2016 Insurance Market Outlook

Insights from our national practice leaders
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Despite an environment of rate reductions and low investment returns, commercial lines insurance appears to be on track for positive underwriting gains and a decent combined ratio. This is due to a favorable loss environment overall and the lack of multiple catastrophic property losses. Industry surplus remains high and will continue to be deployed in a number of ways, including new coverage offerings and mergers and acquisitions. Although global economic conditions indicate the beginnings of a slowdown in GDP, there was continued premium growth in 2015. Additionally, after much deliberation, the Terrorism Risk Insurance Act was renewed in early January. It doesn’t expire until the end of 2020, which gives the industry some breathing room until the end of 2020, which gives the industry some breathing room for years to come, as well as time to develop a better-capitalized, stand-alone terrorism market. The biggest surprise in 2015 was the significant merger and acquisition activity highlighted by the mergers of ACE-Chubb and XL-Catlin, among other high-profile large insurers and reinsurers.

For 2016, barring any catastrophic events of significance, we expect the above trends to continue for a majority of industry classes and coverage lines. Rate decreases are expected in the mid to high single-digit range for most lines of insurance as new and existing capital is deployed into the property and casualty (P&C) marketplace to compete for business. Other highlights and trends to watch in 2016 include:

- GDP growth, although expected to slow in 2016, should lead to higher revenues, payrolls, and property values on which insurance premiums are based. This will help offset some of the premium lost by insurers through year-over-year rate reductions.
- Moderately rising interest rates will provide an environment in which higher investment returns will be possible for insurers.

Executive summary

As predicted in the 2015 Wells Fargo Insurance Market Outlook, 2015 was a buyer’s market for both property and casualty commercial insurance and affiliated lines. The majority of insureds experienced medium to high single-digit to low double-digit rate decreases across a broad range of coverage offerings. These insureds also benefited from broad coverage, the terms and conditions offered, and abundant capacity.

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• The continued focus on data analysis to develop more sophisticated and accurate predictive patterns and trends of losses (mainly workers’ compensation, but also other P&C lines), is seemingly advancing monthly. Insurance companies, brokers, third-party administrators, and other vendors are increasingly utilizing claims data as an underwriting tool, a means of loss control, and as a tool for more timely and efficient claims handling. In addition, it’s being used to help their client base assess demographics and potential loss exposures from a micro-level perspective. It remains to be seen, however, if the data being utilized in these varied analyses are clean, interpreted objectively, if the conclusions being drawn are accurate, and if recommendations are being implemented properly.

• Surplus capital will continue to be deployed by markets into existing and emerging product lines.

• As profitable organic growth is becoming increasingly difficult to achieve, the trend for mergers and acquisition in the insurance and (re)insurance market will continue to drive cost efficiencies, increase product line offerings, provide for a global geographic footprint, and increase market share.

• Alternative capital, especially in catastrophic property, will continue to attract investors and impact traditional reinsurance market offerings. In addition to an alternative for insurance companies, we anticipate more corporate insureds utilizing alternative capital.

• In an expanding virtual world, high-profile data breaches will likely become a weekly event, increasing the focus on cyber insurance and reputational risk.

• Larger, guaranteed-cost programs or low-deductible programs will continue to be a challenge to the underwriter, especially workers’ compensation, as well as insureds with heavy auto fleets and clients exposed to cyber risks.

• We are expecting more insurers to offer multi-year deals in order to lock customers in at competitive rates.

• The impact of the Affordable Care Act on workers’ compensation insurance and vice versa is a subject that will likely begin to receive a lot more attention in 2016. With the rollout well under way, coupled with the failings of numerous health exchanges, it remains to be seen if cost shifting from traditional health insurers to workers’ compensation insurers (and vice versa) will become a phenomenon the industry must address head-on.

As these conditions extend through 2016 and beyond, we believe underwriting profitability will be sustained in spite of rate reductions and the industry will likely continue to attract new capital, resulting in the continuance of a buyer’s market. Of course, major natural catastrophic property events and/or rising tensions via geo-political risks across the globe could result in events that negatively impact the insurance market. The global exposure to terrorism remains very real and has the potential to escalate into events that have global impact.
### 2016 Market Outlook premium trends forecast

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<td>Cyber</td>
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<td>Contract surety</td>
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Property

Much like the past several years, the global property insurance marketplace continues to be extremely competitive, from a pricing, terms and conditions, and available capacity perspective. 2015 has proved to be a benign period from an insured loss standpoint and many carriers continue to fight for market share. With plenty of working capacity available, this competitive environment should continue into 2016 and for the foreseeable future.

The market today

- The market is characterized as extremely stable and capacity rich. 2012 through 2015 have been profitable for commercial property carriers from a macro perspective and it appears that 2016 will see rate reductions and continued abundant capacity. As a result, we expect that insurers will be very competitive in 2016, with continued single to low double-digit price/rate reductions available to most commercial property insurance buyers.

Market capacity

- New capacity and capital have been injected into the global property marketplace, much as we experienced in the past few years.
- Most of the new capacity from carriers is being deployed on large layered and shared programs, frequently forcing incumbent markets to offer significant increases in authorized line sizes with the goal of holding their current program participation and/or increasing market share.
- Earthquake, flood, and named windstorm capacity have increased since January 1, 2015; however, California earthquakes and high-hazard floods are the driving forces behind the deployment of total capacity that any particular insurer will provide.
- Capacity for stand-alone terrorism coverage is widely available with approximately $1 billion to $1.5 billion available in the global marketplace.

Topical issues

- There is an increased opportunity of securing multi-year program terms as many carriers are trying to level off the continued softening of property rates. Many of these agreements are put into force with preset declining rate agreements.

- With the extension of TRIA/TRIPRA through 2020, coverage for terrorism is widely accessible, except for properties that are seen as potential targets (i.e., malls, power plants, and sports stadiums) and those that are located in very large metropolitan geographies (i.e., New York, Chicago, San Francisco). The overall take-up rate is somewhere around 70% and the rates range from 0% to 5% of the commercial property premium.
- RMS version 15 (V15) was released in 2015, but markets have been slow to transition to full utilization. The newest modeling software incorporates updates to long-term historical rates, a new medium-term rate forecast for the following five-year period, as well as the results from Superstorm Sandy’s claims data and analysis. The release also includes improvements to the modeling of coastal flood losses on commercial building and further analysis on the potential impact from vehicles, which was severely underestimated for Sandy.
- This year saw reduced pricing and increased availability for named windstorm and storm-surge coverage.
- Earthquake coverage is plentiful and continues to experience price reductions.
- High-hazard flood continues to be scrutinized and underwritten carefully.
- Alternative capital — especially for catastrophe (CAT) property coverages — will continue to increase overall market capacity.
- The growth of alternative capital, particularly in the form of catastrophe bonds and other collateral-backed vehicles, now accounts for a noteworthy portion of overall reinsurance capacity, and most primary retail market carriers are purchasing significantly less reinsurance.
- Further easing on global CAT treaties will become effective January 1, 2016.
• Insurance to value (ITV) continues to be important for global property carriers.

