Contents

Introduction
The search for growth................................................................. 3
Commercial insurance rate predictions for 2017.......................... 5
Looking forward, looking back.................................................. 6

Major product lines
Property.................................................................................. 8
Casualty.................................................................................. 9
Workers compensation............................................................ 10
Auto liability......................................................................... 11
International casualty............................................................. 12
Employee benefits................................................................... 13

Professional liability lines
Cyber risk............................................................................... 14
Directors and officers ............................................................. 15
Employment practices liability................................................ 16
Errors and omissions............................................................... 17
Fidelity.................................................................................. 18
Fiduciary............................................................................... 19
Health care professional liability.......................................... 20

Specialty lines
Aerospace............................................................................ 21
Construction......................................................................... 22
Energy—downstream and upstream........................................ 23
Environmental...................................................................... 24
Kidnap and ransom (SCR)....................................................... 25
Marine.................................................................................. 26
Political risk.......................................................................... 27
Surety.................................................................................. 28
Terrorism............................................................................. 29
Trade credit........................................................................... 30

We also invite readers to visit the Insights page of www.willistowerswatson.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
Joseph C. Peiser | Jonathan Fried | Erin Dubord | Paulette Callen

Copyright © 2017 Willis Towers Watson Inc. All rights reserved.
All eyes on Washington

It’s like the two-minute warning in football, overtime in basketball, extra innings in baseball or, if you’re not a sports fan, anything that keeps you glued to the action. It’s the level of activity in Washington, D.C., where a new administration looks to deliver on the promises that brought it to power. The only certainty seems to be uncertainty — that we stand at the threshold of potential change.

Trade, taxes, infrastructure, regulation: change could be coming in all of these areas, and all have the potential to affect our clients, our carrier partners and, therefore, the advice we offer. In terms of the marketplace mechanics and price predictions that are the focus of this publication, change is one thing we haven’t seen in a while. Will the transformation at hand turn this long, soft market? To help answer that question, let’s take a quick look back.

Fluidity and stasis

Anyone who remembers the 1970s will recall a time when the rules of macroeconomics seemed to stray from the norms. Slow growth and inflation were not supposed to go hand in hand, but they did in the form of stagflation. Fast forward to this decade, when the macroeconomic rules we expect to steer the commercial insurance marketplace have likewise strayed from the norms.

When interest rates are low and insurer investment incomes suffer, premiums have traditionally risen to compensate. Historically low interest rates, however, have not budged the current soft market. The cause? The fluidity of global capital. In search of ROI, investors have turned toward insurance, flooding the marketplace with capacity and keeping prices down. Even as insurer losses have edged up — another traditional source of upward pressure on prices — the marketplace has remained stable and buyers in most lines of insurance have benefited. There are exceptions, notably cyber, auto and some of the specialty lines as reported below.

This stasis we are in as an industry has proven quite resilient, even in the face of some shocks to the marketplace. One of the more notable shocks is an ongoing wave of consolidation that has reduced the number of markets: Chubb and Ace; XL and Catlin, and next we are looking at Liberty and Ironshore, as well as Sompo and Endurance. The marketplace seems to be easily absorbing these changes. Uncertainty at major insurers, which has pushed some carriers to retreat from certain lines of business in certain geographies, has again caused ripples rather than waves.

In these pages, we’ve noted several times that the resilience of the marketplace through all this bustle is an apt expression of what we’re all about: a haven in a storm, a solid source of protection, the foundation for growth.

And now...

So will the stasis be over? If the proposed changes do happen, we see two potential scenarios where the movement of capital would indeed end the status quo.

If the moves designed to fire up economic growth succeed, we could see interest rates climb as the federal monetary stewards tap the brakes. Stocks could rise as well as the growing economy attracts investors. These forces could move capital away from the insurance industry, removing the leading factor in the present soft market. Meanwhile, a hotter economy would increase the demand for insurance, also putting upward pressure on premium rates.
If, on the other hand, the nationalist voices hold sway, the global trade economy could contract. Transnational investment might also decline, reducing the fluidity of capital that has brought the sustained flow of capacity into the risk transfer business.

It’s also possible that aspects of both scenarios come true, and instead of neutralizing each other they could amplify the pressures that would harden the insurance marketplace.

As for further consolidation in the industry, it’s highly possible that the prospect of broad tax reform under the new administration will put plans on hold in 2017, as tax changes can affect the valuation of companies. Dealmakers are likely to take a wait-and-see approach.

We have seen predictions of a market turn from industry observers off and on during this period of stasis, often arguing, for example, that one mega-loss event could do it. Those arguments, however, lean on old school rules about what makes the marketplace tick. Our predictions may be more in line with the forces at work today.

Like all predictions they are based on a series of ifs, the central one built around the anticipation of change. Just because we are expecting it, however, doesn’t mean it’s going to happen.

It’s too soon to tell, of course. For now, we watch and wait.

Joseph C. Peiser
Head of Broking
Willis Towers Watson North America
Senior Editor
Marketplace Realities
# Commercial insurance rate predictions for 2017

<table>
<thead>
<tr>
<th>Insurance product</th>
<th>-20</th>
<th>-15</th>
<th>-10</th>
<th>-5</th>
<th>0</th>
<th>5</th>
<th>10</th>
<th>15</th>
<th>20</th>
<th>25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental: combined with casualty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E&amp;O, poor loss experience</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyber for POS retailers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casualty: primary (with losses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyber</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casualty: auto</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits: insured plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits: self-insured plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E&amp;O, good loss experience</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction: XS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment practices liability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casualty: workers comp</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surety</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction: CIP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction: GL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction: WC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fidelity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiduciary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kidnap &amp; ransom</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casualty: primary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction: CIP (GL-only non-condo)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aerospace: airlines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aerospace: general aviation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aerospace: products/services/airports/municipalities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casualty: international</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casualty: umbrella &amp; excess</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction: builders risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental: CPL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental: PLL/EIL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marine</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terrorism</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property: non-cat risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care professional</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D&amp;O</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property: cat-exposed risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aerospace: financial institutions/lessors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Looking forward, looking back

Comparing our predictions of last fall to those of this spring, we see few changes: property rate decreases are less pronounced, D&O rate decreases are more pronounced, employment practices liability rates are up a bit and crime/fidelity coverage rates are forecast to be flat for most buyers rather than down by small percentages. Otherwise, our prognosticators are sticking to their 2017 forecasts. In short, property and casualty rates are still trending downward for most buyers, though in the casualty lines, rates are going up for buyers experiencing losses. Rates for auto and cyber coverage are generally rising across the board due to rising losses for insurers. The remaining lines are expected to see a mix of increases and decreases, ranging from significant double-digit increases for buyers of environmental policies combined with casualty cover to similarly sized decreases in aerospace insurance.

Overall, 10 lines are expected to offer price decreases, six to offer increases and seven a range of both.

Market trends
Lines facing increases, decreases or a mix

<table>
<thead>
<tr>
<th>MR Issue</th>
<th>Decreases</th>
<th>Increases</th>
<th>Mix/Flat</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017* Spring Update*</td>
<td>10</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2017*</td>
<td>10</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2016 Spring Update</td>
<td>9</td>
<td>8</td>
<td>5</td>
</tr>
</tbody>
</table>

*The 2017 figures reflect the addition of international coverage as a separate line.

Our Commercial Lines Insurance Pricing Survey (CLIPS), which compares prices charged on policies underwritten quarter by quarter for over a decade, provides further confirmation of a benign market in stasis. Price changes reported by carriers were less than 1% for the fifth consecutive quarter, following a moderating trend in price increases that began in the first quarter of 2013. In general, price changes in the third quarter for most lines of business were fairly consistent with changes reported in the third quarter. Two lines (workers compensation and commercial property) indicated modest price decreases, and directors and officers data indicated more significant but moderating price decreases.

The outlier in the results continues to be commercial auto, where meaningful price increases continue to be reported. Price changes for most other lines fell in the low single digits.

CLIPS Q4 2016
The outlook

- For 2017, 10 lines are expecting decreases.
  - Property
  - Casualty
  - Aviation
  - Directors & officers
  - Energy
  - Fidelity
  - Health care professional
  - International
  - Marine
  - Political risks
  - Terrorism

- Six lines are expecting increases.
  - Auto
  - Cyber
  - Employee benefits
  - Employment practices liability
  - Errors & omissions
  - Trade credit

- The remaining seven lines are predicted to deliver a mix of small increases and decreases.
  - Workers compensation
  - Construction
  - Environmental
  - Fidelity
  - Fiduciary
  - Kidnap & ransom
  - Surety

For more insight on how these trends affect your organization's search for growth, contact your local Willis Towers Watson representative.

