources as widespread as China and Omaha. New vehicles sponsored by brokers (including ourselves). Some of this new capital represents increased use of products we've seen for years. Some of this represents some real innovation – in an industry often criticized for conservatism and lack of innovative progress.

The reaction has not been all positive, to say the least, especially with respect to the new sources of capital. Heated words and dramatic headlines have warned of severe and damaging impact, even sinister implications. So at last our industry brings forth some genuine innovation, and we seem to have a case of *damned if you don't, and damned if you do*. It is hard not to see a bit of irony when some in the risk business seem to forget that with nothing new attempted – an inherently risky thing – nothing moves forward.

From our perspective, we see clear benefits to these new vehicles, because our perspective is really that of our clients. For our clients – insurance buyers – the increase in supply of capital makes a more inviting marketplace. These vehicles also offer administrative advantages and claim handling benefits through their simplicity.

But at the same time, we too have been wondering what this all will mean in the long run. Is this new capacity a game changer or not?

To help answer that question for ourselves, Willis's top leadership conducted a debate a few weeks back at a global management meeting and then put it to a vote. The undertaking was as entertaining as it was instructive (if you've ever seen BBC footage of the high-spirited prime minister's questions sessions in Parliament, you have a good idea). The yeas won – yes, this is a game changer.

The yeas contend that the increase in supply will indeed lower the price of insurance and reinsurance. Insurers could find their costs dropping – over time – as much as 20% and the freeing up of insurer capital tends to have a pronounced softening effect on the market. The yeas also point out that the source – and motivation – of some of this new capital is different in nature from what we usually see. Institutional investors now entering the insurance world are looking for long-term results. Their perspective could spell a long-lasting impact. The nays, on the other hand, note that for the most part, the new sources of capacity have been with us before, though perhaps not in such quantity. Time will tell if the yeas in fact have it right.

The most interesting question of all, however, may be: what caused this arrival of new capital? Why now? On one hand, the movement of capital is driven by the search for return on investment. Bond investors looking for yield. Institutional investors looking to diversify their risk by putting money in places not tied to the overall economy but to unrelated factors such as hurricane landfall.

There is something else, though, underpinning this evolution in our marketplace, an underlying change that has opened up the possibilities of capital providers. It's the advent of big data, insurance style – the increased access and ability to work with the data related to the possibilities of risk transfer. The phrase *big data* is suddenly everywhere and for good reason. Data on risk factors and data on losses allows for the quantification of risk in increasingly powerful ways. Improved quantification of risk allows capital providers to justify new ventures.

Data has other impacts as well. Better risk engineering data leads to loss reductions. Look at the airline industry. The overall safety record of airlines over the past decade is driving a long-term softening of insurance prices. New, data-driven insight into behavioral risk now being applied to the workplace stands to reduce the impact of human error. The compilation of marketplace data in the WillPLACE system, Willis's ground-breaking placement platform, is opening new windows on the insurance marketing process.

The role of the risk adviser and broker is changing as well. Our task now is to lead the charge into the world of big data, to be what we call the analytical broker. The understanding and analysis of data will be increasingly important to our clients, whatever game changers may or may not come along. Wherever the capital is, new or old, it is our job to help our clients find the most efficient way to it. Big data will be part of that effort. Big data will be a source of much innovation in the years ahead.

We look forward to being part of this process, of continually finding new and better ways to accomplish the goal that is our reason for being: helping ensure our clients' success.

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PROPERTY

- **We expect rates to continue to fall for CAT-exposed risks in 2014 and drop more steeply for non-CAT risks due to the following factors:**
  - **CAT Modeling** – RMS 13.0 was released in July 2013 and should result in lower loss estimates for tier-one named-storm exposures.
  - **Capacity** – Most shared and layered accounts were over-subscribed in 2013 due to the oversupply of capacity in the market. **This trend will continue in 2014** due to the capital commitments from a leading U.S. carrier, Chinese insurers, broker facilities, and capital markets infiltrating the traditional Property market more than in years past, a trend that is expected to continue to exert downward pressure on rates.
  - **Reinsurance** – Insurers saw reinsurance treaty costs decrease 10-13% in 2013. Insurers renewing separate reinsurance programs for Florida CAT risks saw decreases of 15-20% in 2013 due to the low level of losses in Florida since 2005.
  - **Loss Experience** – With some notable exceptions, especially the EF5 tornado that hit Moore, OK (with losses estimated at $3-5 billion) and the floods in Germany ($3-5 billion), **loss activity in 2013 has been light**.
  - **Profitability** – The light loss experience in the first half of 2013 has helped deliver combined loss ratios between 75% and 85% for many insurers.

PRICE PREDICTIONS

TYPE OF ACCOUNT	2013 Q1 & Q2	2013 Q3 & Q4	2014 Q1
NON-CAT	-5% to flat	-5% to -10%	-10% to -12.5%
CAT	Flat to +5%	Flat to -5%	-5% to -10%

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CASUALTY – PRIMARY & EXCESS

- **Capacity is still abundant and new market entrants are still appearing. However, underwriters are pushing for higher retentions and attachments where underlying exposures and loss history may warrant.**
- Underwriters are generally a bit less flexible when considering manuscripted endorsement language and are more likely to insist on ISO language unless there are higher retentions or only incidental exposures are involved.
- **More U.S. risks are looking to London and Bermuda for excess liability alternatives.**
- Uncertainty regarding the fate of the current federal terrorism backstop, set to expire December 31, 2014, is creating challenges for risks with concentration exposures. Carriers are walking away from excellent accounts forcing employers to use state Workers' Compensation funds for coverage.
- New York's archaic Scaffolding Law is creating havoc for New York contractors and other parties, as "fall from elevation" losses temper carrier appetites for this exposure. GL rate increases continue to average about 4-5%. Workers' Compensation rate changes are running a bit higher.