• Accounts that have 100% of their property in Oklahoma or other states that are in “tornado alley” will continue to be challenging for carriers and pricing for these areas will not follow the general market downward.

• Multi-family habitational accounts (frame construction) will continue to pose challenges from a pricing and availability standpoint.

Forecast for 2016

• The property insurance market is extremely well capitalized and rate reductions will be achievable in almost all risk classifications. Companies without recent or historical losses and with above-average construction and acceptable fire protection features will continue to receive the most favorable results.

• Accurate, high quality underwriting data will further enhance renewal outcomes, with insurers remaining disciplined as profitability is crucial. Modeling (RMS/AIR/Blended) will continue to affect capacity and pricing guidelines. By having the most comprehensive data (including secondary modifiers), insureds will better understand their true risk profile and achieve positive renewal outcomes.

• From a cost of capital perspective, catastrophic property pricing may be getting near a floor when carriers have to consider required returns and expenses incurred. Although there remains an abundance of capacity, the models along with these capital requirements may slow some of the decreases in that arena.

• Many are questioning what might change the “softness” of the property market going forward. Most believe that it will take an event(s) totaling more than $100 billion to shift the market from its current conditions. Additionally, a sharp rise in interest rates may lure some of the alternative capital away from the insurance marketplace, potentially shrinking some of the available capacity.

• Overall, we expect the property market to continue to realize reductions, generally ranging from 5% to 15% on average.

*The property insurance market is extremely well capitalized and rate reductions will be achievable in almost all risk classifications. Companies without recent or historical losses with above-average construction and acceptable fire protection features will continue to receive the most favorable results.*

Any reductions are predicated on positive/favorable loss experience. Accounts with loss frequency and/or severity issues will continue to be evaluated carefully and many may not see pricing in line with peers that have better experience, construction and exposures. Also, accounts that received substantial reductions in 2015 may not be afforded renewal reductions to the same magnitude in 2016.
Liability

In 2015, we have seen continued heavy competition, increased capital flooding the market, and underwriting results improving overall. These factors, combined with a growth in specific segments of our economy, have helped sustain improved pricing in the liability segment of our business. Some exceptions still exist, however, in the more challenging industries — those with more long-tail exposure to loss and/or extreme severity issues (examples being life sciences, chemical, and energy industries). Even with more underwriting discipline and predictive modeling helping the actual underwriting process, we can expect competition to rule the day from a pricing perspective.

The market today

• Primary liability continues as it has in the past few years, with capacity remaining high and competition for premium dollars carrying the day.

• Automobile liability has not seen the same level of pricing pressures and competition as primary general liability and umbrella/excess liability. The market remains quite competitive for clients with substantial fleet safety initiatives and positive loss experience. Retentions are generally moving upward, with the exception of “best-in-class” risks.

• The umbrella/excess liability market remains very competitive from a pricing perspective. Markets are finding themselves providing lower single-layer limits, and prefer some ventilation to extend their full complement of limits. This reduction in single-layer limits is an effort to secure a more realistic premium per million of limits.

• Lead umbrella capacity remains strong as new insurers enter the market with a willingness to participate. Lead umbrella insurers are looking to reduce single-layer limits in an effort to improve their price per million over their entire book of business.

• Excess liability capacity continues to be plentiful. However, pricing per million, particularly on the upper layers, is reaching minimum levels, thereby decreasing the pace of rate/premium reductions in the higher excess layers of a client’s program.

Topical issues

• Clients need to continue to conduct necessary analytics of their losses and premium in order to better assess and secure the optimally priced program design. This is true for guaranteed cost and lower deductible programs as well as larger loss-sensitive program designs.

• We are still seeing insurers being aggressive when trying to secure additional market share and new clients. However, insurers have become more disciplined in their underwriting approach, and therefore are offering some of their best terms to both existing and long-standing clients. Multi-year deals are also still available.

• Creative, alternative risk options for legacy risks (known and unknown) are worth exploring, as the new capital and capacity are looking for a place to participate.

• Alternative forms of collateral will be more available. Cost of collateral from financial institutions will increase due to legislative accounting rules, causing a restriction of LOC availability, particularly for risks with weaker financial ratings/ratios.

Market capacity

• General liability remains flush with capacity, as capital continues to pour into the insurance marketplace.

• Automobile liability capacity remains robust, but is engaged with more discretion on larger fleet risks.

• For products liability on a stand-alone basis, the market remains limited, with only a select number of insurers willing to compete aggressively on risks for inherently difficult product lines and/or severe and volatile loss experience.
Forecast for 2016

Primary casualty

- Insureds with higher retentions will continue to see competitive softening of the market, probably flat to a 10% decrease. Insureds with heavy fleet exposures will experience a smaller decrease of probably less than 5%; those with poor loss experience will see elevating retentions or 10%+ increases.
- Guaranteed cost programs should experience a range of 5% increase to 5% decrease.

Umbrella/excess liability

- Lead umbrellas are still competitive and we expect the new lead capacity to continue this trend during 2016, though with less of an overall reduction. Expect flat pricing to a 10% decrease, but also expect an effort by the market to raise attachments for auto liability on tougher auto fleets.
- Excess liability rates are expected to vary based upon the level of the layer; we expect mid-limit layers to experience a continued rate decrease of 5% to 10%, with rates for upper layers leveling out at their current minimum premium per-million level.

The market for 2016 will remain very competitive; insurers are working diligently to differentiate themselves with improved service and enhanced coverage terms by using improved technology platforms.
Workers’ compensation

2015 showed little change over the past few years in workers’ compensation (WC) trends, and we continue to see a reduction in premium rates overall. However, there continues to be underwriting discipline for those clients that have experienced poor loss results and declining financials, and that reside in more difficult industry classes such as energy (oil and gas), chemical, life sciences, and heavy construction. Additionally, carriers are seeking higher retentions as the result of loss severity activity or in circumstances where clients are pursuing greater premium savings. The combined loss ratios are decreasing slowly, but due to continued low interest rates resulting in fairly stagnant investment income opportunities, the cash flow underwriting mindset remains something of the past.