Joseph C. Peiser
Head of Broking
Willis Towers Watson North America
Senior Editor
Marketplace Realities
Marketplace Realities

Property

- **Capacity** — Despite deteriorating underwriting results and a 32% increase in catastrophe losses year over year, abundant capital continues to sustain an attractive market for buyers.

- **Reinsurance** — Reinsurance rate declines moderated in 2016 and continued apace for 2017 renewals. U.S. accounts with catastrophe losses saw increases of 5%–15%.

- **Loss experience** — Global catastrophe losses were $49 billion for 2016 versus $37 billion for 2015, which translates into a claim increase of 32%.

### Reinsurance Rate Reductions

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-17%</td>
</tr>
<tr>
<td>2015</td>
<td>-11%</td>
</tr>
<tr>
<td>2016*</td>
<td>Flat to -7%</td>
</tr>
</tbody>
</table>

*Fourth straight year of reductions

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall insured property losses (10-year avg. = 62)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>45.0</td>
</tr>
<tr>
<td>2014</td>
<td>36.0</td>
</tr>
<tr>
<td>2015</td>
<td>37.0</td>
</tr>
<tr>
<td>2016</td>
<td>49.0</td>
</tr>
</tbody>
</table>

(Source: Munich Re, Swiss Re, Insurance Information Institute — in $billions)

- **Profitability** — Profitability of all segments of the global market deteriorated significantly in 2016. Lloyd's reported a 97.9% combined ratio representing an uptick of 7.9 percentage points over prior year. Bermuda (re)insurers posted a combined ratio of 91.9%, up from 88.5% in 2015. Most dramatically, U.S. insurers reported a $5.2 billion underwriting loss resulting in a combined ratio of 100.7, an increase of 2.9 points from 2015. Although catastrophe losses were the highest they had been in over four years, no mega-events occurred and overall losses were below historical averages.

- **Alternative market capital** — The influx of alternative capital continues to pressure the reinsurance market and use of this capacity continues to increase every year. To a limited extent, alternative market capital is being used for primary coverage in the large account space, and now we are seeing evidence of it in the middle-market space and in parametric trigger products.

### Use of alternative capital in reinsurance market

<table>
<thead>
<tr>
<th>Year</th>
<th>Use of alternative capital</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</td>
<td>15%</td>
</tr>
<tr>
<td>2016</td>
<td>18%</td>
</tr>
</tbody>
</table>

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

- **Exceptions** — Underwriting results for habitational risks remain more challenged than the rest of the market and market appetite continues to be constrained accordingly.

- **Outlook** — We remain bullish for a continued buyer’s market but, unless underwriting results show a turnaround, it is doubtful that underwriters can sustain this trend indefinitely. **Signs are emerging of a much more differentiated treatment based on risk fundamentals and loss history.**

### Price predictions

<table>
<thead>
<tr>
<th>Type</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-cat</td>
<td>-5% to -10%</td>
</tr>
<tr>
<td>Cat*</td>
<td>-5% to -12.5%</td>
</tr>
</tbody>
</table>

*In the first half of 2016, 78% of accounts saw a rate decrease and 43% were in the range of -5% to -15%.

---

The one thing

Be aware of opportunities to expand coverage in the property arena for cyber events and non-physical damage generally, as some large property carriers have put limited coverage offerings in policies and are slowly dragging along other more cautious markets.

Contact

**Gary Marchitello**
Head of Property Broking
212 915 7914
gary.marchitello@willistowerswatson.com

---

Reinsurance Rate Reductions

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-17%</td>
</tr>
<tr>
<td>2015</td>
<td>-11%</td>
</tr>
<tr>
<td>2016*</td>
<td>Flat to -7%</td>
</tr>
</tbody>
</table>

*Fourth straight year of reductions
Willis Towers Watson

Casualty — primary & excess

- Casualty continues to be a buyer’s market for most companies and most industries. In general, rates have been flat with some single-digit increases or decreases, although auto has consistently seen rate increases in the 3%–7% range.
- As was the case throughout 2016, there are notable exceptions to these soft market conditions — New York City construction, energy and trucking risks.
- The re-underwriting of casualty risks by two major insurers that we reported in 2016 appears to be complete, although one of the underwriters continues to look at its U.S. casualty book and may take rate and/or program design actions on certain classes of business or specific accounts. Areas with the potential to see such changes include health care, all casualty lines in Florida and unbundled risks for which a third-party administrator’s (TPA) claim handling and reserving have proven inadequate. Such potential actions should not be overly concerning since, as we saw in 2016, the casualty market has proven resilient, having absorbed most of the business that was shed by the insurers with relatively little disruption.
- The personnel movements we reported in 2016 have led to the emergence of new and re-tooled casualty capacity, which we predict will sustain favorable market conditions for most clients for the foreseeable future. As a result of these movements, accounts in the real estate and financial sectors have seen more competition for their casualty business.
- Five major casualty consolidations — XL and Catlin, ACE and Chubb, Sompo and Endurance, Liberty Mutual and Ironshore and Fairfax and Allied World — have not had a significant impact on rates or capacity. Historically, though, consolidation has led to higher rates and reduced capacity.
- The personnel movements we reported in 2016 have led to the emergence of new and re-tooled casualty capacity, which we predict will sustain favorable market conditions for most clients for the foreseeable future. As a result of these movements, accounts in the real estate and financial sectors have seen more competition for their casualty business.
- For trucking risks, the excess auto buffer layer (attachments excess of $1–$5 million, with limits of $5–$15 million) continues to be a challenge, with rates seeing double-digit increases and capacity scarce. The facultative reinsurance market is a potential source of capacity to help offset these rate increases.
- The London market continues to aggressively compete for lead umbrella and excess liability layers that, for years, were dominated by U.S. markets. These London underwriters are willing to entertain innovative, multiyear structures for difficult risks.
- Casualty coverage terms have remained mostly consistent; some insurers are broadening their cyber exclusions to limit coverage for cyber-related claims.
- Capacity in the product recall market has stabilized in London and the U.S. Overall, the market is generally flat, though rate decreases are beginning to dry up and auto suppliers are seeing rate increases.

Price prediction

<table>
<thead>
<tr>
<th></th>
<th>Primary casualty</th>
<th>Umbrella &amp; excess</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-5% to flat for most risks, +5% to +10% for risks with significant loss activity</td>
<td>-10% to flat for most risks, +10% or more for truckers and NYC construction</td>
</tr>
</tbody>
</table>

The one thing
Between 70% and 90% of the total cost of casualty risk comes from claims, so it’s important that buyers understand the underlying causes of claims and then implement effective risk control measures.

Contact
Joe Peiser
Head of Casualty Broking
212 915 8235
joseph.peiser@willistowerswatson.com
Workers compensation

The one thing
Buyers with exposures in Florida, New York or Massachusetts should undergo a detailed claim analysis and consider loss control initiatives — an ergonomics review, for instance — to address the underlying causes of loss.

- Court rulings and legislative change in 2016 have roiled the Florida workers compensation market, leading to an average approved rate increase of 14.5%. The changes also mean that both prospective and retrospective loss costs are expected to rise.
- The prevalence of unbundled workers compensation programs for larger insureds continues. More carriers who had previously been bundled-only are now offering unbundled options.
- Many are waiting to see the impact of the new administration on workers compensation. Decreased regulation of industry via the EPA and/or OSHA could lead to an increase of payrolls in more hazardous industries.
- There has been a discernible rollback in cutbacks in workers compensation benefits mainly due to legal challenges and court rulings in favor of employees. Examples include the Oklahoma Supreme Court striking down employer-friendly opt-out provisions and the 180-day minimum exposure rule on carpal tunnel claims, and Florida's Supreme Court striking down caps on claimant attorney’s fees and the 104-week limit on TTD benefits.
- Some workers compensation insurers are experimenting with the use of telemedicine to reduce medical expenses.
- Overall, combined ratios for workers compensation insurers continue to improve, which should mean continuing favorable conditions for most buyers. However, certain states, including Florida, New York, New Jersey and Massachusetts, pose challenges for insureds with large payrolls.

Price predictions
-2.5% to +2.5%: +15% in Florida.