PRICE PREDICTION

+2% to +10%

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WORKERS' COMPENSATION

- **While the full impact of health care reform cannot yet be measured, some fear that the increase in the number of new insureds could put a strain on the delivery system, which could put upward pressure on Workers' Compensation medical pricing. However, this may be offset by reductions in comorbidities due to earlier treatment, which is expected to result from the increased access to care created by the broadening of insurance coverage.**
- **Industry combined ratios have improved recently and this may cause a tempering of rate increases, particularly in states that have enacted Workers' Compensation reforms. California, however, continues to be an exception.**
- Carriers continue to fine tune their state-specific appetites.
- Monoline Workers' Compensation and Excess Workers' Compensation for qualified self-insureds continue to present challenges due to limited availability of markets .

PRICE PREDICTION

+2.5% to +10%, up to +20% in California

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AUTO LIABILITY

- **Underwriters continue to push for higher primary auto retentions for insureds with large fleets, difficult auto exposures such as heavy trucks, and unfavorable loss experience. Some of this is driven by reinsurance pricing.**
- The risk transfer markets are slow to reflect investments in improved loss control using advanced safety technology.
- Some umbrella underwriters continue to require higher attachment points for risks with large fleets, heavy trucking exposures, or poor loss experience.
- Carriers that offer both primary Casualty and umbrella products are better prepared to offer higher primary limits than they were six months ago.
- **Auto buffer products are being used when the primary limits fall short of required umbrella attachment points.**

PRICE PREDICTION

+2% to +10%

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EMPLOYEE BENEFITS

- **Health care reform remains a major preoccupation as employers examine compliance strategies, such as limiting coverage to full-time employees, offering low-value coverage with high employee contributions, spousal carve-outs and use of a defined contribution approach.**
- Federal recognition of same-sex marriages is likely to present episodic administrative challenges but insignificant financial impact.
- Factors driving **benefit cost increases in 2014** include:
  - Aging demographics
  - Increasing prevalence of chronic disease in the covered population
  - Medical cost per service rising in response to concerns over lower provider reimbursements related to health care reform and exchanges
  - Increased cost and utilization of specialty medications
  - Expansion of coverage pursuant to the health care reform law
  - New fees and taxes coming online for 2014
- Employers continue to take **aggressive steps to stem the rising costs of health care:**
  - Shifting costs to employees
  - Managing the health of the covered population (plus increased limits on incentives for certain wellness programs)
  - Self-insurance options (mostly for large employers)
  - Offering consumer-directed plans including high-deductible health plans that support contributions to health savings accounts (HSAs)
- **Private exchanges have generated considerable discussion, but employers appear to be taking a wait-and-see approach.**
- Many health care providers are starting to offer their own health programs either alone or in partnership with insurance carriers. Accountable care organizations, which are focused on the delivery side of health care reform, will provide employers with more benefit choices.
- The marketplace for traditional life and disability plans continues to be extremely competitive, with many employers realizing reduced costs for these benefits.

PRICE PREDICTIONS

SELF-INSURED	+6% to +7%
INSURED	+8.5% to +9.5%

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CYBER RISK

- **With Cyber crime an alarmingly common event, the market for stand-alone Cyber policies is active. Rates remain competitive for some, with renewals bringing slight reductions, though with increased losses, markets may be looking for slight increases over expiring premiums.**
- **First-time buyers will be more likely to find a competitive environment,** though new markets on excess placements are starting to read the losses and price for the primary.
- **In 2012, more than 3,100 incidents were reported in the U.S. – more than eight per day – a new record high.** They fell into three main categories:
  - Hacking: 72%
  - Lost laptops/devices/media: 11%
  - Social engineering/fraud: 6%
- **Individuals' names, passwords and email addresses were exposed in nearly 45% of reported incidents – more than enough data for cyber criminals to use in committing identity fraud.**
- More stringent privacy laws in the U.S., Europe and other countries have multinational corporations addressing Cyber risk enterprise-wide, although implementation of the E.U. Data Regulation could be pushed off to 2015 or later.
- The California Confidentiality of Medical Information Act (CMIA) has triggered several large losses due to statutory damages of $1000 per record breached. Markets have paid these losses.
- **Cloud computing is becoming a bigger concern for corporations outsourcing critical applications to cloud service providers.** Contractual indemnifications are important. Underwriters are reviewing.
- Carriers continue to introduce Cyber policies in overseas markets.
- More markets are putting up excess limits, building capacity for large placements, while competition is driving down excess pricing.
- **Regulatory fines and penalties have been assessed following data breaches, especially in the payment card industry, and underwriters have paid them.**

PRICE PREDICTIONS

RENEWALS	-2% to +5%
FIRST-TIME BUYERS	Competitive

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DIRECTORS & OFFICERS (D&O)