The market today

- There is still plenty of competition for premium dollars, which continues to drive desirable pricing, particularly in the loss-sensitive program design arena.
- Increased retentions will be more prevalent due to increased underwriting discipline and stronger claims (pre- and post-) mitigation exercised by clients.
- A greater number of markets will give more consideration to unbundling claims service.
- Guaranteed cost is a less attractive option for clients who are not driven by absolute budget certainty or balance sheet variability. This is driven by clients with an improving tolerance for risk, and also many WC carriers in response to the continued medical cost inflation, statutory benefits escalation, and the encroachment of employee benefits claims into the WC coverage area.

Market capacity

- Capacity remains robust and shows no signs of being reduced, even with recent mergers and acquisitions (M&A) activity within the property and casualty (P&C) world.
- Specific industries are experiencing a reduced capacity and smaller marketplace from which to secure alternatives, mainly due to loss severity and volatility.
- Dialogue continues in various states regarding non-subscriber options, but for states such as Oklahoma that have fairly recently offered this alternative, they are not seeing the same success or participation level as Texas. However, additional states (Tennessee, South Carolina) have either recently introduced opt-out legislation or are giving it serious consideration (Georgia).
- Guaranteed-cost capacity is still available, but is lessening for clients with volatility and severity in their losses. However, we are seeing new carriers moving into the guaranteed-cost arena, replacing capacity lost from some of the traditional carriers who are reducing their guaranteed-cost writings.

Topical issues

- Pre- and post-loss mitigation and proactive claims reserving and resolution are becoming more prevalent. This enhanced strategy is being undertaken in an effort to mitigate continued medical cost inflation, increasing severity, and increasing levels and cost of collateral.
- Alternative forms of collateral to the usual letters of credit (LOC) are becoming more robust in an effort to address the decreasing LOC capacity. Some alternative forms of collateral are trust or pledge of security, surety, buy-downs, and advance future paid loss credits (based upon client’s financial strength).
- We expect clients to continue to receive pricing, retention, and collateral benefits from their incumbent carriers based upon the loyalty and longevity they have shown those carriers.
• We are seeing more M&A activity in the P&C marketplace, which is somewhat overshadowing the increased capacity driven by new capital (investment alternatives); the reinsurance market is overflowing with capacity.

• We are seeing medical cost inflation elevating WC claims costs. The average monthly inflation rate for the first eight months of 2015 has been 2.58%; the highest monthly increase of 2.9% was in April.

• Internal reserve strengthening for older policy years, combined with an increasing concentration on predictive modeling by all carriers, is having some adverse impact on pricing. That being said, the market is still showing a competitive nature.

• As much as self-insurance remains an alternative for workers’ compensation, we are seeing states become more conservative on their collateral positions for many qualified self-insureds. Additionally, the more onerous costs associated with exiting self-insured status have caused many companies to view this option more closely.

• Analytics relative to past and future loss data are becoming more prevalent, and are an absolute necessity to intelligently negotiate optimal pricing, program design, and collateral. Predictive modeling has always been explored and used to a degree, but now is a key underwriting tool in the industry.

Forecast for 2016

• Pricing will be driven by maintaining or increasing market share — expect underwriting discipline to still carry the day, but for attractive clients with good risk profiles and/or loss experience, competition will remain strong.

• We expect to see continued upward movement of retentions due to increases in claim development/severity.

• Carriers will pay more attention to a client’s pre- and post-loss mitigation activities as one of the key underwriting factors. These activities are seen as a measurable effort to slow loss development.

• We expect pricing for loss-sensitive programs to be flat to down 10% for clients with clean and/or improving loss experience. Clients with deteriorating loss experience will see pricing that ranges from flat to up 10%.

• Guaranteed-cost programs will be flat to up 10% or more; exceptions will be for clients with extremely clean loss experience. Guaranteed-cost pricing will also vary by a client’s specific state payroll distribution, due to states’ legislative pressure on adequacy of rates.

Solely reducing premiums to secure additional market share is not a sustainable strategy at the current investment return rates — premiums can go only so low before the return on capital no longer makes sense.
International

In 2015, we continued to see global commercial insurance rates decrease by 5% to 8% on average. This is the third year in which we have seen a consecutive annual decrease, mainly driven by continued surplus capital levels and no major catastrophic losses.

The market today

Carriers vying for business growth are more apt to allocate their capacity for extremely competitive pricing toward insureds that have better-than-average risk management practices in place and that are able to provide documented exposure data. Effective documentation of best-in-class risks allows the carriers to be more secure in their supporting fair market value premium allocation with lower rates. Insureds with appropriate risk practices and good loss histories will be positioned to benefit most from the competitive rate environment.

The largest rate decreases seen were in Asia-Pacific, followed by Europe, and then Latin America.

**Europe** — Insureds with moderate risk exposure who are marketing their programs seem to be enjoying the positive rate offers, while those who look to renew with their incumbent carriers are seeing flat to moderate pricing decreases.

**Cyber risk insurance** — This coverage is becoming more sought after for organizations throughout EMEA due to the increases in posted cyber threats, although the uptake of this coverage by insureds is not as aggressive as expected.

**Australia and Pacific Rim** — Property rates continue to hold stable due to fewer catastrophic losses.

**Canada** — The property and casualty insurance market will continue to see moderate rate decreases, with property coverage seeing, on average, 5% to 8% rate decreases.

**Latin America** — The economic position of some countries is contributing to rate increases for certain lines of coverage, such as financial lines. Countries mainly affected are Argentina, Brazil, Peru, Puerto Rico, Venezuela, and Uruguay.

Market capacity

Although there has been some consolidation of carriers, this has not affected market capacity, and with very few catastrophic losses impacting the balance sheets, we are seeing growing surpluses and new markets entering to solicit global programs.

Property and casualty rates, depending upon geographic location and business class, will continue to decrease moderately at 5% on average.

Topical issues

- Insurance premium tax increases seen overseas:
  - Canada — Premium tax increase (Alberta)
  - Greece — Increase in insurance premium tax rate
  - India — Increase in service tax on insurance premiums and broker fees
  - Indonesia — Restriction on non-admitted insurance and new property tariff rates
  - Malaysia — Goods and services tax
  - Malta — Stamp duty on premiums increased from 10% to 11%
  - Serbia — Non-admitted insurance prohibited
  - Slovenia — Premium tax increased from 6.5% to 8.5%
  - South Korea — Property tariff rules changed
  - Turks and Caicos Islands — Tax repealed on insurance and freight
  - United Kingdom — Increase in insurance premium tax rate from 6% to 9.5%
More risk managers are considering terrorism and political violence coverage due to the growth in terrorist organizations and their attacks. Recent ones include the shootings at a French satirical magazine in Paris, an attack on tourists at a national museum in Tunisia, armed assailants attacking a shopping mall, and an attack at a university in Kenya. Certain EU countries are concerned about the acceptance of refugees from unstable Middle Eastern territories, fearing this may facilitate the growth of terrorist activities in their countries.