Contact
Joe Peiser
Head of Casualty Broking
212 915 8235
joseph.peiser@willistowerswatson.com
Auto liability

- In 2016, we saw an average increase of 4% for auto liability rates, but clients with large fleets and/or poor loss experience were faced with even higher increases. To blame are deteriorating loss ratios, for which insurers cite increased frequency and severity. We expect rate increases to continue through mid-2017. Risks demonstrating robust driver safety programs, the use of safety technology and other loss control initiatives are faring much better with insurers.
- Umbrella underwriters continue to look for higher attachment points ($5 million or more) on risks with large fleets. Clients should consider the facultative reinsurance market as a potential alternative for buffer layer risks.
- As we said above in our primary and excess section, competition for the first excess position in most umbrella programs remains fierce. For risks with large auto fleets, a shorter lead umbrella ($5–$10 million) can provide more direct access to the competitive excess market.
- Every day brings us closer to the reality of self-driving vehicles on our streets and highways, and the industry is watching closely as this technology develops. Over time, self-driving vehicles will have a significant impact on insurance, but it is too early to tell what that impact will be.

Price predictions

+ 3% to +10%

Contact
Joe Peiser
Head of Casualty Broking
212 915 8235
joseph.peiser@willistowerswatson.com
International casualty

The one thing
Governance and compliance are the key concerns for international buyers, who need to clearly understand what is being purchased in each country before inception and how claims will be paid.

- New entrants to the international casualty segment are driving rates downward. Most clients (without adverse loss history) can expect flat to reduced rates and improved terms and conditions.
- Insurers continue to offer foreign package policies, including cover for political evacuation, crisis response, manufacturer’s E&O, extended products, war and terrorism and accidental death and dismemberment.
- Duty of care and protecting traveling employees continue to be primary concerns. Travel apps, accidental death and dismemberment, sub-limited kidnap and ransom covers are commonly being made available to clients as part of foreign voluntary workers compensation (FVWC), although not all insurers offer primary FVWC coverages.
- Higher liability limits are often available for little or no additional cost. To attract new clients, some carriers are offering lower minimum premiums on local policies ($1,500), further reducing frictional costs.
- The standard program for a middle market company remains guaranteed cost — no deductible, with the insurer handling claims.
- Multiyear arrangements are available and include a premium discount for pre-payment.
- Tier 1 international insurers continue to focus on relationship, underwriting, technology and ancillary services as product differentiators. Enhanced client portal systems deployed by these insurers allow clients and their brokers to plan for and monitor their international policy administration.
- Policy certainty before inception is becoming the norm for larger global clients complying with cash before cover requirements and other local regulations.
- Large global companies are reconsidering alternative structures, including global liability policies (domestic and foreign), deductible recovery, segregated cell and other captives, high retentions, and multiline and multiyear programs.
- Primary and excess underwriters are working more closely together to satisfy international clients’ desires for higher local limits ($10-$25 million) at reasonable charges with fair and just premiums.
- This is a buyer’s market for global clients with favorable loss experience and an aggressive broker.
- While we continue to monitor insurers’ responses to the Brexit vote, no immediate changes for structuring freedom of services policies are expected.
- For DBA coverage, loss control and claim management continue to be key drivers in reducing premiums.

Price predictions

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>International casualty</td>
<td>-10% to flat</td>
</tr>
<tr>
<td>Defense Base Act coverage</td>
<td>-5% to flat</td>
</tr>
</tbody>
</table>
Employee benefits

- The November 2016 election results put the potential to repeal the ACA front and center. Congressional Republicans and the White House attempted to put forth an alternative to the existing law. However, the proposed American Health Care Act (AHCA) did not garner enough support from Republicans to move forward. Health care reform is still a topic of considerable debate and we expect this to resurface in the budget reconciliation discussion and throughout 2017.
- In the wake of the Department of Justice opposing and a federal judge rejecting two mega mergers (Anthem/Cigna and Aetna/Humana), Aetna and Humana have called off their plans while Anthem continues to pursue its acquisition of CIGNA through legal channels. Many believe that it is unlikely that the court’s decision will be overturned, however.
- There is still significant employer focus on implementing measures to reduce costs by improving health, delivering better care and implementing high-value solutions.
- In a recent Willis Towers Watson survey, 88% of employers identified managing pharmacy spend and high-cost specialty drugs as their top priority over the next three years. In addition, employers are increasingly adopting telemedicine services and participating in value-based contracting and reimbursement arrangements offered by health plans.
- The viability of the public exchanges has come into question. Many state-based co-ops have gone out of business, and two major health insurers (Aetna and United) have reduced the number of states in which they participate in the public exchanges.
- While public exchanges continue to encounter difficulties, we have seen an increase in adoption of private exchanges as employers modernize their benefit programs to address the varied needs of a multi-generational workforce. Employers recognize that if they provide employees the opportunity to shop in a marketplace that communicates actual cost, ensures meaningful choice and provides an appropriate level of guidance, the exchange model can deliver employee satisfaction and lower costs.
- Employers are redesigning or expanding the supplemental and voluntary benefits they offer, reflecting changing employee needs and the rapid generational workforce shift. The voluntary benefits in greatest demand include identity theft insurance, critical illness benefits and pet insurance, but all plans have seen an increase in interest and adoption. Student loan repayment programs are receiving significant interest, as are updates to existing tuition reimbursement programs. As the job market continues to tighten, employers are using voluntary offerings as a means of attracting and retaining the right employees.
- The long-term disability market continues to be competitive due to prolonged low interest rates, a significant backlog in Social Security submissions and a decline in approvals. Meanwhile, life insurance continues to be very competitive and rate guarantees are increasing in length.
- Employers are looking for next-generation integrated behavioral health services that range from addressing stress in the work place to the growing prevalence of depression and substance abuse.
- Creation and expansion of paid parental and family leave benefits, including global policies, adoption assistance and support programs for parents, are a focal point for employers in their battle for talent.
- As paid sick and family leave legislation continues to spread across cities, states and municipalities, employers are redesigning company sick time policies to ensure compliance and consistency.
- Mobile apps and tools are being used to manage retirement savings across multiple generations.
- Companies are expanding choice in their dental and vision product offerings. The focus on consumerism is resulting in customization of benefits within a group plan.
- More companies consider dental and vision care as key components to managing the overall health and wellbeing of their population. Plan designs are changing accordingly.

Price predictions

<table>
<thead>
<tr>
<th>Type</th>
<th>Price Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-insured</td>
<td>+4.5% to +5.5%</td>
</tr>
<tr>
<td>Fully insured</td>
<td>+7.2% to +8.2%</td>
</tr>
</tbody>
</table>

The one thing
Meeting the varied needs of a multi-generational workforce while controlling costs is prompting employers to modernize their benefits.

Contact
Jon Trevisan
Chief Broking Officer,
Mid-Market Health and Benefits
617 351 7528
jon.trevisan@willistowerswatson.com
Cyber risk

- Total annual cyber premiums reached $2.5 billion in 2016 and are set to climb in 2017. Some industry observers expect premiums to reach $10 billion by 2020.
- Cyber renewals continue to see primary and excess premium increases in the 5%-10% range for most buyers. POS retailers and large health care companies are still seeing increases, but nowhere near the level following the mega breaches in 2014 and 2015. In 2016, a few clients with strong controls saw either no premium increase or a slight premium reduction. Increased competition in the marketplace has also played a factor.
- Middle market clients (annual revenues below $1 billion) are still seeing a very competitive marketplace with aggressive pricing and broad policy language, as many carriers seek to enter the space.
- With the EMV (Europay, Mastercard and Visa) credit card chip liability deadline pushed from 2017 to 2020 for automated fuel pumps, underwriters still need to scrutinize controls around the implementation of end-to-end encryption for credit card transactions. Such scrutiny will likely need to continue even after 2020 if the lag in retailer EMV compliance is any indication. With increased reliance on Internet of Things (IoT) technology, both from the consumer and industrial standpoint, we expect increased technology E&O and cyber coverage gap exposure on new submissions.
- We are seeing more aggregation risk for third-party and cloud providers due to the increase in denial-of-service attacks like the one that hit a major internet infrastructure provider in October.
- Few markets are looking to address gaps in property, GL and crime coverage to include perils arising from cyber exposures. Cyber coverage, meanwhile, is expanding. Lately we have seen explicit grants of coverage for ransomware and social engineering in stand-alone cyber forms.
- Carriers are focusing on better management of limits deployed on programs, with many not offering more than $10 million on a given placement. Some carriers will consider additional limits on a case-by-case basis.
- There is at the same time an increase in capacity, with new U.S. and London markets providing limits of $500 million or higher in some cases.
- Insurers are exploring data analytics partnerships in an effort to optimize exposure data gathering, allowing underwriters to assess employee sentiment on how sensitive data is handled. Overall, underwriters want to better understand organizational culture and how data privacy is embraced across many operational functions.
- Carriers are becoming more accepting of manuscript applications and conference calls in lieu of standard applications. This has led to more competitive quotes due to the increased amount of information provided.

