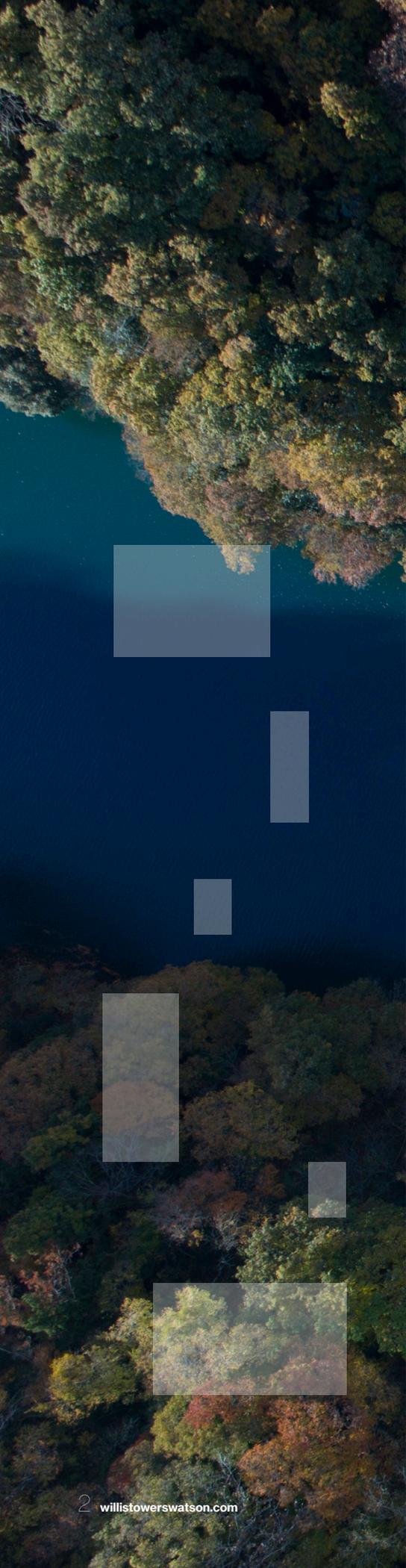


# Marketplace Realities 2019

A stealth firming of the liability market amid headline-grabbing mergers and acquisitions



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# Executive summary

## A stealth firming of the liability market amid headline-grabbing mergers and acquisitions

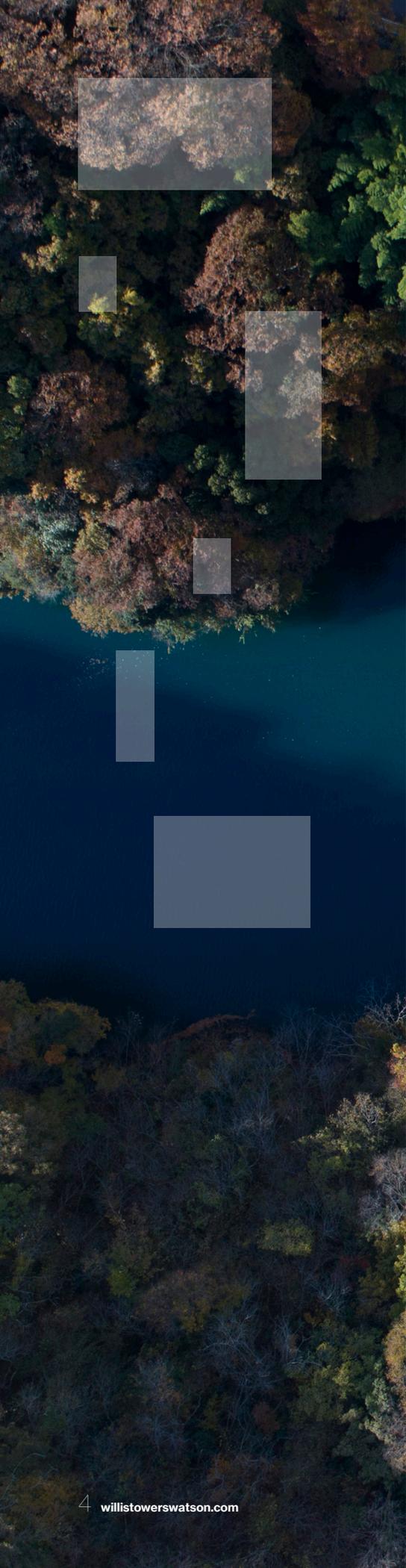
During 2018 most eyes were on the property market following the catastrophes of 2017. While the property market proved resilient, thanks to the stabilizing impact of alternative capital, two separate trends that followed are currently impacting market conditions for insurance buyers. The first is a relatively modest but definite rise in rates across most liability lines of insurance in response to relentless loss activity, which, given all the worry over property rates, seemed to sneak up on us. The second trend is a resurgence of mergers and acquisitions among insurers, and particularly “mega deals” (i.e., deals exceeding \$1 billion).