Forecast for 2016

Primary casualty

- Guaranteed-cost programs should experience a 5% to 8% decrease.
- Property programs should experience a 5% to 8% decrease.

The market for 2016 will remain competitive; insurers will focus on best-in-class risks and exposure documentation.
Environmental

The environmental insurance marketplace remains incredibly competitive with premium decreases in most coverages, at least 40 carriers in the marketplace, and more than $600 million in capacity. Even with the ACE/Chubb and XL/Catlin industry mergers over the past year, pricing for the more “vanilla” site liability placements remains stable or is decreasing. Competition for contractors’ pollution liability placements is even more aggressive, especially for more routine contractors’ risks, driving premiums to all-time lows.

The market today

- Stable and highly competitive.
- About 40 insurers.
- Innovation: Wells Fargo has worked with Hiscox to develop a new and unique liability coverage for California Proposition 65 liability for six plasticizers. Our goal is to expand the product in the future to insure companies engaged in the product supply chain for many of the 850 chemicals on the Proposition 65 List. The new coverage was offered in the marketplace in October 2015.
- We believe today there is great opportunity in the marketplace to create new environmental products.

Market capacity

- More than $600 million.
- Three trends have converged to make today’s market strong and vibrant:
  - The continued boom in real estate transactions, mergers, and acquisitions
  - Risk managers are more familiar with environmental insurance
  - Environmental carriers with seasoned underwriters are more aggressive in price and coverage. Year-over-year demand has increased 20% to 30%.
  - Environmental site liability: This coverage remains aggressive. Some carriers will write coverage for property transactions, redevelopments, and portfolios of properties for up to 10 years, depending on the nature of the properties. Most will write coverage for five and seven years.
- Contractors’ pollution policies: These policies are equally aggressively priced. Most carriers have had great success with this line of coverage. Losses have been much lower than site liability policies, and the risks typically are better defined.
- Combined contractors’ and professional: There are many carriers in this space so pricing is very aggressive. Ironically, one of the carriers that has been writing combined CPL/Professional for many years, recently announced it would no longer offer the product.
- Lender liability coverage: This marketplace is vibrant, with many lenders insisting on coverage as a requirement for issuing a loan. At least four markets offer lender liability policies. However, with many borrowers realizing that the coverage they are purchasing for their lenders provides no protection for them, a few carriers are offering hybrid site liability/lender pollution policies. These policies are tailored to provide meaningful coverage for the borrower and coverage with no restrictions for the lender in the event of default on the loan.
- Combined general liability/pollution policies: At least 10 carriers are offering these policies, and they are focusing on niche industries. Many manufacturing and industrial firms are realizing the combined form is instrumental to providing pollution products coverage. Pricing remains competitive, although one of the largest carriers is seeking increased premiums.
- Energy risks, power and utility risks, and mining risks: These industries have significantly less capacity available to them, with carriers generally not willing to write more than a one- or two-year term.
Topical issues

- Vapor intrusion: Vapor in the soil and groundwater from historical dry cleaners and gas stations continues to be a significant issue for real estate transactions and portfolios. Some carriers are experiencing heavy losses with vapor intrusion-related claims. With environmental consultants more commonly raising the vapor intrusion issue in Phase I environmental site assessments, underwriters are applying more scrutiny and exclusions for this risk.

- Cost cap/liability buyouts: Despite two carriers announcing in 2011 through 2012 that they were offering cost-cap policies, the industry believes that no policy has been written because the product is cost-prohibitive and policy restrictions too onerous.

- Legionella: Carriers have reported increased legionella claims from student housing, hotels, and residential buildings. Some insurers are asking for legionella operations and maintenance plans, in addition to mold operations and maintenance plans as a prerequisite to coverage.

- Claim frequency and severity: Insurers continue to see increases year over year. Losses from dry cleaner contaminants and underground storage tanks are most prevalent, but carriers are experiencing losses on all types of risks: healthcare, hospitality, manufacturing, transportation, and other risks.

- Global environmental policies: Demand for global environmental risk policies continues for companies with operations overseas. Environmental laws are becoming increasingly stringent worldwide, with many patterned after laws in the U.S.

Forecast for 2016

Rates will be fairly stable, but vary by coverage line. Specifically, we predict:

- Pollution legal liability: Flat to 5% decrease
- Contractors’ pollution: Flat to 10% decrease
- Combined general liability/pollution: Flat to 5% increase

Three trends have converged to make today’s environmental insurance market vibrant:

- Continued boom in real estate transactions
- More familiar risk managers
- Larger pool of aggressive underwriters
Aviation

Will this market ever change? 2015 is shaping up to be a flat, stable year in the aviation insurance arena that continues to be a buyer’s market. After a tumultuous 2014 that saw record losses, many expected 2015 to be fluid with price increases and underwriting changes. At this time, the very important fourth quarter renewals for large accounts in London are just seeing negotiations, so limited information is available to predict any upcoming changes. However, looking at the large months of April and July, renewals met with little change in premium and the market continued to be status quo. If a year of tremendous loss doesn’t affect pricing in a dramatic way, many people wonder if the aviation market will ever change.

The market today

• Losses to date have been moderate and, if the trend holds, this will turn out to be an average year. The market losses as of July bring the combined 2015 hull and liability loss figure to around $700 million.¹

• Industry growth is positive with new manufacturer orders and growing passenger numbers on track with global economic recovery.

• Underwriters’ hopes of achieving increases in 2015 based on the losses of 2014 have not been realized.

• Carriers are aggressively competing for market share on most lines and will pull out all stops to underwrite “blue chip” accounts that have limited losses and good management with a solid safety mentality.

• Brokers are able to place major risks comfortably and competitively, with many markets quoting lower premiums than ever.

Market capacity

• Capacity is abundant and continues to be a tremendous factor in driving premiums down.

• New Lloyd’s syndicates are writing aviation over the last year and a half.

• Capacity is still the driving factor behind risk pricing, even with QBE and the Hardy syndicate leaving the London aviation market in the last year.

Topical issues

• The products/completed operations sector of the market continues to be immune to loss over the last few years, so the overall book of business is profitable. Total premiums for that sector are nearly $680 million.

• The airport sector, including air traffic control (ATC) risks, is also riding on low losses, with high capacity. Passenger numbers are up, but some have seen reduced overall movement, which suggests airlines are seeing increased passenger load factors. Total premiums for this sector are included in the products sector premium shown above.