<table>
<thead>
<tr>
<th>Price predictions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewals (non-POS retail; non-large health care)</td>
<td>+5% to +10%</td>
</tr>
<tr>
<td>Renewals for POS retailers &amp; large health care</td>
<td>+15% to +20% for non-material loss history</td>
</tr>
<tr>
<td>First-time buyers</td>
<td>Competitive market conditions depending on industry and size of company</td>
</tr>
</tbody>
</table>
Directors & officers (D&O)

- **Ample capacity continues to drive market dynamics** — The overall D&O marketplace is still soft. Carriers do seem to be feeling the squeeze and therefore are looking harder at where they want to use their capacity and pricing adequacy.

- **Underwriting discipline efforts** — Among the leading primary carriers for publicly traded companies, we are seeing pockets of underwriting discipline — action, not just words.

- **Coverage opportunities continue** — Carrier and broker innovations continue to offer unprecedented opportunities to get more value out of D&O coverage — investigations, cyber-related D&O protection and M&A exposures.

- **Rate** — Generally, premium increases are still the exception.
  
  - **Public companies** — For companies with favorable risk profiles, expect slight decreases to flat results on primary placements.
  
  - **Private/not-for-profit (PNP)** — Flat results continue to be achievable for many private companies and not-for-profit organizations, with some exceptions.
  
  - **Financial institutions** — Rates continue to stabilize. Adequate capacity means opportunities, but they may not be as pervasive as they are for commercial accounts. Higher excess is a bit more competitive.
  
  - **Excess** — Increased limits factors on excess are still declining, as capacity for excess attachment points is plentiful.
  
  - **Excess side-A (DIC)** — Very competitive, because it is very profitable for carriers. Admitted premiums seem as competitive as non-admitted.

- **Securities class actions** — Who knew Q1 of 2017 would be worse than 2016? With 125 filings, straight line projections suggest 500 filings this year. There were 270 in all of 2016. The annual average for the last 20 years is 188. Special concern for the pharmaceutical industries, which grabbed 25% of that 125!

- **“Animal spirits”** — Post-election market exuberance may artificially inflate stocks and stoke potential severity if company specific developments take that “spirit” out of the stock price of an issuer, particularly IPOs. Historically, the larger the market cap drop associated with the allegations in a securities class action, the larger the settlement value.

- **Activists** — While not all activist engagement is troublesome, adversarial activism seems on the rise and warrants a fresh look at D&O coverage.

- **Individual accountability** — Even with Washington potentially pulling back on regulatory enforcement, we continue to see a focus on executive accountability that has changed the dynamics of D&O defense for the foreseeable future.

- **Cyber/technology** — High-profile SEC investigations and a securities class action concerning cyber disclosures could result in a new wave of disclosure-based securities litigation.

- **M&A** — While M&A litigation overall may have decreased, the number of federal cases has swelled. This is reflected in the Q1 numbers.

- **Effective global coverage** — The trend toward purchasing international D&O policies (largely underlying, local policies) in conjunction with their U.S. master policy(ies) continues, and markets are responding with more capabilities and solutions.

### Price predictions

<table>
<thead>
<tr>
<th>Category</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>-12% to flat</td>
</tr>
<tr>
<td>Public company – primary</td>
<td>-10% to +5%</td>
</tr>
<tr>
<td>Public company – excess</td>
<td>-5% to -20% (includes side-A)</td>
</tr>
<tr>
<td>Private companies</td>
<td>Flat</td>
</tr>
<tr>
<td>Not-for-profit entities</td>
<td>Flat to +10%</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>Flat to -5% (excess -7% to -10%)</td>
</tr>
</tbody>
</table>

### Contact

- **Rob Yellen**
  - FINEX North America
  - 212 915 7919
  - robert.yellen@willistowerswatson.com
Employment practices liability

Rates remain mostly stable, with average primary rate increases of 5%, unless loss experience, mergers and acquisitions, or changes in exposure dictate a greater increase. In California, rate increases continue to fluctuate between 5% and 15%, based on the heightened legal requirements in that state.

The EPL market remains competitive, with capacity of over $800 million in the U.S., Bermuda and Europe combined.

Three recent court cases brought under the Fair Labor Standards Act (FLSA) have placed a spotlight on whether class action waivers in employment arbitration agreements are valid. If the U.S. Supreme Court determines that the waivers are not valid, we could see an increase in FLSA class actions, as well as in traditional employment discrimination claims. Employers should proceed with caution and engage counsel when drafting these provisions.

Change is afoot at the Department of Labor.

In 2016, the Department of Labor (DOL) promised to more than double the annual salary threshold for overtime or minimum wage exemption under the FLSA. The changes are tied up in the courts after 21 states filed a lawsuit challenging the DOL’s new rule. While a federal district court judge granted a preliminary injunction to the plaintiffs, given the change in administration, the fate of the overtime rules is uncertain.

Increased focus on pay practices and classification issues has brought heightened interest in wage and hour insurance. New entrants in the market (particularly for mid-size companies) and market appetites have arisen to meet the demand. Flexibility in retention levels and markets’ willingness to offer blended wage and hour/EPL policies have led more companies to purchase or obtain quotes. Markets in Bermuda, London and the U.S. offer defense and indemnity coverage.

Joint employer liability remains a significant area of concern, particularly for companies in the franchise, hospitality and staffing industries. We are keeping a close eye on changes at the DOL, namely the nomination of R. Alexander Acosta, which could impact the joint employer liability issue.

Pay equity continues to be a major area of focus in 2017.

Proposed revisions to the EEO-1 Survey, which would require the reporting of total W-2 compensation information and hours worked for all employees, appear to still be in place and are expected to go into effect in March 2018.

The Office of Federal Contract Compliance Programs (OFCCP) recently prohibited federal contractors from implementing policies that prevent applicants and employees from discussing their pay with each other. New employers are required to include a pay transparency nondiscrimination provision in employee handbooks and manuals and to post the provision in conspicuous places available to employees and applicants.

Additional states and localities (e.g., Philadelphia) have joined New York, Massachusetts and California in enacting or updating pay equity laws to include anti-retaliation provisions and additional remedies to aggrieved parties.

Given the above developments, employers may see an uptick in gender and race pay discrimination suits, as well as EEOC- or OFCCP-led class action lawsuits, though such activities will depend in part on the funding available to those agencies.

Protecting immigrant and migrant workers was one of the EEOC’s priorities in its Strategic Enforcement Plan for 2017-2021. Given the federal government’s recent executive orders regarding immigration, claims involving national origin and religious discrimination may increase. Companies are advised to consult with employment counsel and take proactive measures, where necessary, to prevent or mitigate such claims.

Price predictions

<table>
<thead>
<tr>
<th>Category</th>
<th>Price Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>Flat to +5%; California: +5% to +15%</td>
</tr>
<tr>
<td>Large global companies</td>
<td>Flat to +3% (primary); -5% to flat (excess)</td>
</tr>
<tr>
<td>Mid to large domestic firms</td>
<td>Flat to +3% (primary); -5% to flat (excess)</td>
</tr>
<tr>
<td>Private and nonprofit entities</td>
<td>Flat to +5%</td>
</tr>
<tr>
<td>Smaller employers (&lt; 200 employees)</td>
<td>+5% to +10%</td>
</tr>
</tbody>
</table>

The one thing

Few areas of insurance may be more affected by the change in federal administration than employment practices liability. Stay closely tuned.

Contact

Talene Megerian
National EPL Product Leader,
FINEX North America
212 915 8721
talene.megerian@willistowerswatson.com
Professional liability (E&O)

- New and traditional carriers are seeking to expand their market share in the professional liability space, especially with middle market clients due to their better loss ratios. This has driven competitive pricing and broad policy language.
- The marketplace continues to contemplate the effect of large data/privacy losses from the retail sector and large technology services claims. The premium and retention impact is limited, as fewer markets write primary professional liability coverage for large technology companies and some carriers tend to be more aggressive on combined cyber/E&O programs.
- Miscellaneous professional (MPL) services definitions remain heavily scrutinized by underwriters due to the potential overlap between manufacturers or product liability policies and MPL coverage.
- Large technology companies with new media and service offerings can expect to see premium increases due to expanding global privacy laws, most notably the General Data Protection Regulation (GDPR) in the E.U. However, the middle market technology E&O space is very competitive on both coverage and pricing.
- Service providers are routinely being asked to provide higher limits when they present evidence of insurance coverage for professional liability, and cyber is driving the demand. Narrow indemnification language in vendor agreements is another driver.
- Emerging risks include manufacturing companies providing their products as a service via a technology platform. As a result, we see increased exposure for certain industries arising from the use of data analytics to provide targeted usage information to customers.
- With cyber exclusions common on ISO-based policies, clients are seeking coverage for contingent property damage or bodily injury and loss of business income due to system interruptions.
- Law firms are increasingly looking into cyber coverage due to recent incidents involving the wrongful disclosure of confidential client information.
- More buyers are seeking to have coverage expanded to include REITS and joint ventures where majority ownership or majority voting rights are not with the named insured.
- Companies with no losses and manuscript wording should be able to improve their coverage.
- Retentions are being reviewed case by case, driven by the overall size of an organization and the professional services being provided.
- Authorized global E&O limits are approximately $750–$850 million. Typical insureds should be able to buy from $500–$600 million.