- **The price-firming momentum for primary D&O placements will ease in 2014.** For larger programs, it may be possible to counter modest increases with some price relief on the excess layers.
- **Competition is changing carrier strategies. Some non-incumbent markets may retreat, while** newer entrants look to become a primary layer option. Buyers may be forced to choose between a familiar and experienced market looking for rate/higher retentions and a new entrant that may be more competitive but is relatively untested.
- **Coverage terms and conditions are still competitive.** The most significant product changes have been in the area of investigations and earlier claim triggers. Coverage for investigations is still generally available solely for individual directors and officers. For the corporate entity, limited coverage for securities-related investigations may be available if linked also to a covered director or officer. More extensive coverage is only available for **significant** additional premium.
- **For private companies last year, one major market attempted to redesign the standard policy, potentially restricting coverage, and any such moves in 2014 will not be well received.**
- M&A claims are still a consideration. Primary carriers took a direct hit in both public and private cases, and the trend is expected to continue, fueling a push for higher, separate deductibles/retentions.
- **Capacity may be increasing for certain market segments.** This may be especially true in the financial institutions sector, where credit-crisis claims have already taken their toll and rate remains high. It may also be a possibility in the commercial (non-FI) sector where at least one strategic, well-capitalized entrant appears to be setting its sights on becoming a significant force in 2014.
- **Private companies and nonprofits, which experienced the highest rates of increase over the past few years, will see some relief, but homeowner/condominium associations and educational institutions should expect premium increases.**
- **Lead A-Side D&O carriers continue exploring ways to differentiate their product offerings.** A major U.S. carrier has signaled its willingness to offer mega limits (of up to $100 million) on the A-Side.
- The influx of non-traditional capital currently making itself felt on Property placements, may begin to exert further downward pressure on D&O rates during the second half of the year.

PRICE PREDICTIONS

OVERALL	Flat to +5%
PUBLIC COMPANY – PRIMARY	Flat to +5% on primary
PUBLIC COMPANY – EXCESS	-5% to +5% on excess, including Side A
PRIVATE COMPANIES	Flat to +10%; financial services: to +20%
NONPROFIT ENTITIES	Flat to +5%, health care to +10%

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EMPLOYMENT PRACTICES LIABILITY (EPL)

- **Price increases in the D&O marketplace will continue creeping into EPL placements in 2014.**
- In 2013, private companies took the brunt of EPL price increases. **We expect this disproportionate burden to moderate in 2014.**
- **The good news for Fortune 500 and equivalents is that coverage is available in Bermuda and London for wage-and-hour claims.** Policies cover liquidated and punitive damages, back wages, defense costs and plaintiffs' legal fees. Those currently applying loss control techniques will be especially welcome.
- For financial institutions, some large-scale claim settlements in 2013 may make insurers more conservative in setting rates in the new year.
- **An ongoing trend in policy wording is clarifying social media exposures. The wrongful acts haven't changed – just the medium.**
- We expect some carriers to continue to refuse to underwrite firms domiciled in certain counties in California due to adverse claim experience.
- **Capacity overall remains abundant, despite no new entrants into the marketplace.**
- Carriers in the U.S., Bermuda and London are likely to offer competitive terms on larger risks. Bermuda continues to offer competitive pricing with broad coverage, including punitive damages protection for companies with 5,000+ employees, while London also continues to be a prime competitor for middle market accounts.
- On the litigation front, despite recent favorable case law, the lingering effects of the financial crisis continue to produce class and collective actions, and we expect this trend to continue in 2014.
- The government continues to ramp up its enforcement efforts, leading to more government-initiated litigation over workplace issues.
- Emerging and developing issues for the EEOC include pregnancy-related accommodations and protection of lesbian, gay, bisexual and transgender individuals in the workplace under Title VII.
- ***Going global:*** significant EPL claims are becoming more common outside the U.S. and this is expected to continue into 2014 and beyond. While the frequency is low, the severity is beginning to attract adverse attention from carriers. The global evolution of the role of the whistleblower and related workplace protections is expected to fuel this trend.

PRICE PREDICTIONS

OVERALL	Flat to +10%
LARGE GLOBAL COMPANIES	Flat to +10% on primary, +5% on excess layers
MID-TO LARGE-DOMESTIC FIRMS	Flat to +10% on primary, +5% on excess layers
PRIVATE AND NONPROFIT ENTITIES	Flat to +15%
SMALLER EMPLOYERS (< 200 EMPLOYEES)	+5% to +15%

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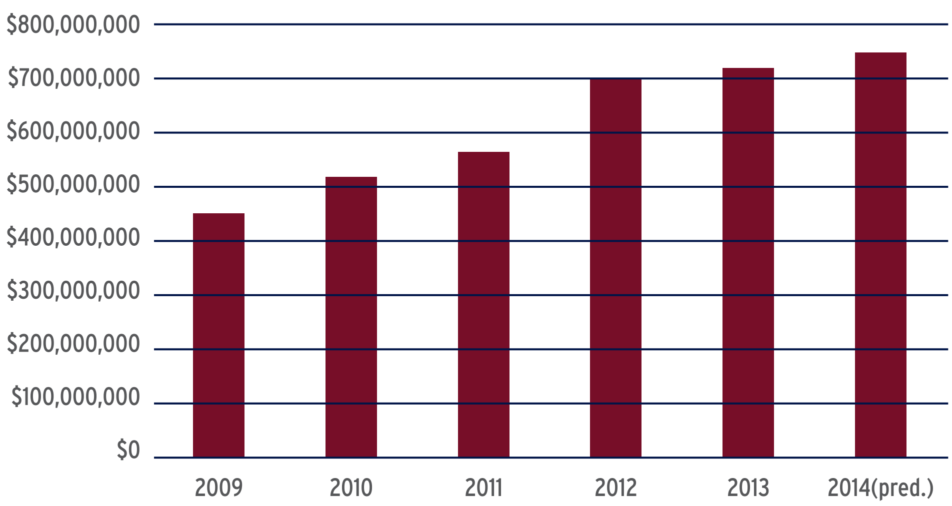
ERRORS & OMISSIONS