• General aviation is still seeing reductions in premiums and the number of carriers competing for market share. Premium reductions of 5% to 10% from expiring are not unusual on a risk with low loss levels. Total premiums for general aviation are nearly $3.5 billion.

• The airline sector remains much the same as in 2014, with accounts showing fleet growth and strong safety programs receiving rate reductions in the market. Total premiums for airlines are nearly $1.4 billion.

• The war hull and liability market premiums are around $220 million, stable, as in prior years, despite 2014 having the single largest hull war loss since 2001.

Forecast for 2016

The market experienced a rough start of losses in 2015 with the Trans Asia ATR72, Delta MD88, German Wings A320, Asiana A320, Turkish Airlines A320, and the British Airways B777, all of which will likely end up as total losses. Despite this, none of these has had an effect on the 2015 market to date, and they are projected to have little to no effect on the 2016 market. The 2016 forecast remains stable with the lowest premiums ever seen and the most capacity in many years.

* A disastrous year of losses in 2014 with no effect on 2015 pricing has many asking, “What will it take to shake up the aviation insurance market?”
Public company directors’ and officers’ liability

The “buyer-friendly” market continues unabated with seemingly no end or correction in sight. Pricing, retentions, and scope of coverage certainly favor the client with limited exceptions.

The market today

• The rate environment is very favorable. Most clients are seeing flat pricing on primary placements, but modest to more meaningful reductions on excess and Side A difference in condition layers, where the underwriting competition is particularly vigorous. Notably, rate reductions became even more pronounced in the latter half of 2015.

• Coverage terms and conditions are flexible and highly negotiable as carriers seek to differentiate through offering superior coverage.

• “Minimum premiums” for both excess capacity and Side A towers continue to erode.

• Tentative market interest exists in offering multi-year deals.

Market capacity

• National industry-wide market capacity for public company directors’ and officers’ liability (D&O) of well more than $1.5 billion vastly exceeds actual client demand.

• Recent carrier consolidation (e.g., ACE/Chubb, XL/Catlin, and Tokio Marine/HCC) has not had any impact to date on overall market capacity or underwriting competition.

• Allianz re-launched as a new market participant in 2015. New capacity also entered the market from London.

Topical issues

• Securities class action filings and settlements remain fairly constant relative to historical norms.

• Greater attention is being paid to the rise in severity of “mega-derivative” claims, which may lead to further adverse industry losses on Side A towers.

• M&A transactions continue to be a key driver of D&O litigation.

• Clients continue to focus on improving their coverage quality, especially in regulatory investigations coverage.

• Recent notable data breach events are getting a lot of attention in the boardroom. We have not seen any efforts by insurers to restrict coverage for D&O claims arising from such incidents.

• Increased client awareness and implementation of globally compliant D&O programs through the placement of locally admitted policies.

Forecast for 2016

Short of a very significant event outside the D&O insurance universe, it’s difficult to contemplate anything other than a continuation of the present market state.

The market remains soft — clients should take advantage of improved coverage quality and pricing.
Fiduciary liability

The fiduciary liability market continues to be very competitive with abundant capacity. Insurers have a keen interest in underwriting this line of coverage and overall pricing has improved. Many clients see rate reductions reflected in program premiums as expiring on average, with some programs seeing slight reductions of up to 5%.

The market today

- Fierce competition with underwriters and a strong desire for new business is leading to favorable results for buyers, absent any particular risk profile challenge, such as claims.
- Insurers are willing to negotiate terms and provide enhancements to coverage.
- Underwriters are keeping an eye on ERISA litigation trends, especially excessive fees cases. To date, these cases have not impacted capacity or pricing.

Market capacity

- Capacity continues to be abundant with more than $1 billion in theoretical limits. However, the likelihood of insurers offering full capacity on risk remains low, as there is uncertainty as to how ACE’s acquisition of Chubb will impact overall capacity, as well as its ability to continue on large towers where both insurers participate with significant limit.
- Allianz is a new player in the U.S., offering excess capacity now, and will likely seek to quote in 2016.
- Insurers continue to monitor aggregation of limits with other management liability lines.
- No change with leaders in this product line: AIG, Chubb, Travelers, and CNA continue to have a large share of this market.

Topical issues

Insurers are revising their policy forms to include many enhancements that may have previously been available only by endorsement.

- Full settlor coverage is readily available where it had been limited in the past (defense only in some cases).
- Advance defense costs within the retention, even if the insured entity fails to indemnify for reasons other than financial impairment.
- Amend subrogation clause to address whether the insurer will not subrogate against an injured person.
- Address whether a higher retention for employer securities claims applies to loss as a result of a plan’s alleged excessive fees within a fund that holds employer securities.

Forecast for 2016

Flat to down 5% in 2016, except for those risks with a significant change in exposure.
Private/non-profit management liability

After several years of coverage constriction and rate increases, the private and non-profit management liability market has stabilized as most carriers have corrected their book for risk profile and product mix. Rates have remained steady for most accounts, although companies with challenging risk factors are still seeing both premium increases and coverage restrictions. Many companies have found this to be a good time to review limits adequacy since additional capacity is very affordable.

The market today

With so many carriers in the marketplace, competition remains strong, but most underwriters are doing all they can to retain their clients. As a result, movement between markets has become more challenging. With new areas of exposure having such high visibility, many companies are exploring risk transfer products, including reputation risk, impostor fraud, and independent director liability. Many organizations are taking a more holistic approach to their risk management strategy, which serves as a differentiator in the marketplace.

Market capacity

• There is abundant capacity.
• Numerous carriers continue to compete for the most attractive risks.
• New contenders as several markets broaden their appetite in the private/non-profit space.

Topical issues

• Impostor fraud has been one of the hottest topics since early last year. Coverage for this exposure didn’t really exist until late 2014, but with the explosive number of losses, virtually all carriers now offer some coverage, usually subject to underwriting around internal controls.

Forecast for 2016

• The long-looming concern over regulatory actions following a data breach gained traction during the last year. There were several judicial rulings allowing actions, and even fines, by regulators against companies who had previously had a breach.
• Merger and acquisition activity remains at a very high level, and claim trends continue to confirm this is a large area of exposure.
• Exposure to active regulatory bodies continues.

The focus on crime risk is at an all-time high due to many companies being targeted for impostor fraud.
Employment practices liability

If you have employees, you have an employment practices’ liability exposure. The U.S. Equal Employment Opportunity Commission (EEOC) is very active, with 53 locations around the U.S. The EEOC has filed almost 100,000 charges against employers each year for the past three years, so any organization could face an allegation that might result in costly litigation. The procurement of insurance to protect oneself, and an organization, from these types of actions should be a standard consideration in any risk management program.