Price predictions

<table>
<thead>
<tr>
<th>Good loss experience</th>
<th>Flat to +5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor loss experience or difficult industry sectors</td>
<td>+15% to +20%</td>
</tr>
</tbody>
</table>

Contact

Anthony Dagostino
National Cyber/E&O Practice Leader
212 915 8785
anthony.dagostino@willistowerswatson.com
Marketplace Realities

Fidelity

- **Technology-related fraud** — Fraudulent use of technology remains a major concern to underwriters, and based on the continued barrage of attacks on insureds' computer systems, those concerns are unlikely to subside in the near future.
  - Phishing attacks and subsequent insertion of malware into computer systems remain the predominant method of breaching systems and, despite corporate training to detect bogus emails and prevent opening of infected attachments, phishing attacks are on the rise. This, coupled with hackers' ability to speed the upload of malware into computer systems, demonstrates the challenges faced by both commercial entities and financial institutions to stay ahead of the curve.

- **Impersonation fraud is still a hot button issue** — Although malware has greatly increased the ability of hackers to illegally transfer money or securities, social engineering (fraudulent impersonation) remains by far the most common method of fraud.
  - Criminals have had most success targeting smaller firms for smaller dollars, as larger entities, now well-educated on the issue, have implemented extensive training and authentication measures.
  - Large companies duped by these schemes, however, still make the headlines from time to time.

- **Breadth of Coverage** — Coverage remains quite broad for the traditional fidelity/crime exposures facing clients, including employee theft and non-employee losses involving burglary, robbery, forgery or alteration of checks. We do find underwriters still move cautiously when affording coverage for the new impersonation fraud coverage, having no conditions precedent to coverage, but we find several leading markets now willing to underwrite the exposure and offer meaningful limits. For those insureds demonstrating good internal controls, underwriters are now offering seven- and eight-figure limits, particularly on layered programs. Instances of $50 million and $100 million limits have been noted, particularly where meaningful deductibles are utilized.

- **Market capacity and pricing** — Market capacity remains relatively static, but several newer entrants into the market continue to put up significant capacity on a primary basis for Fortune 1,000 and 500 clients as well as large regional financial institutions (FIs), challenging the limited number of traditional leaders in this space.
  - While London has long been a leading FI bond market for primary FI bond placements, they are now aggressively quoting mid to large commercial accounts as well, resulting in competitive pricing and aggressive coverage grants.
  - Overall pricing remains flat with potential increases for meaningful impersonation fraud coverage limits.

**Price predictions**

Flat, with small increases for expanded coverage

---

**Contact**

Stephen Leggett
National Fidelity Resource
212 915 7901
stephen.leggett@willistowerswatson.com
Fiduciary

- Fiduciary liability capacity remains stable, notwithstanding loss cost escalation. One exception: the number of viable primary insurers for asset managers with proprietary funds within their retirement plans is becoming limited.
- Pricing is stable to slightly down on primaries. Excess layers are more competitive. So excess pricing is softening.
- Fee cases: fee cases involving 403(b) plans (for public schools, certain tax-exempt organizations, and certain ministers) are the new exposure front. Carriers are far more attentive now to exposed plans.
- Fee cases continue to push settlement limits and, therefore, buyers’ views of appropriate program (limits) size.
- Underwriters continue to show concern about insureds’ selection and monitoring of service providers. The initial selection of a service provider is a fiduciary action.
- Fiduciary coverage for asset managers that includes proprietary mutual funds in their 401(k) plans continues to be a concern for insurers, resulting in some outright declinations of such risks, or premium/retention increases.
- The IRS no longer issues determination letters on the tax qualification of individually designed retirement plans. This leaves sponsors, plans and fiduciaries more exposed to potential sanctions and greater correction expenses and/or potential litigation expenses.
- With the new administration in Washington, there is heightened uncertainty around compliance, representing heightened risk that could be challenging to mitigate.
- Lack of clarity about what the U.S. health care system will ultimately look like, and the extent of employers’ roles, especially as respects retirees, creates general concerns for fiduciary liability insurers.
- Church plans: a recent uptick of church plan lawsuits is creating some concern for underwriters. Plaintiffs are challenging the premise that pension plans offered by religiously affiliated health care systems qualify for ERISA’s church plan exemption.

Price predictions

<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>Flat to +10%</td>
</tr>
<tr>
<td>Companies without/limited company stock in their plans</td>
<td>-3% to -10% (on excess layers)</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>-3% to flat (other than FIs with proprietary fund exposures)</td>
</tr>
<tr>
<td>ESOP-owned firms</td>
<td>+5% to +10%</td>
</tr>
<tr>
<td>Private and nonprofit entities</td>
<td>-3% to +5%</td>
</tr>
</tbody>
</table>

Contact
Rob Yellen
FINEX North America
212 915 7919
robert.yellen@willistowerswatson.com
The one thing
With new market entrants eager to write HPL, companies should explore all options: domestic, including new entrants and traditional physician carriers, Bermuda and London. At the same time, brace for change.

- **HPL continues to be a very competitive line and recent marketplace entrants in early 2017 have furthered the trend.** This competition and the strong capitalization of HPL insurers have helped keep pricing low for health care industry buyers across all segments despite a rising industry combined ratio indicating lower profitability in this line.

- We expect the health care professional liability (HPL) market to remain soft through the first half of 2017, with flat to low double-digit decreases at typical renewals depending on loss experience, exposures and territory.

- **The election of a Republican Congress as well as Republican control of the great majority of state legislatures could solidify tort reform efforts and yield even more favorable malpractice legislation, such as caps on non-economic damages.** The highest courts in some states, however, have not hesitated to strike down certain provisions of tort reform legislation, although most tort reform enacted since the year 2000 has withstood constitutional challenges.

- Loss frequency remains low and, while severity is increasing, it is actuarially predictable. The number of large verdicts, however, should continue to be watched, as it is one of the industry’s few negative factors; there have already been a few large verdicts in the first months of 2017.

- Buyers may need to adjust terms and conditions to address evolving risks, such as batch claims, cyber/network privacy risk, regulatory risk and pay-for-performance reimbursement, as well as executive risks. More carriers are willing to write integrated programs with excess coverage layered over some of these risks as well as auto, general liability, crime/fiduciary coverages. Many hospital excess carriers are offering multiyear programs.

- Beyond hospitals, the competition for physicians/groups has helped lower premiums as well for miscellaneous facilities. Long-term care facilities continue to see generally lower premiums, but a few carriers are shying away from that segment of health care professional liability.

- The industry combined ratio must be watched, as it is creeping closer to 100. Results for HPL through 2016 have not yet been released but, for the first time in 10 years, HPL may be unprofitable.

- Carriers are concerned about cyber/network privacy risk bleeding into the health care professional liability. Carriers are seeking to limit these losses by exclusions and other coverage limitations.

- Due to the long tail of HPL, health care reform has not yet affected claims. But potential changes wrought by the repeal of the Affordable Care Act and shifting reimbursement methodologies would shape malpractice risk and underwriter response over time, as many health care organizations manage the effects of ACA repeal or revisions and the shift to value-based reimbursement from fee-for-service and clinical integration of their organizations.

- 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 face of change.

**Price predictions**
- Flat to low double-digit decreases depending on experience and territory
Aerospace

- While we are seeing increased carrier scrutiny with more selective and disciplined approaches to underwriting, aerospace insurance buyers are still benefitting from an oversupply of capacity in both the domestic and overseas markets. Given the broader spread of premium among insurers, maintaining market share is important and new business is being aggressively priced.