- **Upward pressure on rates that we saw in early 2013 has weakened considerably as a result of competition from new carriers and traditional carriers seeking to expand market share. We expect the remainder of 2013 and early 2014 to continue along similar lines.**
- Industry sectors at risk for large claims and litigation will continue to see upward pressure on rates. **Large technology companies and companies with new media services, for example, could see increases up to 10%.**
- Accounts with poor loss experience are facing significant price and deductible increases.
- **For accounts with good loss experience or a significantly improved risk control regimen, competition can be robust, yielding decreases in the 5% range and sometimes higher.**
- Excess markets have seen more competition and rates have been flat, with savings often available.
- **Wording enhancements continue to be 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.
- Authorized global E&O limits are approximately $725 million. Typical insureds should be able to buy from $375 million to $425 million. Recently, insurers have begun closely managing their capacity, often reducing their capacity commitments, **but capacity reductions have been offset by additional players entering the marketplace.**

PRICE PREDICTIONS

GOOD LOSS EXPERIENCE	Flat to -5%
POOR LOSS EXPERIENCE OR DIFFICULT INDUSTRY SECTORS	+5 to +20%

E&O CAPACITY



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FIDELITY

- The recently released 2012 Surety Association of America loss results for the U.S. Fidelity market reflect a modest improvement from 2011, but four of the top 10 markets have significantly higher loss ratios than they would like. These four markets write 68% of the total premium written by the top 10, so any pricing or coverage changes implemented by these carriers will have a meaningful impact on the overall market.
- Capacity remains strong, particularly for mid-market and Fortune 1,000 commercial clients as well as modest sized financial institution. The primary market for the Fortune 500 commercial account and the larger financial institution is much more limited, but the excess market for these larger accounts remains very robust.
- While the causes of Fidelity loss continue to be quite varied, vendor fraud involving company employees remains the most prevalent. Worth noting, however, is the growing number of wire fraud losses by non-employees impersonating senior managers and initiating fund transfers via email, telephone or written/fax instruction. Not all FI bonds and commercial Crime programs afford coverage in these cases.
- In response to the increase in wire fraud losses, some commercial Crime markets are now adopting a warranty requiring the use of internal controls, most notably those in the 4/12 edition of the Surety Association Crime Protection Policy.
- For the midsized to large financial institution and Fortune 500 companies, who rely heavily upon the same major markets to supply primary terms, we anticipate flat renewals or increases up to 5%. Excess placements for these larger clients, however, should result in flat renewals. For other insureds we expect flat renewals.

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PRICE PREDICTION

Flat to +5%

FIDUCIARY

- **The price firming momentum seen in 2013 is expected to moderate in 2014.**
- The key premium rating factor, after total assets and funding levels, continues to be the level of employer securities in employee pension and benefit plans (such as 401(k) plans) and asset levels are generally increasing in 2013.
- Capacity remains constant, and unlike D&O, there are no new entrants into the marketplace.
- **More than one market is now willing to consider multi-year deals.**
- Uncertainty about the national health care agenda and potential changes in the definition of *fiduciary* in the health care context present significant concerns not yet reflected in the marketplace.
- **The migration of recent D&O coverage enhancements into Fiduciary policies is expected to continue.** This can include affirmation wording relating to (presumptive) indemnification and advancement of defense costs as well as expanded coverage for investigations.
- **Treatment of settlor liability is beginning to separate players in the marketplace, with those offering a plain-language clarification on one side and those not up to the challenge on the other side.**
- ERISA tagalong litigation, including Fair Labor Standards Act (FLSA)-related activity, continues, while suits involving cash balance plans are still making their way through the courts.
- Class certification in ERISA cases, especially in potential class actions involving 401(k) plans, has been strongly impacted by the 2011 *Dukes v. Wal-Mart* employment decision by the U.S. Supreme Court. The ever-creative plaintiffs' bar is quickly adjusting to this new hurdle, however.
- **With M&A activity heating up, ERISA fiduciary claims may well follow.**

PRICE PREDICTIONS

OVERALL	Flat to +10%
COMPANIES WITH LARGE CONCENTRATIONS OF THEIR STOCK IN BENEFIT PLANS	Flat to +10% on primary, flat on excess layers
COMPANIES WITHOUT COMPANY STOCK IN THEIR PLANS	Flat to +5% , flat on excess layers
ESOP-OWNED FIRMS	+10% to +15%
PRIVATE AND NONPROFIT ENTITIES	+5% to +10%

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HEALTH CARE PROFESSIONAL LIABILITY