The market today

• The market has become more stable.
• Problematic states are: California; New York; Texas; New Mexico; Washington, D.C.; Nevada; Alabama; and Florida.
• Most carriers require higher retentions for employers with employees in California.
• A limited number of carriers will provide a small defense sublimit for Fair Labor Standard Act claims.
• Protected classes keep growing, increasing the potential for more actions to be brought against companies.

Market capacity

• Plenty of market capacity.
• Most carriers prefer non-profit/private company risk to public company risk.
• Smaller employers have more favorable retentions and rates.
• Mono-line Fair Labor Standards Act policies are available.
• Expect carriers to continue to innovate with new products and terms to gain market share.

Topical issues

• Fair Labor Standards Act claims.
• Pregnancy discrimination.
• Illegal background checks.
• Unpaid interns.
• Genetic discrimination.

Forecast for 2016

• EEOC remains active.
• Average defense expenses are increasing.
• Choice of counsel remains a key element to negotiate in the placement.
• Timely notification of claims is important.
• The pricing and retention adjustments experienced in the years after the recession have appeared to even out.

Even with problematic areas in the country, the employment practices liability market is stable, although with some areas of softness.
Crime

Crime insurance has been able to garner significantly more attention in 2015 than in prior years. While vendor fraud associated with employee dishonesty continues to be the largest source of claims, the emerging trend of impostor fraud has created heightened focus on this product and the discipline of underwriting.

The market today

- Relatively flat/stable rate environment, although rates associated with impostor fraud may increase.
- Competition among carriers keeps rates stabilized.
- Employee dishonesty continues to be the largest source of claims.

Market capacity

- Capacity is abundant for “traditional” crime products.
- Coverage for impostor fraud is available on a limited basis. While the scope of coverage varies, insurance companies will consider offering more robust programs upon favorable review of exposures, policies, procedures, and controls.
- Multiple-year policies continue to be attainable for mid-sized and smaller risks.
- Carriers are implementing improvements in automation with respect to smaller products such as ERISA bonds.

Topical issues

- Impostor fraud: Claims are on the rise from schemes designed to trick organizations into redirecting funds from a legitimate payment address to one created by the criminals. Once understated, crime insurance moved front and center in 2015 with the debut of impostor fraud coverage, designed to address an escalating need caused by an increasing number of uninsured losses.
- Virtual currencies: The domestic crime insurance market continues to grapple with an effective method to address the theft of virtual currencies, given questions about their valuation and security.
- Contractual requirements: Organizations entering into business relationships with one another should expect to see contracts requiring more robust crime insurance programs than in prior years.
- Loss discovered versus loss sustained coverage: While crime coverage has migrated more toward a “loss discovered” culture, underwriters are beginning to scrutinize the risk of providing loss discovered coverage to those organizations that historically had purchased “loss sustained” products. Depending on the size of the insured organization and the scope of the coverage sought, underwriters will be more judicious about offering loss discovered policy forms.

Forecast for 2016

- A continued focus on underwriting will remain present in the market. The availability of coverage for certain exposures (such as impostor fraud) will impose new burdens on organizations to evaluate their policies and procedures.
- The limited market in the U.S. for impostor fraud may lead the London marketplace to develop a standalone product offering higher limits and expanded coverage.
- For most carriers, rate activity will remain relatively flat, determined more by exposure changes within the client’s own risk profile (i.e., increases in revenues or employees and claim activity).

The debut of impostor fraud coverage moves crime insurance to center stage.
Medical malpractice

In 2016, we anticipate medical malpractice rates and premiums to remain competitive. For the last decade, medical malpractice insurance rates have been declining while industry profits remain historically high. Low claims frequency and indemnity severity, as well as insurers healthy reserve releases, contribute to this trend.

The market today

- The net written premium volume of medical professional liability insurance (MPLI) for the U.S. P&C industry fell for the ninth consecutive year in 2015. The MPLI market continues to generate significant profits on a calendar-year basis. The industry combined ratio was 94% in 2014, which represents a slight deterioration in performance over the past five years.
- MPLI loss ratios on an accident-year basis have climbed recently due more to price deterioration than adverse claims trends. The industry accident-year loss ratio for MPLI claims-made business in 2014 of 76.7% is 19 percentage points higher than the latest estimate for 2009, though the difference will likely narrow somewhat as 2014 loss experience matures.
- Calendar-year results in MPLI continue to benefit from substantial favorable loss-reserve development that averaged 22% of annual earned premiums for the last eight years. This level of favorable development is anticipated to diminish as losses develop from recent accident years. These account for the largest proportion of all MPLI reserves, and are experiencing a materially lower level of development relative to past years.
- Results for 2015 are not yet available.

Market capacity

- During 2015, capacity remained abundant.
- The loss of market share medical professional liability insurers experienced is a direct result of physicians’ employment by hospitals and large system acquisitions of community hospitals, standalone outpatient facilities, and urgent care clinics. The inability of these organizations to realize positive financial outcomes is a result of decreasing inpatient days, combined with changes in Medicare and Medicaid reimbursements.
- Many physician medical professional liability insurers expanded their appetite and writings to healthcare facilities and systems. Hospital professional liability insurers expanded their appetite into ancillary products to provide insurance for emerging risks associated with accountable care organizations and the reemergence of the need for provider stop loss caused by healthcare reform. The aforementioned, combined with the entrants of new insurers and reinsurers, continues to keep the market competitive for healthcare facilities and providers.

Topical issues

- Healthcare providers are moving from independent and smaller group practices toward employment with hospitals and large medical groups. This shift is changing purchase and coverage preferences for MPLI. Large medical groups are more likely to self-insure and use captive or alternative risk programs, reducing demand for primary MPLI coverage.

Forecast for 2016

- We continue to experience additional capacity in this space.
- The extent of the change and when it will take place are unknown. Most insurers/reinsurers believe there will be no significant changes before 2016 and potentially into 2017.

The trend in the healthcare industry is moving more toward self-insurance and a reduced demand for primary coverage.
Kidnap, ransom, and extortion

An abundance of capacity and insurers continue to keep rates competitive. Clients should benefit in terms of premium and coverage quality in 2016.

The market today

- Several insurers provide kidnap, ransom, and extortion (KRE) insurance on a stand-alone basis. Key insurers include Hiscox, HCC, AIG, Chubb, Travelers, Liberty, and XL, among others.

Market capacity

- These insurers typically have capacity to offer limits of $10 million up to $25 million, with a few select markets able to offer up to $50 million.