- Airlines — The extended soft market for airlines will continue into 2017. Worldwide losses have been relatively low and there is still plenty of excess capacity. However, worldwide claims have exceeded premiums for the last four years and attritional losses are outstripping the premium. Underwriters are not eager to offer reductions but have been hamstrung in seeking increases due to the excess capacity. For those accounts with excellent loss ratios there will still be some single-digit rate reductions available, especially if they show some growth. For those accounts with losses, expect a flat renewal to a slight increase in premium depending on how bad the losses are. The market remains ready to turn should the future bring significant losses and/or a withdrawal of a significant portion of capacity. The available capacity remains divided, with less capacity for legacy operators flying wide-body equipment.

- Products manufacturers/service providers — This segment has seen an overall average reduction of just over 6%, led by more significant reductions for fuel providers (around 15%). Realignment and program structure changes for some major OEM programs continue to slightly skew the figures as less flight-critical, component product manufacturers remain particularly attractive to insurers and can attract more meaningful reductions in premium.

- Airports and municipalities — Pricing remains relatively flat with occasional reductions to retain business or gain market share. Retentions continue to hover at all-time lows. Current conditions are not likely to change soon due to both capacity and attractive multiyear contracts.

- General aviation — The industrial aviation subsector is still experiencing pricing reductions, though less than in prior years due to already depressed rates. The aircraft charter market has seen less flexibility in pricing due to attritional loss levels. The commercial rotor-wing subsector is still experiencing reductions on profitable accounts while increases are being sought on accounts with losses. One of the most talked about emerging risks in the industry remains the advent of drones, or unmanned aerial vehicles (UAVs), into the public airspace. Insurers have started to develop online trading platforms for UAV risks, given the high frequency/low premium transactions. New business is still being sought aggressively as underwriters try to make up for depressed rates on their renewal books.

- Financial institution/lessors — In the aircraft leasing industry (banks, lessors, aircraft trading companies) consolidation continues at an active pace. With its high profitability for underwriters, this class remains attractive. Rates for banks and traders of aircraft/engines remain competitive and U.S. and European underwriter appetite is very large.

- Space — The satellite insurance market (for launch and in-orbit risks) has seen more than a decade of positive results, which keeps attracting significant market capacity and driving down premium rates. There is, however, substantial differentiation between launch risks, with the best-performing launch vehicles attracting premium rates that are approximately 30% of those applied to launch vehicles with recent performance issues. For in-orbit risks of healthy satellites, 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>Category</th>
<th>Prediction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airlines</td>
<td>-10% to flat</td>
</tr>
<tr>
<td>Products manufacturers/service providers</td>
<td>-10% to flat</td>
</tr>
<tr>
<td>Airports and municipalities</td>
<td>-5% to flat</td>
</tr>
<tr>
<td>General aviation</td>
<td>-10% to flat</td>
</tr>
<tr>
<td>Financial institutions/lessors</td>
<td>-20% to flat</td>
</tr>
</tbody>
</table>

Contact
Jason Saunders  
President, Willis Towers Watson Aerospace North America  
404 224 5054  
jason.saunders@willistowerswatson.com

The one thing
As predicted, the Q4 2016 airline renewal season saw rising resistance by underwriters to what has been a race to the bottom, and buyers can expect similar pressures through 2017.
Construction

- **General liability** — Capacity remains high but underwriting discipline is firming, leading to flattening of rates. To support pricing, carriers are tinkering with changes in coverages and deductibles, increasing the need for diligence on renewals.

- **Workers compensation** — Despite trends (aging workforce, higher medical expenses, etc.) that should lead to higher rates, the workers compensation market remains steady. Regulatory changes in Florida will impact that market, but overall rates are stable.

- **Automobile liability** — Worsening trends of 2016 remain in effect for 2017; poor underwriting performances continue to pressure rates.

- **Excess/umbrella liability** — As with GL, an element of stabilization is entering the market. While conditions are still soft with much capacity, experienced underwriters are starting to hold the line on rates, especially in the lower layers.

- **Construction property/builders risk** — The property market in general continues to be extremely competitive due to the surge in capacity in recent years. Domestic insurers have continued to perform well and have grown their net and treaty lines, while new players have opened their doors. All-time high capacity has resulted in rate reductions across the board as well as broader terms and conditions.

- **Professional liability** — The PL marketplace continues to be very competitive, with a growing carrier presence and the largest U.S. capacity to date. For-sale residential continues to be the most challenging project risk for carriers. Underwriters are reviewing contractor delegated-design, geotechnical and structural firms closely due to recent loss experience.

- **Controlled insurance programs** — CIPs are still popular for both general contractors and owners with cap spend budgets. While two-line CIPs continue to be placed, particularly on larger, complex projects, GL-only CIPs grow in popularity, driven by lower deductibles (hence no collateral) and the completed operations coverage typically tied to each state's statute of repose.

- **Contractors pollution liability** — See the environmental marketplace page.

- **While construction remains stable and is expected to grow in 2017 and beyond, construction firms are being challenged by technology innovations and shortages of skilled tradespeople.**

---

**The one thing**

Industry confidence is on a significant rise. Contractors of all sizes across the country are enthusiastic for 2017

---

**Price predictions**

<table>
<thead>
<tr>
<th><strong>General liability</strong></th>
<th>Generally flat</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Workers compensation</strong></td>
<td>Flat</td>
</tr>
<tr>
<td><strong>Automobile liability</strong></td>
<td>+5% to +20%</td>
</tr>
<tr>
<td><strong>Excess liability</strong></td>
<td>Flat to +5%</td>
</tr>
<tr>
<td><strong>Builders risk</strong></td>
<td>-10% to flat</td>
</tr>
<tr>
<td><strong>Professional liability</strong></td>
<td>Flat</td>
</tr>
<tr>
<td><strong>Controlled insurance program (CIP)</strong></td>
<td>Flat (-5% to -7% for GL only, non-condo risk)</td>
</tr>
<tr>
<td><strong>Contractors pollution liability</strong></td>
<td>-10% to flat</td>
</tr>
</tbody>
</table>

---

**Contact**

Karen A. Reutter  
Director, Construction  
763 302 7113  
karen.reutter@willistowerswatson.com
Energy

Downstream
- Little has changed since we last reported in October 2016. Capacity continues to grow, rates continue to soften, competition remains robust and there have been no meaningful market withdrawals. This remains firmly a buyer’s market.
- That said, we are now seeing a deceleration of the softening process. A sharp increase in losses during 2016 is beginning to threaten overall underwriting profits for last year.
- Meanwhile, established markets are facing more competition than ever before. As regional insurers increase their underwriting muscle, established markets in London are also coming under pressure from their upstream counterparts in the battle for midstream business.
- Smaller insurers, particularly from Lloyd's of London, are rethinking their underwriting strategies. With insufficient capacity to compete on a level playing field with the larger global carriers, some of these insurers may be looking to write deductible buy-down reinsurances for the major leaders, as opportunities to participate on programs on an excess-of-loss basis become increasingly restricted.
- As the softening continues, albeit less vigorously, we are seeing the first signs of a relaxation of certain sub-limits for course of construction, expediting expenses, sue and labor costs, etc.
- As premium income continues to decline, insurers remain apprehensive. Should the loss record continue to deteriorate with more catastrophic losses, it would not take much further loss activity to generate an overall underwriting loss later in 2017.

Price predictions
Slight softening, but may bottom out later in the year

Upstream
- The market continues to soften, but under a cloud. The significant deterioration of the 2015 loss record is damaging back-year results for both 2014 and 2015. In many instances the reserves needed to fund this deterioration have already been used to augment dwindling premium streams.
- The rate of capacity increase may be lessening, but new competition continues to enter this market. Despite the real possibility of future underwriting losses, capacity providers continue to invest in this sector, drawn by its long-term track record and scale.
- Premium income levels are now at a point where underwriting losses are almost a certainty. Only a lack of truly catastrophic losses has prevented the market as a whole from going into the red, while for some insurers hard hit by the recent deterioration that moment has already arrived.
- Meanwhile, the number of insurers prepared to lead business continues to grow. The rate of softening may be decreasing some, but increasing numbers of insurers have realized that they must lead to maintain a degree of control over their portfolios.
- To date, programs that have been tendered have produced the most dramatic rating reductions. Those that feature a good loss record and meaningful premium income have found new insurers as the incumbent markets walk away from the business.
- In contrast, those buyers who maintain market loyalty may still benefit in the long term. Should market conditions change, these buyers will be most protected from any future market upturn.
- In the meantime, cash flow is key. Only when cash flow becomes a real issue is there likely to be any meaningful change in market dynamics.

Price predictions
Continued but decelerated softening, with the potential for an upturn later in the year
As we enter the second year of AIG non-renewals, insurers continue to compete for this displaced business on pricing, while employing creative solutions to the limited availability of engineering data.