- **The Health Care Professional Liability (HPL) market will flatten through the end of 2013 and into 2014, with flat to low single-digit increases at typical renewals. Accounts with good loss experience may see single-digit reductions.** Limits purchased, program structure and attachment points are all important factors in driving HPL pricing at renewal.
- Loss frequency remains at historically low levels (with perhaps a slight uptick). Severity has moderated and is actuarially predictable. **The HPL industry combined ratio has crept up closer to 100 but this line of insurance remains very profitable.**
- Certain long-term care risks may see slightly higher increases due to shifts in the legal environment that have led to large losses.
- The miscellaneous facilities segment has seen some slight firming in pricing with flat to single-digit increases at renewal
- The number of jumbo malpractice verdicts (above $25 million) remains troubling and must be watched closely, but has had no affect on pricing to date.
- Merger and acquisition activity by hospitals and hospital systems remains very high. **This has translated into fewer buyers, especially in the hospital and physician segments.**
- Obstetric and pediatric cases continue to be volatile and difficult to defend.
- Health Care Reform (PPACA) will shape malpractice risk and underwriter response, as many health care organizations manage PPACA implementation. Many providers are proceeding with clinical integration by acquiring or aligning with physician practices and creating contractual relationships with other providers to form networks.
- **Many buyers may need to adjust terms and conditions to address cyber-related issues,** executive risks, inter-related provider contractual liability, errors and omissions for utilization and other administrative exposures, and a new world of pay-for-performance and financial risk.
- Rapidly expanding use of electronic medical records may present significant liability exposure while potentially reducing claims by encouraging better communication.

PRICE PREDICTION

Flat to +5%

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AEROSPACE

- **Downward rating trends continue, despite airline exposure growth, and rates continue to fall in the double digits.** Where exposures are contracting, rates are not rising to compensate and premium levels are falling.
- **Airline losses remain below the sector's five-year average.** No financially catastrophic losses have occurred for several years.
- **Airline loss performance and abundant capacity should continue the premium reductions for the foreseeable future.**
- Market appetite for airline risks varies significantly by sector and geography, resulting in different renewal results.
- Economies of scale will continue to improve results for the largest programs.
- Excess capacity is available across all sectors but is not being fully utilized. New entrants continue to add relatively small amounts of capacity to this already competitive sector.
- The Aerospace sector continues to see softening market conditions.
- Corporate Aviation continues to see competition driving down premium volumes and bringing improvements in coverage.
- Industry and program consolidation in all sectors continues to erode premium levels.

PRICE PREDICTIONS

AIRLINE - PREMIUM	-5% to -15%
AIRLINE - RATES	Flat to -25%
AIRLINE - EXPOSURES	-10% to +20%
AEROSPACE	-5% to -20%
CORPORATE AVIATION	-5% to -15%

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CONSTRUCTION

- **Construction activity in the U.S. increased significantly in 2013. We expect this trend to continue in 2014. Rates for Property and Casualty continue to trend upward, although ample carrier capacity and competition should prevent a classic hard market.**
- Incumbent carriers continue to push for rate increases. Guaranteed cost programs (policies without retentions) and excess Liability continue to experience the highest increases.
- Significant movement of personnel in the construction underwriter community may make buyers more likely to consider changing carriers.
- **Controlled Insurance Programs (CIPs)** – The standard market continues to aggressively pursue controlled insurance programs (CIPs) providing Workers' Compensation and General Liability. Greater sponsor interest in mono-line (GL-only) CIPs may draw some attention in the standard market, but most carriers let the excess and surplus lines carriers continue to lead in this area. An upswing in the apartment and condominium sector, as well greater interest by owners and contractors building commercial projects, is driving activity in the excess and surplus (E&S) market. This demand pushed up pricing by double digits during 2013. We expect this trend to continue into 2014.
- **Property** – The market started 2013 with single-digit rate increases for CAT-exposed accounts and flat rates or slight decreases for non-CAT-exposed accounts. We expect rates to fall for CAT-exposed risks in late 2013 and 2014, declining more steeply for non-CAT risks due to expanded capacity and the absence (so far) of major CAT events.
- **General Liability** – Construction defect exposures and various state legislative and litigation trends continue to create volatility. At the same time, a number of carriers are underwriting this line, which tempers the rate increases most say are needed.
- **Workers' Compensation** – Continuing the trend we saw in 2013, rate increases are averaging up to 10%, and more in some states. **We expect this trend to continue in 2014. Low investment returns continue to impact carriers along with the uncertainty of the extension of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA).**
- **Excess/Umbrella Liability** – As in 2013 we continue to see the markets push for increases on excess/umbrella Liability. Expected rate trends are 5-15%.
- **Auto Liability** – Upward rate pressure is expected to continue in 2014. Buyers can expect 3-10% increases while buyers with no/low loss history can expect 1-4% increases. Customers with larger fleets are offsetting increases with higher deductibles and pooling options.
- **Builders Risk** – The Builders Risk market continues to be very competitive and capacity is still robust.
- **Professional Liability** – The A/E/C market continues to pursue rate increases on renewals and is also reevaluating SIR levels as appropriate (particularly for larger firms). However, with competition and good experience we are typically seeing flat rates. Some classes of business such as structural and geotech continue to be difficult classes with limited options.