Topical issues

- Heightened kidnapping exposure continues to exist in several countries, including:
  - Mexico
  - India
  - Pakistan
  - Iraq
  - Nigeria
  - Libya
  - Bangladesh
  - Afghanistan
  - Sudan
  - Lebanon

- 89% of kidnapping victims worldwide were locals, while only 11% were foreign nationals, with roughly 60% of those foreign nationals held captive for less than seven days according to crisis response specialists Control Risks and NYA International.

- “Virtual kidnapping” — as a type of extortion — is a recent phenomenon. As an elaborate form of deception, family members are coerced into paying a ransom under the belief a loved one has been kidnapped. Virtual kidnappings are most common in Mexico and are growing in other parts of the Americas according to Control Risks.

- An increase in extortion incidents in Europe was also recently noted by crisis response specialist, red24. This increase is partly driven by technological advancements, including the use of social media.

- Digital extortion and cyber extortion are heightened exposures that organizations must consider as part of their comprehensive risk management program.

- Coverage can often be expanded to include workplace violence and stalking incidents, in some cases. These events are of increasing concern in the U.S., and coverage typically includes the cost of temporary security measures, medical expenses, rehabilitation, and legal expenses.

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1 Kidnapping and Extortion Trends as of January 2, 2015, Control Risks.
2 Global Kidnap for Ransom Update – August 2015, NYA International.
3 Virtual Kidnapping: Tactics and Indicators, 2015, Control Risks.
Forecast for 2016

• Competition among insurers remains strong and will continue to keep rates and pricing aggressive. We expect this trend to continue during 2016, resulting in pricing that is flat to down 5% to 10%.

• Clients should continue to expand and improve coverage through increased sub-limits, longer indemnity periods, and coverage extensions — such as enhanced cyber extortion and workplace violence coverage.

• Review of clients’ global footprint in relation to their crisis response firm continues to be material to the decision-making process.

• Clients should proactively utilize intelligence and training materials available through their crisis response firms, as well as engage these firms as needed for specialized assistance.

Preparedness and prevention are key goals for KRE. In 2016, clients should expect broad coverage extensions, competitive premium, and access to intelligence that may help mitigate loss. It is imperative that clients devote sufficient time and resources to identifying and mitigating their kidnap, ransom, and extortion risks.
Representations and warranties

2015 was a big year for M&A activity. Deal activity was at its highest level since 2007 and up more than 30% from 2014 levels. The combination of increased product awareness and deal activity has led to another year of significant growth for representations and warranties insurers, with carriers citing 25% to 50% growth levels.

The market today

- Product awareness and interest are at all-time highs.
- Insurers are better staffed to handle submission flow than in the past, but the surge in deal activity through the last months of 2015 is straining underwriter availability and response times.
- The marketplace is active, with new insurers making meaningful inroads.
- Pricing for the product has remained fairly consistent through the year, ranging from 3% to 4% of the overall limit purchased.
- Newer carriers have helped improve the market for smaller limit and premium transactions.
- Minimum premiums have dropped now, residing in the $150,000 to $250,000 range.

Market capacity

- The number of insurers for U.S.-based deals nearly doubled in 2015 to 10 to 12 insurers.
- Capacity increased significantly, with most carriers able to offer $25 million in limits. Several can offer $50 million up to $100 million.
- We expect additional carriers to enter the market in 2016.

Topical issues

- Greater prevalence of low- and no-indemnity and/or escrow deals.
- Insurers prefer to see some indemnity from the seller in cases where lower self-insured retentions (i.e., 1% of transaction value/purchase price) are offered.
- Favorable treatment of multiplied damages language remains available from most insurers.
- Diligence process becoming increasingly focused on the labor and employment benefits elements relative to the Fair Labor Standards Act, wage and hour, and treatment of independent contractors versus employee status.

Forecast for 2016

- Expecting the growth from 2015 to continue with more carriers entering the marketplace.
- We do not expect significant shifts in pricing.
- Claim activity should continue to increase and be more tangible as more claims are filed and losses are paid.

Expecting the growth from 2015 to continue with more carriers entering the marketplace.
Technology and professional errors and omissions

The market for technology and professional liability has been relatively stable for some time and insureds with a favorable risk profile and good loss experience will continue to see very competitive terms.

The market today

- The rate and capacity for this coverage remain stable, and carriers are amenable to enhancing coverage for those risks that have a favorable profile.
- Companies that present with a class action exposure (business to consumer) or that store large volumes of data on behalf of others are seeing increased underwriting scrutiny.
- Carriers continue to be reluctant to write enhanced coverages like technology product recall and “cost of corrections.”

Market capacity

- Capacity remains stable with aggregated capacity globally at more than $300 million.
- There are numerous carriers in this space with varied forms. We would estimate at least 30 markets with primary technology errors and omissions forms, including those offering the coverage as part of a “package.”

Topical issues

- Carriers remain concerned about aggregation and the potential for a single-data privacy event to trigger policies for multiple insureds.
- Clients who store, process, or manage large volumes of data on behalf of others are being reviewed more thoroughly as failure to protect the data of others can have significant impact on an errors and omissions policy.
- As clients become more versed in the legal requirements regarding data, insureds are seeing a significant push for broader assumptions of liability and indemnifications of liability in their contracts.

Forecast for 2016

- Market capacity will remain stable as we do not expect new markets to enter the space, nor do we expect any current markets to depart.
- Underwriting scrutiny increase for risks with large volumes of data and those providing “cloud” services or in the data security space.
- Risks with class action exposure may see increased retentions or separate class action retentions.
- Carriers will continue to offer coverage enhancements when presented with a good risk, as there is a drive to increase this book of business in 2016.
- Business interruption will become more of a focus as insureds are asked to evaluate their dependence on technology and the impact that a loss of this technology will have to their bottom line.

Carriers remain concerned about aggregation and the potential for a single-data privacy event to trigger policies for multiple insureds.
Network security and privacy risk (cyber)

The proliferation of highly publicized breaches in varying sectors has put network security and privacy liability in the crosshairs for many underwriting directors. This line of coverage has grown from the ground up in a little more than 10 years and now encompasses first- and third-party exposures as well as loss control services. Network security and privacy has evolved the fastest out of all coverage lines with the least amount of actuarial or claims data. These facts make for an interesting market today and in the future.

The market today

- Significant claims payments in 2015 have resulted in increased underwriting scrutiny for any organization with a large volume of records (personally identifiable information or protected health information).

- While there are still limited markets looking to enter the space, we are seeing many carriers exiting as they have paid significant losses for little premium over the past year or two.

- Carriers are more reluctant to deploy capacity in large chunks and are being more conservative, limiting their offerings to $5 million or $10 million.

- Carriers are driving rate increases for the more “risky” classes, such as healthcare and retail.