Carriers who have expanded their North American footprints with former AIG underwriting staff are now looking for a return on their investment, competing especially aggressively for AIG’s former site pollution and related contractors pollution business.

Changes in underwriting appetites and capacity limitations may necessitate the involvement of multiple carriers to create program continuity and satisfy contract requirements. The limitation of underwriting authority in the field has required significant involvement of senior carrier leadership in obtaining underwriting approval.

The marketplace offers ample choice. Carrier consolidation has slowed and two new carrier entries are looking to write on a primary basis. Carriers approaching five years of successful underwriting experience are expanding capacity, lines of coverage, underwriting staff and geographic reach.

At least two markets are expected to introduce a site pollution + GL product in 2017, expanding the field and likely stemming a hardening market for this product line. As expected, the monoline site pollution market has experienced increased competition (especially for displaced AIG PLL business) and a continued soft market for all but the most difficult site pollution placements.

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.

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.

Increasing claims based on mold and indoor air quality issues in the hospitality/real estate/health care space have resulted in carriers attempting to mitigate this exposure with per-door/room deductibles and other coverage limitations.

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.

Additionally, high-profile claims associated with water quality issues in the higher education, public housing and water treatment sectors have increased the scrutiny of coverages for products liability, sewer backup and lead.

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 the coverage provided by property and casualty policies.

<table>
<thead>
<tr>
<th>Price predictions</th>
<th></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>
Kidnap & ransom SCR

- Buyers with relatively unchanged exposures can expect flat renewal premiums with three-year policy terms. Exposure to highly sanctioned countries (i.e., Iran, Syria, etc.) will bring enhanced scrutiny as insurers ensure compliance with applicable laws and regulations.
- Insurers continue to offer assault/workplace violence coverage via policy extensions to address the threat of active shooters. Business interruption and crisis management support tend to be the drivers behind the decision to purchase this cover.
- The market is moving to limit coverage for cyber-related extortion. This includes restrictive language concerning “other insurance” and decreased limits of liability for business interruption stemming from cyber-extortion events.
- Global overview of K&R risk — The main drivers of kidnap in 2017 will continue to be economic instability, weak rule of law and ongoing conflicts. The anticipated defeat of Islamic State groups in Syria and Iraq will likely bring a reduction in kidnap for propaganda and ideological reasons in the region. The threat of kidnap to both locals and nationals will, however, remain high as a result of the multitude of armed actors fighting in the area.
- Latin America — Economic instability and weak rule are most apparent in Venezuela. Kidnapping rates have increased accordingly with foreigners increasingly targeted. To a lesser extent the same applies to neighboring Brazil. As predicted, politically motivated kidnappings in Colombia have decreased with the reduction in hostilities between the government and opposition groups. In North America, Mexico appears to be backsliding and the extradition of drug lord Joaquin ‘El Chapo’ Guzman to the U.S. appears to be contributing to a renewed wave of violence in the country, which may lead to the fragmentation of previously hegemonic criminal groups and subsequently an increase in opportunistic kidnappings.
- Middle East and North Africa — Rival factions and armed militias continue to struggle for power in Libya, where kidnap will primarily be financially motivated. Throughout the region the threat of Islamist militant groups will ensure that kidnap for ideological reasons will remain a threat in 2017.
- Africa — Nigeria’s deteriorating economy and unrest in the Niger Delta will likely continue to drive kidnap on the mainland as well as piracy in the Gulf of Guinea. The waters in the Gulf of Guinea were some of the most dangerous in the world in 2016; this is likely to continue as criminals look to carry out opportunistic kidnappings. The ongoing existence of ungoverned spaces throughout the region, such as the Lake Chad basin region and the porous borders between Mali, Mauritania and Niger, will ensure that militant Islamist groups, such as al-Qaeda in the Islamic Maghreb (AQIM), will remain a key kidnap threat.
- South Asia — Pakistan, Afghanistan and India remain the highest risk locations. The major kidnap risk in the region will likely continue to be criminal groups, enhanced by concern that criminal kidnap groups will sell their victims to organizations such as the Taliban in Afghanistan.
- Southeast Asia — The Islamist militants Abu Sayaf Group (ASG) pose the greatest kidnap threat in the region, operating primarily in the southern Philippines and the Sulu Sea as far out as Malaysia’s eastern Sabah province. It is likely that the trend of piracy for kidnap, established in 2016, will continue in 2017 as the more radical elements of ASG seek attention and funds in their fight against the Philippine government. In urban areas, Philippine president Rodrigo Duterte’s aggressive war on drugs could lead to an uptick in kidnap as is often seen following drug-related violence.

Price predictions

-5% to +5%

The one thing
Assault/workplace violence coverage continues to be a growing concern for domestic and multi-national organizations.

Contact
Philipp Seel
Special Contingency Risks, Inc.
212 519 7202
seelp@scr-ltd.com

Nicholas Barry
Special Contingency Risks, Inc.
212 519 7201
nicholas.barry@scr-ltd.com

Concetta Longobardi
Special Contingency Risks, Inc.
860 241 4491
concetta.longobardi@scr-ltd.com
The soft market cycle in the marine insurance market continues to create a competitive rating environment for shipowners, operators of ports, terminals and other marine facilities, and for those involved in international logistics or trade involving the shipment of general cargos.

**Shipowners are experiencing another year of reduced rating**, principally driven by continued excess capacity. While some insurers have withdrawn from the marketplace and others are looking to unilaterally change the situation, they have not had any impact on the downward trend so far. With established carriers determined to maintain market share and recent new entrants in a hurry to establish portfolios, the market is unlikely to see increased rates in the near future.

**More insurers are evolving their proposition for ports and terminals to include property damage coverage in a package with liability risks.** This is advantageous for owners and operators, driving efficiencies and costs savings.

**Competition is also intense for other marine liability business.** This is leading to something of an underwriter merry-go-round, as insurers look for the best people to bring in business. This drives up costs for insurers while premiums are softening — putting further pressure on margins.

The marine cargo market remains soft for most general cargo, while insurer margins have been eroded dramatically in the past 18 months for those exposed to Tianjin and other losses affecting cargos or the storage of automobiles, and also those caught out by the pre-launch loss that affected a SpaceX rocket.

Those insurers that avoided these major losses have the opportunity to take advantage of the large premium increases in these subsectors of the cargo market. The challenge for insurers, however, is getting enough general cargo business with a more predictable loss profile to balance the volatility that comes with writing the automobile sector. Capacity has left the cargo market but with little impact on rating at this stage.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price predictions</strong></td>
<td></td>
</tr>
<tr>
<td>Cargo</td>
<td>-5% to -10%</td>
</tr>
<tr>
<td>Hull</td>
<td>-5% to -10%</td>
</tr>
<tr>
<td>Marine liability</td>
<td>Flat to -10%</td>
</tr>
</tbody>
</table>

**The one thing**

With excellent deals in easy reach for most buyers, the challenge will be to select those insurers capable of maintaining their service and claim propositions as margins fall.

---

**Contact**

**Ben Abraham**  
CEO Marine  
+44 (0)203124 7786  
ben.abraham@willistowerswatson.com

**Peter Austen**  
Head of Marine, North America  
610 254 5633  
peter.austen@willistowerswatson.com

**Phil Jacobs**  
Chief Broking Officer Marine  
+44 (0)203124 8877  
phil.jacobs@willistowerswatson.com
Political risk

Since last fall, we have witnessed a surge in anti-globalism rhetoric, protectionism and economic nationalism. Trade deals have either been halted or hotly debated, including the Transatlantic Trade and Investment Partnership as well as the Trans Pacific Partnership. **The implications for emerging markets are not insignificant.** Loss of government revenue due to a reversal of trade liberalization is a potential threat, akin to the effects of the persisting oil production glut.

**Political risk is rising around the globe.** We have already witnessed expulsion and expropriation of more firms in Venezuela, political and economic crises in Brazil, rising tensions in the South China Sea and disturbing nuclear tests by North Korea. The risk, however, is often underestimated by multinational companies. Many insurance buyers report that they may analyze local political risk when entering a new country, but very few have a continuous process for updating that analysis. Despite the rising exposure, the political risk insurance market remains open and competitive due to a continued influx of capital. Rates have not generally increased (except selectively in the riskiest locales) and small decreases are often obtainable. Specific locales to note:

- **Mexico** — President Peña Nieto struggles to maintain legitimacy amid a corruption scandal and worsening economic and security conditions. Strong rhetoric from the U.S. against immigration and NAFTA has caused tensions, and businesses in Mexico are concerned about retaliatory measures.

- **Turkey** — The political and security situation remains uncertain after a failed coup last year and acts of terrorism by ISIS and PKK militants. Economic growth remains slow while concerns about high unemployment and inflation put pressure on budget deficits. Markets continue to approach Turkish exposures with great caution.