First, let’s consider rates. Across most lines of insurance (U.S. workers compensation and international liability programs are notable exceptions), insurance buyers can expect increases in the low single-digit to low double-digit ranges. This trend, most consistent in the liability lines – auto, umbrella, D&O, EPL, professional, environmental, etc., is loss driven. Increases in frequency driven in part by rising economic activity and increases in severity driven in part by changing societal views on corporate accountability, and the success of what’s often called “reptile” tactics by plaintiffs’ attorneys, have forced rates upward. Below is a snapshot of the rating environment that is more fully explained in the individual summaries that you can find by clicking on each line.

## Commercial rate prediction charts

For 2019, 14 lines are expecting increases

	Trend	Range
<b>Auto</b>		+6% to +12%
<b>Cargo</b>		Flat to +15%
<b>Casualty</b>		Flat to +4%
<b>Directors and officers</b>		Flat to +5%
<b>Employment practices liability</b>		Flat to +5%
<b>Energy</b>		Flat to +10%
<b>Environmental</b>		Flat to +15%
<b>Errors and omissions</b>		Flat to +5%
<b>Marine</b>		Flat to +15%
<b>Political risk</b>		Flat to +5%
<b>Product recall</b>		Flat to +5%
<b>Property</b>		Flat to +10%
<b>Senior living and long-term care</b>		+5 to +30%
<b>Trade credit</b>		Flat to +5%



Two lines are expecting decreases

	Trend	Range
<b>International casualty</b>		-5% to -10%
<b>Workers compensation</b>		-4% to flat

Nine lines are predicted to deliver a mix of small increases and decreases or flat rates

	Trend	Range
<b>Aviation</b>		-10% to +10%
<b>Cyber risk</b>		-3% to +5%
<b>Construction</b>		-5% to +20%
<b>Fidelity and crime</b>		Flat
<b>Fiduciary</b>		-5% to +5%
<b>Health care professional liability</b>		-7% to +10%
<b>Kidnap and ransom</b>		-5% to +5%
<b>Surety</b>		Flat
<b>Terrorism and political violence</b>		Flat

Now let's consider insurer M&A. If you're an insurance buyer and you're watching your screen for the next merger and acquisition headline (whether it involves insurers, brokers or other service providers), you may be wondering what it means for you and your industry. In the largest sense, the news is good. For the most part, insurer M&A – our focus here – has not had a materially negative impact on capacity or pricing. The emerging, consolidated insurers bring a broader product offering, greater geographic scale and the promise of efficiencies, both technological and otherwise. We forecast that this M&A trend will continue during 2019 as insurers seek tactical, strategic and, in some cases, transformational combinations. (For additional global perspective, see our recent report, [Transformation in the global insurance market.](#))

## Why now?

To start, organic growth is difficult to achieve. After the HIM (Harvey, Irma, Maria) trio of storms of 2017, the last believers in the old hard market/soft market cycle have likely stopped waiting for the loss events that will dramatically turn the market. The rise of alternative capital has changed the fundamental supply curve for catastrophe risks and perhaps more. Organic growth in a mature, competitive marketplace is achievable but is unlikely to deliver the results that get most investors excited. Then where does growth come from? From inorganic growth and synergies that promise improved margin.

Secondly, the money is there. A slight uptick in rates following 2017's mega losses, relatively light losses in 2018 (Hurricanes Florence and Michael and Asian typhoons notwithstanding) and good performance of investment portfolios have pushed policy holder surplus to record highs. Companies have cash and capital. In addition, the private equity market has an interest in insurance and the wherewithal to drive deals. According to research firm Prequin, the PE industry has \$1 trillion of so-called dry powder.