PRICE PREDICTIONS

GENERAL LIABILITY	+3% to +8%
EXCESS LIABILITY	+5 to +15% (less on excess layers)
WORKERS' COMPENSATION	+5% to +15% (higher in some states)
BUILDERS RISK	Flat to +10% (higher in CAT areas)
CONTROLLED INSURANCE PROGRAM (CIP)	Flat (with significant variation by job type)

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ENERGY – DOWNSTREAM

- Expectations of capacity withdrawal caused by reinsurance price increases were not borne out. Competitive pressures in the reinsurance market – still seen as a safe harbor for capital in today's business environment – prevailed, and **with reinsurance protection secured for another year, the likelihood of any major market withdrawal has diminished.**
- Several significant losses are hitting the downstream market, including incidents in the U.K., Argentina, France, Oman and Chile.
- **These losses would normally yield modest hardening, but with available capacity plentiful, we still detect competition for the choicest business.**
- Competition for this business has actually intensified, as insurers look to maintain their market share.
- Should capacity levels remain buoyant **insurers may be competing even for the less attractive parts of the portfolio.**

PRICE PREDICTION

GENERAL SOFTENING FOR CHOICEST BUSINESS, SOME HARDENING STILL EVIDENT OTHERWISE

ENERGY – UPSTREAM

- The current loss record gives insurers little serious cause for alarm. **For the fifth year in succession, we may be looking at another year free of Gulf of Mexico windstorm losses for the energy insurance markets. This would naturally increase competitive pressures across the sector.**
- **With tough premium income targets to meet, pressures on underwriter participation signings has increased, exacerbating the current softening dynamic.** A significant number of the choicest upstream programs have been heavily oversubscribed. As a result, the actual signed lines that some insurers have received have been considerably reduced.
- More Construction All-Risks programs have come into the market in recent months, although rating levels in this sub-class have also continued to fall in light of the recent favorable loss record.
- **The general softening is continuing to be tempered by the high capacity requirements for certain types of risk, where demand still exceeds supply.** This is predominantly the case with some major North Sea platforms and for the larger Construction All-Risks programs that have recently been introduced to the market.
- The Excess Energy Liability market place is now in its fourth full year of trying to extract large premium increases, with insurers still arguing that rating levels are inadequate. While 2012 was certainly a quiet year for Excess Energy Liability losses, the continued deterioration of certain losses of recent years is confounding insurers. **A continued market hardening is expected for large excess programs, although it should be less dramatic than what we have seen for the past three years.**

PRICE PREDICTION

GENERAL SOFTENING FOR MOST RISKS

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ENVIRONMENTAL

- **The rapid rise in the number of Environmental markets since 2009 has slowed, leading to an overall flattening of mono-line pollution marketplace rates. We are also seeing the beginning of market hardening for combined products (Environmental + Casualty).**
- Greater competition in the marketplace has inspired innovation and specialization, as carriers target preferred sectors. **This may lead to reemergence of the Cost Cap market to address potential overruns of expected remediation project costs.** Carriers are also increasing efforts to cross-sell environmental products when they write other Property and Casualty lines.
- Premium increases have mainly been a result of rising client revenues rather than rates. Premium decreases have mostly been limited to cases where carriers offer substantial decreases in policy term (i.e., 10-year term renewing at a five-year term).
- Newer carriers are beginning to decentralize their underwriting to support regional field operations and compete against established markets on a local basis.
- **Contractors Pollution Liability**
  - Continued entry of new capacity is creating downward pressure on rates.
  - Requests for project-specific placements are expected to increase.
  - In some cases, carriers are reducing their appetites for specific sectors (i.e., habitational).
- **Site Pollution Liability: Pollution Legal Liability (PLL) & Environmental Impairment Liability (EIL)**
  - Carriers will be looking to reduce their exposures by reducing policy periods whenever possible. When longer terms are offered, carriers will seek a higher rate.
  - Greater underwriting scrutiny is being applied to sites with known conditions and less desired classes of business.
  - Carriers are considering limiting their capacity exposure to certain sectors (i.e., energy).
  - Carriers are maintaining lower limit capacity, creating the need/opportunity to create layered programs involving multiple carriers for larger capacity placements.
- **Combined Form – Contractors Pollution or Site Pollution + General Liability**
  - Combined forms are seeing the largest rate increases in the Environmental stable of products.
  - Carriers are increasingly reluctant to offer umbrellas over their competitors' primary programs.
  - Only certain carriers are offering holistic all-lines programs.
- **Claims**
  - Environmental claims have been rising 20%-30% each year since 2009.
  - Insureds are becoming more aware of the reporting and cooperation conditions in their Environmental policies, positively impacting claim resolution.
  - Mold claims keep increasing, with claims commonly exceeding retentions.
  - Environmental claim management is becoming a key differentiator in the placement decision.