- **Venezuela** — President Maduro has created headlines by expelling and expropriating multinational companies operating in the country. In the midst of widespread public protest against the dire economic conditions, the president has resorted to familiar populist measures.

- **Brazil** — President Michel Temer could face renewed opposition on grounds of corruption. Slow economic growth and political reform could result in an increase in protests, potentially violent, due to issues around pension reform, unemployment and corruption. Some markets are beginning to approach their aggregates for Brazilian capacity, especially regarding currency nonpayment and inconvertibility.

- **Middle East** — The Middle East remains in a volatile period of potentially fundamental transition, and the economies are burdened by persistently low oil prices. Clearly this creates a ripe environment for political violence, regime change and sovereign nonpayment.

- **Russia** — Russia's actions in Syria and Ukraine have continued to generate debate about Russia's intentions on the international stage. Putin's hybrid warfare tactics appear to continue, as evidenced in his recent order to incorporate the military of break-away region of South Ossetia in the Republic of Georgia into a Russian armed forces command structure. Meanwhile, the economy is showing signs of marginal recovery as President Putin gears for elections next year. Markets are open on a case-by-case basis for Russian risk.

- **Former Soviet States** — While low oil prices imperil economies, Russian influence may grow in the region. Leadership crises in these countries are imminent as many of the leaders are aging. There have been reports of currency controls in some countries.

- **Ukraine** — Violence persists, as does political instability, rendering reform nearly impossible. Some markets will not write any new Ukraine risk.

- **China** — Several factors could create political unrest, from the volatile housing and equity markets to ethnic and socio-economic struggle. Anti-China rhetoric in the U.S. may cause some flashpoints. Tensions in the South China Sea have escalated.

- **Zimbabwe** — The question of who will succeed President Mugabe has taken center stage. Opposition parties remain weak and too fragmented to assemble a united front. Low commodity prices, mounting budgetary pressures and low growth projections may exacerbate the situation.

- **South Korea** — Nuclear tests in North Korea and especially loud saber rattling have heightened security concerns. The impeachment of President Guen-hye has left a political vacuum.

**Price predictions**

Flat to -2%

---

**The one thing**

With political risks rising, multinational clients should consider buying political risk coverage on operations worldwide — particularly for those countries listed here — while it is still available.

---

**Contact**

Laura Burns
U.S. Political Risk Product Leader
301 692 3053
laura.burns@willistowerswatson.com
While significant capacity remains for contract and commercial surety, we expect the downward pressure on rates to ease somewhat, driven by modest topline premium growth for the industry and a moderate up tick in claim activity. We predict minimal decreases for commercial surety and flat to nominal increases on the contract side.

Preliminary surety premium results as of September 30, 2016 show premium at $4.4 billion and a loss ratio of 15.4%. Compared to 2015 final results of $5.2 billion and a loss ratio of 18.2%, results from 2016 are expected to show growth and manageable losses.

International surety is growing. Reverse-flow business in the U.S. is rising due to acquisition activity and more public-private partnership (P3) opportunities. Leading U.S. sureties are now global, with significant premiums outside the U.S., which improves premium growth and profits. We are also seeing a growing use of surety in place of bank guarantees as well as pay-on-demand facilities for international work (in Australia, Europe, South Africa, Brazil, Peru, Colombia, Venezuela, etc.).

As with previous economic cycles, the current increase in construction activity will put pressure on contractors’ working capital, which will trickle down to subcontractors. The potential for more subcontractor defaults underscores the need for general contractors to emphasize subcontractor prequalification and to consider requiring surety bonds from subcontractors or using a subcontractor default insurance product.

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 sureties continue to work towards addressing this demand for liquidity with the rating agencies and lenders.

Sureties are aggressively pursuing new business as the construction economy continues to recover. The number of sureties competing in the middle market construction market space is at its highest ever, increasing rate competition and capacity within the industry.

As the banking industry continues to stretch to meet capacity needs, we are seeing more opportunities to assist on non-construction financial and performance guarantees. Since surety remains the most cost-effective form of capital, many companies are maximizing their surety capacity to replace letters of credit and release restricted capital at preferred terms.

In 2016, we saw XL Catlin Group exit the global surety industry, taking with it $1 billion in capacity. Global giant Allianz entered the U.S. surety market through its Euler Hermes surety business, bringing $500 million in capacity per account. Tokyo Marine purchased HCC Surety Group to add to its U.S. surety business, which it serves with Philadelphia Insurance Group. The move makes the combined companies the equivalent of the sixth largest surety.

The Trump administration’s $1 trillion plan to renovate U.S. infrastructure will have a positive effect on the construction industry, assuming the funding is confirmed.

A shortage of talent in the brokerage and surety marketplace is an industry-wide concern. Expanding current resources in the surety marketplace will affect a surety’s ability to maintain underwriting discipline.

<table>
<thead>
<tr>
<th>Price predictions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract</strong></td>
</tr>
<tr>
<td><strong>Commercial</strong></td>
</tr>
</tbody>
</table>
Terrorism

- A turbulent political environment and inflamed rhetoric may increase the potential for political violence and terrorist attacks.
- Terrorist attacks in recent months have been carried out by lone wolves inspired by radical ideology operating with less sophisticated weapons, including readily available small arms, homemade explosives and vehicles to ram crowds. **Changing tactics mean risk transfer tactics must adapt as well.**
- **Guidance from the Department of the Treasury has provided clarity in defining the scope of the Terrorism Risk Insurance Act to include property and casualty losses as a result of cyber terrorism attacks, fostering the expansion of captives to address these perils.**
- Traditional active shooter/active assailant products are now being broadened to include all weapons which are handheld or hand operated (such as vehicles). Thus, take-up rates in terrorism liability products are increasing, as policies are being tailored to address both the trucking and transportation sectors.
- Parametric products continue to develop, addressing the disruption to revenue streams as a consequence of a terrorism event that causes loss of attraction to a key property — even if that property is not the target of the event.
- With expanded activity in the U.S. construction sector in 2017, there has been increased focus on coverage for the impact of protestor disturbances and third-party strike action without the need of a physical trigger. **This is fostering the development of new business interruption and delay in start-up coverages.**
- Insurers have broadened the nuclear, chemical, biological and radiation (NCBR) trigger to include malicious acts, rather than definitive terrorism, and the overall increase of capacity within the stand-alone terrorism market has grown, bringing about rate reductions in this specialist area.

### Terrorism capacity

![Graph showing terrorism capacity from 2010 to 2015](chart)

- **Property Terrorism**
- **PV**
- **Liability Terrorism**
- **NCBR**

### Price predictions

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

The one thing

Keep an eye on new methods and products for mitigating this evolving risk, e.g., the inclusion of cyber terrorism.

Contact

**Wendy A. Peters**  
Terrorism Practice Leader  
610 254 7288  
wendy.peters@willistowerswatson.com
Trade credit

The one thing
Abundant marketplace options continue to minimize rate increases, but if economic conditions deteriorate, organizations with trade credit exposure will want to have trade credit insurance in place rather than to be looking for it.

- New (and credible) carrier entrants into the U.S. marketplace are now firmly established and eager to meet revenue goals, while established insurers are aggressively protecting their client base. Insureds are benefiting, with stable renewal pricing and robust buyer underwriting support.
- Global and domestic bankruptcy claim filings and past-due notifications are up slightly in 2017, but at levels lower than insurers had anticipated, enabling carriers to offer feasible premiums, attractive policy terms and robust coverage to buyers in most industry sectors.
- The current uncertain global trade landscape combined with the mostly buyer-friendly marketplace is generating interest in trade credit insurance from companies that have not considered it before.
- Carriers are now looking for business in some challenging industry sectors and higher risk countries that have recently stabilized — sectors and places they were avoiding, such as oil and gas, commodities, Latin America, etc.
- Trade credit insurance continues to support asset-based lending, receivables purchase programs and securitization wraps as companies monetize their receivables, while banks look to enhance their collateral and risk assumed.
- Many trade credit insurers are recognizing that the painful memories of bad debts and lost business in the Great Recession have faded in the minds of many business leaders. To enhance their products’ appeal, those insurers are adding and improving services, at no additional cost, to the credit insurance protection provided. This includes maximizing the value of receivables, supporting revenue growth, enhancing credit and collection management, etc.

Price predictions

| North America | Flat to +5% |

Contact

Scott Ettien
Trade Credit & Political Risks
Willis Towers Watson FINEX
212 915 7960
scott.ettien@willistowerswatson.com
About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.