- Carriers are attempting to offer more robust network business interruption coverage, but the coverage remains lacking in many areas, including hourly sub-limits and dependent business interruption.

Market capacity

- Capacity has shrunk over the past year as many carriers have exited this class of business while others have decreased their total capacity.

- Market capacity is approximately $250 million, while estimated market capacity for certain party coverages, such as event management and payment card industry (PCI) fines and penalties, is more realistically in the $10 million to $150 million range.

Topical issues

- Underwriters are taking a different approach to underwriting and are using the number of records, in combination with revenue, to determine cost.

- Insureds that collect, process, or store credit card data, will see stricter reviews of their PCI compliance to secure broader coverage.

- Insureds should evaluate their dependence on their technology-based applications to determine what the cost would be should these applications be compromised.

- The trend in certification of class actions for data privacy breaches is precedent-setting and game-changing. We need to pay close attention to the evolution of these cases as they could have a significant impact on limits adequacy, carrier appetite, and price.
Forecast for 2016

- Market capacity will stabilize as the markets exiting this space complete the process and new markets fill some of the void.

- Underwriting scrutiny will continue as carriers are pressed for better performance in this book of business.

- Larger retail, healthcare, financial institutions, and governmental authorities will have a more challenging time securing coverage in an affordable manner.

- Carriers will offer competitive terms for the “less risky” insureds, such as manufacturing and distribution, as they seek to balance out their books of business.

- Business interruption will become more of a focus as insureds are asked to evaluate their dependence on technology and the impact the loss of this technology would have to their bottom line.

Capacity has shrunk over the past year as many carriers have exited this class of business while others have decreased their total capacity; expect increased underwriting scrutiny to continue.
Contract surety

The contract surety market conditions remain soft and fluid, as there continues to be a surplus of capacity chasing limited demand in this space. 2016 shows a construction market that has started to improve.

The market today

- The market has shown improvement in size and scope due to an increase in public and private works construction requiring bonds.
- Industry premium remains at the same levels at the previous year (approximately $5.6 billion), and there is a good possibility this will increase in 2016 to some degree.
- Capacity remains robust and will continue as such due to the overabundance of availability along with manageable claims activity.

Market capacity

- Market capacity has continued to be strong with large program demands being met.
- Some of the “new” players in the surety industry have been seasoned by losses experienced, but with limited exceptions these new carriers have stayed the course to date and continue to be viable surety providers.
- The top ten surety carriers still write in excess of 60% of the market share in this product.
- Support for mega products ($300 million plus) are still supported by the larger surety markets (Travelers, Liberty, Chubb/ACE, Zurich, and C.N.A.); aggregate bond capacity in the area of $1 billion to $1.5 billion has been arranged.
- The contract surety market is still showing a keen interest in the middle-market accounts.

There have been some substantial opportunities in reverse-flow business of foreign entities coming into the U.S. to do business. The contract surety marketplace is actively seeking and addressing these opportunities where possible.

Topical issues

- Underwriting terms and conditions seem to be consistent and workable with all parties (surety, client, and broker/agent).
- There has been a blurring of the boundaries between contract and non-contract business on the company side. Many of the new sureties, which originally entered the market doing non-contract surety, have a very liberal interpretation when considering non-bricks and sticks, as well as certain service contracts. The race for premium dollars could result in a very slippery slope.
- Sub-guard and subcontract default insurance (SDI) continue to take surety premiums away for the contract surety market; however, recent indicators show that the subguard/SDI products are being written on a more conservative basis, including more stringent policy terms and conditions.
Forecast for 2016

- In 2015 we have seen a consolidation trend in the surety market with the merger of Chubb and ACE as well as Houston Casualty Company and Philadelphia Insurance Company (both owned by Tokyo Fire and Marine). This trend will most likely continue as a response to the surplus capacity of the market.
- Premiums have started to become more competitive as new players look to “buy” accounts and incumbents do whatever is needed to preserve accounts.
- There has been a long successful run of excellent claims results in the contract surety field. We forecast an uptick in claims, both in severity and frequency, as economic anomalies continue in the marketplace.
- There will be more and more surety opportunities in both the public and private marketplace in 2016.

The contract surety product is becoming more and more appreciated in the construction and financial marketplace. Wells Fargo Insurance Services works to provide our clients with the best surety program possible, while being cognizant of market conditions and stability.
Commercial surety

Soft pricing due to underwriting competition, too many carriers, and an abundance of capacity will lead to continued opportunities for commercial surety bonds.

The market today

- Too many carriers in the space and an abundance of capacity have created new opportunities, particularly with guarantees associated with third-party contracts.
- In some cases, pricing is trending lower than irrevocable letter of credit (ILOC) costs.
- Insurance collateral/program bonds remain a strong interest for the surety markets, and are becoming more widely accepted by insurance carriers.
- Larger carriers have focused their growth on expanding and improving international capabilities to support the global trends of clients.
- Written premiums for commercial surety are up approximately $90 million year-over-year, with a total written premium of $1.65 billion. Loss ratios are low at 3.3%.

Market capacity

- More market capacity than client demand is available.
- Several of the larger existing carriers have increased their Treasury listings, adding additional capacity to meet larger bond needs.
- We have seen cases where capacity can be extended in excess of $1 billion, primarily with the top five carriers: Travelers, Chubb, Zurich, Liberty, and C.N.A.
- New carriers in the market are very competitive in offering smaller capacity programs.

Topical issues

- Underwriting practices and standards have softened with increased competition.
- There are concerns that some carriers may extend terms for covering guarantees with full demand or forfeiture, which could lead to claims issues in the future.
- With increased competition from carriers, concerns loom of over-commoditizing the product.
- As the banking environment continues to stretch to meet client credit capacity needs, we are seeing more opportunities to assist on non-construction financial and performance guarantees.
- While Ace and Chubb limits the number of international players in the market, they will be the largest international player in this space.

Forecast for 2016

- Pricing has continued to soften as underwriting competition remains strong. There is an uncertainty about how low rates may go. Some rates for exceptional credit and short term risks have been as low as $1.50 to $5.00 per thousand, while rates for moderate credit and risk have remained fairly stable in the $5.50 to $10.00 per thousand range, and low credit/high risk are in the $10.00 to $20.00 per thousand ranges.
• There is an abundance of capacity, too many carriers, and not enough business for the new emerging carriers to write. In 2015 and well into 2016, it is likely we will see carriers consolidating or simply choosing to exit the business in the commercial surety market.

• We are watching the Ace acquisition of Chubb to monitor any impact on available capacity to existing clients.

• We will see a continued investment by carriers to expand international capabilities.

In some cases, pricing is trending lower than ILOC costs.