PRICE PREDICTIONS

CONTRACTORS POLLUTION LIABILITY	-10% to Flat
SITE POLLUTION LIABILITY (PLL/EIL) – LONG-TERM	-40% to -25%
SITE POLLUTION LIABILITY (PLL/EIL) – PREFERRED CLASSES	Flat
SITE POLLUTION LIABILITY (PLL/EIL) – NON-PREFERRED	+10%
COMBINED GL/PLL	+10%to +25%

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KIDNAP & RANSOM (SCR)

SPECIAL CONTINGENCY RISKS

- **Rates in the U.S. Special Contingency Risks (Kidnap & Ransom) market remain stable, with higher cost for companies with significant exposures in the hot spots of Latin America, Africa and the Middle East**. Buyers with exposures in the U.S. and low-risk overseas locations can expect flat renewals.
- **Egypt remains unstable and continues to undergo a transition process that may endure for years**. Civil unrest and terrorism pose significant risks to companies operating there as well as expatriates and business travelers. **We anticipate increased rates from insurers due to ongoing security evacuations and potential political detention claims.**
- **The political and security situation in Syria is extremely volatile**. External conflict, internal conflict, civil unrest and terrorism pose major risks to all foreign companies involved with Syria. Since the beginning of the uprising, kidnappings have increased in Syria, both by government forces and the opposition, who hope to use kidnapped individuals to bargain with the government for the release of political prisoners. Kidnappings have targeted Syrian nationals of various sects, as well as foreign nationals involved with media and NGOs. Insurers are scrutinizing all exposure in Syria because of the likelihood of a loss.
- Mexico, Venezuela, Nigeria, Pakistan, Afghanistan, Philippines, Iraq and Somalia continue to be additional areas of major concern, as do several more recent hotspots for kidnapping, including Mali, Mauritania, Niger, Sudan, Malaysia and Kenya.
- **Insurers are maintaining greater scrutiny of exposures across the Maghreb and Sahel regions of North Africa** in the wake of incidents in 2013 in Algeria and Mali.
- With the risk of political evacuations high in places such as the Middle East, carriers remain cautious in their approach to Emergency Political Repatriation and Relocation coverage. Limits are commonly reduced and certain North African and Middle Eastern countries are frequently excluded.
- Somali piracy remains a problem, despite the declining number of successful vessel hijacks. Underwriting of exposures in impacted waters is still cautious. Continued increase in the number of pirate attacks in the Gulf of Guinea has led insurers to rate exposures in these waters more punitively.

PRICE PREDICTION

Flat to +10%

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MARINE

- **Hull** – At the September meeting of the International Union of Marine Insurers in London, the overriding message was that the market was soft to the point of unprofitability but carriers seem to be unwilling or unable to turn around the situation. Pricing pressure on Hull insurers is likely to continue for the foreseeable future with a surfeit of available A-rated capacity.
- **Cargo** – A poor underwriting year has meant significant changes to reinsurance programs, both in monetary terms and increases in retention. The increase in capacity within Lloyd's has meant underwriters have been unable to impose the price increases they have sought, thus making a potential hardening less likely. There has been some notable hardening of rates on certain classes of cargo, although overall the market remains relatively flat.
- **Liability** – Rates in the Marine Liability market remain flat and in certain areas prices are falling. In Protection and Indemnity-related business, however, increases have been generally imposed during the 2013 renewal season following deterioration in the claims estimates on some high profile losses such as the Costa Concordia. The main issue remains the over-supply of capacity, which makes general increases all but impossible. With no change in sight, it is only a matter of time before the soft market takes hold and premium reductions on good, clean business become the norm.
- **Legal and Regulatory** – Sanctions against trade with countries such as Syria and Iran can impact insurance activity and insurance markets globally through laws such as Iran Freedom Counter Proliferation Act of 2013. The international sanctions are subject to change at any time, and Marine risk managers should keep this in mind.

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PRICE PREDICTIONS

CARGO	Flat to -10%
HULL	Flat to soft market conditions
LIABILITY	Flat to soft market conditions

POLITICAL RISK

- Political risks are significant in several locales:
  - **Syria:** Continued violence and international sanctions in Syria have paralyzed economic life and prospects for resolution are extremely uncertain.
  - **Latin America:** Perceptions of Latin America as a place of widespread corruption are on the rise, according to Transparency International's Global Corruption Barometer 2013.
  - **Venezuela:** Businesses express continued concerns, especially over the accelerated pace of land expropriation and transfer to agricultural cooperatives during 2013.
  - **Argentina:** Economic and political pressures are mounting. With the October elections almost here, politically motivated public spending will increase and tensions with provisional governors are likely to multiply at a time when provincial deficits are reaching new levels. The Argentine government is evaluating the possibility of expropriating a Brazilian mining company (Vale), motivated by inflationary pressures, rising labor costs and increased provincial demands.
  - **Russia:** The business climate in Russia remains hampered by rampant corruption and business practices that tend to bypass contracts. Foreign investors can become caught between the interests of competing Russian companies and find themselves facing hostile action.
  - **Mongolia:** The government faces continuing political pressure to limit what some in Mongolia see as excessive foreign dominance over national strategic assets such as mining. Uncertainties abound regarding Mongolia's willingness to honor existing commitments when its leadership changes.
  - **Bangladesh:** Following the deadly November factory fire that seized the world's attention, multinational retailers are increasingly concerned about the reputational risk associated with sourcing from Bangladesh. Apparel makers estimate that orders worth around $500 million have already moved from Bangladesh to India.
  - **Dominican Republic:** Tensions may arise out of a mining contract with a Canadian company. Earlier in the year, President Medina asked Barrick Gold for a renegotiation of the contract for its exploitation of the Pueblo Viejo gold mine. Medina claims that under the current deal, which was signed by the previous administration, the Dominican Republic receives only $3 for every $100 in exports.
  - **Indonesia:** Efforts to promote local business interests ahead of next year's elections have deepened concerns among foreign investors over "economic nationalism."
- In 2013, the Political Risk Insurance (PRI) market has seen several new carriers emerge, increasing capacity and acting as a counterbalance to increased risk around the world.

PRICE PREDICTION

Flat to +2%

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SURETY

- **Revenue for the Surety industry has been shrinking over the last six years, with gross written premium for the entire industry down 15% from its peak in 2007. The steep decline in public works contracts, where bonding is mandatory, has clearly impacted top line results. Improvements in the private sector have not been enough to offset the severe reduction in public works.**
- **New capital continues to enter the Surety market chasing higher returns than those offered by traditional Property and Casualty lines.** In the last two years alone, seven sureties have entered the market and we would not be surprised to see more follow over the coming year.
- The general uptick of surety claims and losses continues. We are seeing more losses in the subcontractor market, where balance sheets face a great deal of stress. This makes subcontractor pre-qualification and bonding requirements more important than ever. Sureties seem to be paying out more claims under payment bonds than performance bonds, which is not surprising given the cash flow issues and payment disputes we are seeing in the construction industry.
- **In 2014, we expect the Surety industry will struggle to grow while experiencing more claim frequency as the construction economy accelerates. However, given the amount of capital the Surety industry has accumulated over the last six years, thanks to strong underwriting results, we believe the overall industry will remain stable, with more capacity now being offered than ever before.**

PRICE PREDICTION

Moderate fluctuations within an overall softening market

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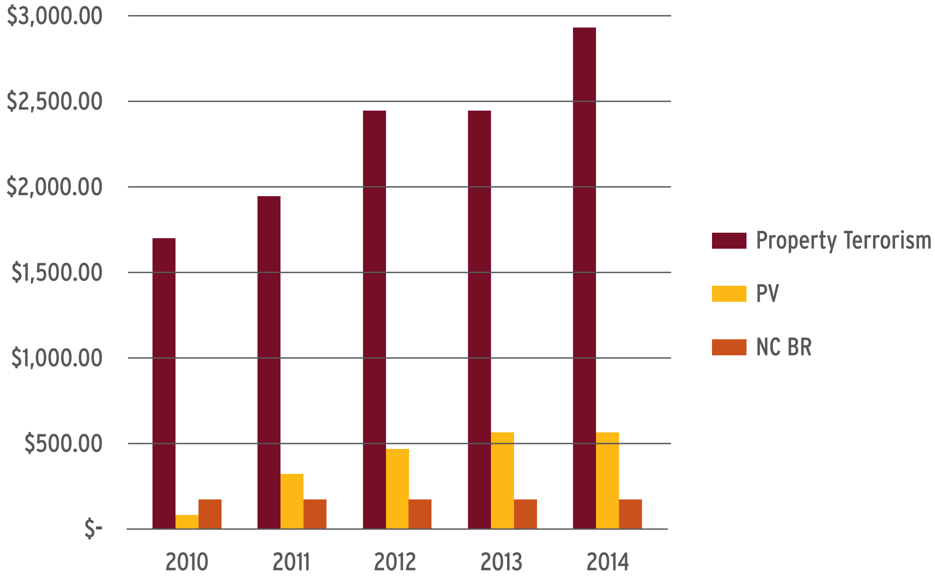
TERRORISM

- **Capitol Hill debate and ongoing uncertainty over the extension of the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) will influence Property and Casualty market strategies into 2014.**
- **Anticipation of sunset clauses or reduced availability of embedded terrorism capacity will turn attention to alternative market solutions, including stand-alone terrorism insurance options.**
- New entrants into the stand-alone terrorism insurance market have increased terrorism capacity to an estimated maximum of $3 billion per risk, except in highly concentrated risk areas – New York, Chicago and San Francisco, in particular.
- **Refinement of deterministic terrorism models is providing a more granular view of potential Property and Casualty losses from a range of attack scenarios, facilitating more informed security and risk transfer purchasing decisions.**
- Captives continue to provide access to otherwise unavailable capacity, including coverage for nuclear, biological, chemical, radiological and cyber terrorism. Captives may be vulnerable to changes in the TRIPRA backstop after 2014, however.

TERRORISM CAPACITY ($ MILLION)



PRICE PREDICTION

+10% to +25%

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TRADE CREDIT

- Despite ongoing conflicts in Syria, Turkey and Egypt, the overall global economy is showing signs of stability. However, the cooling of major emerging markets such as China and Brazil is causing some concern in the credit markets.
- As the risk of a European default contagion decreases, **Trade Credit insurance rates have continued to soften** for both new and existing insureds.
- **Capacity limitations remain in many sectors**, especially in the retail sector both domestically and abroad. Capacity for particularly risky individual buyer credits, such as sub-investment grade retail, is becoming scarce, especially in the E.U.
- **In other sectors, falling premium rates continue to offer significant opportunities for small, medium and multinational corporations wishing to transfer the risk of non-payment of receivables.**
- Market conditions have remained relatively unchanged for desirable sectors over the past 36 months. **In general, we expect the marketplace to remain favorable for insureds for the balance of 2013 and well into 2014.**
- Reinsurance capacity remains plentiful for Trade Credit markets.
- Current claim activity remains flat in terms of frequency and severity across the globe. We have seen a slight uptick in Europe due to the trailing effect of the most recent recession. As commodity markets are showing signs of stability, we do not see any near-term spikes in claim activity in Latin America or the Asia-Pacific region.

PRICE PREDICTION

Flat to -10%

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