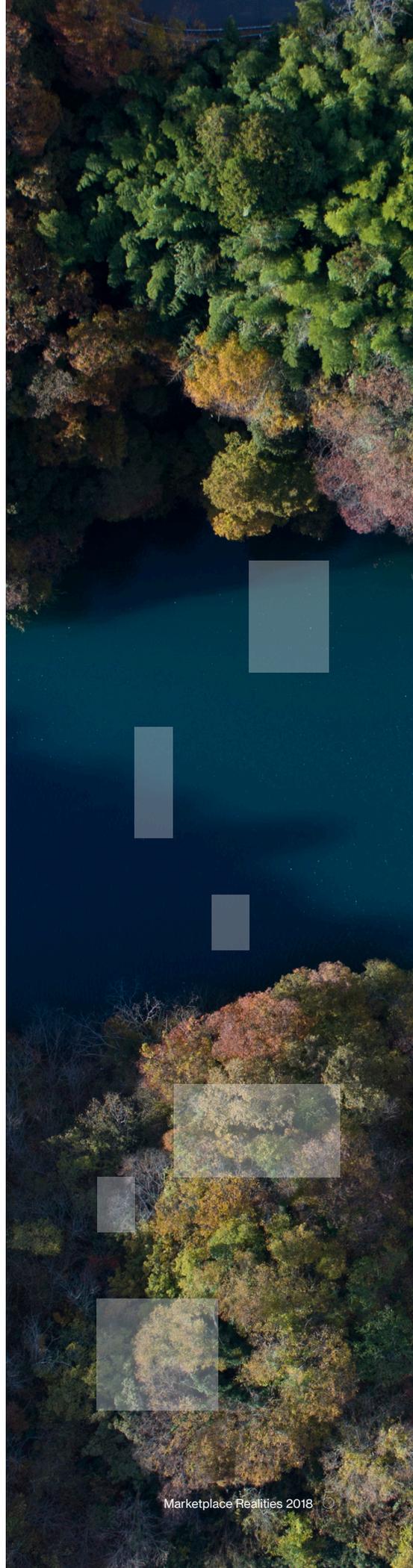
Third, changes to the U.S. tax structure have altered the playing field significantly. Besides contributing to the cash stores companies have on hand, the changes are being felt in a global context. The long-time role of Bermuda is evolving along with the tax incentives for doing business there. It's no accident that some of the biggest mergers have involved Bermuda-based companies. The lowering of corporate taxes has also made U.S.-based companies more attractive to potential overseas buyers.

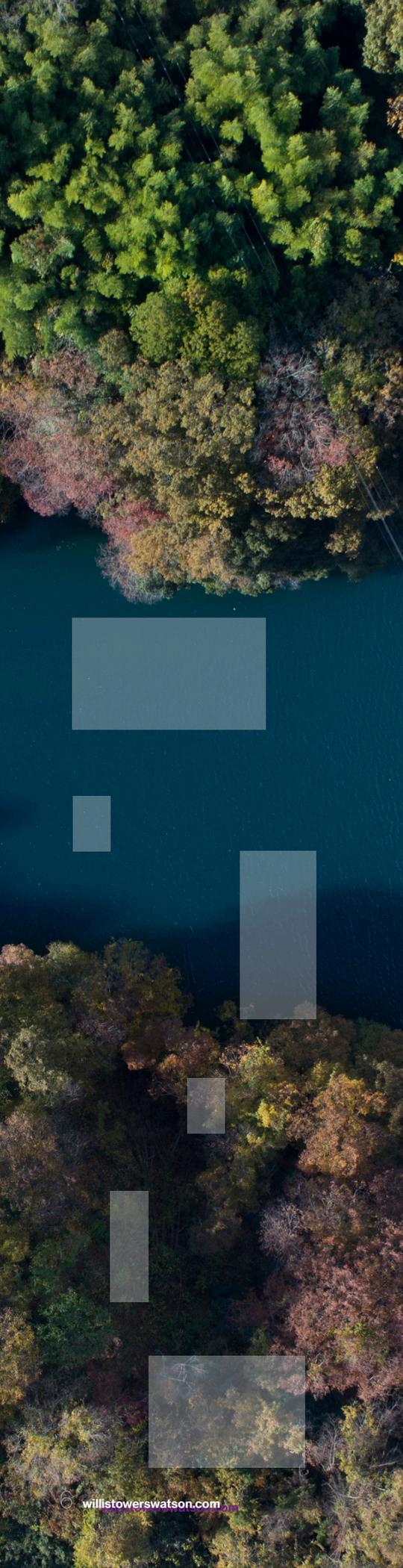
Fourth, those overseas buyers are also ready for their own reasons. European companies are finally over the whirlwind that surrounded the implementation of Solvency II, so they can now turn their focus outward. China, of course, has shown a growing interest in insurance at home and abroad (whether the potential for an all-out trade war with the U.S. changes that dynamic, at least in terms of the U.S. marketplace, remains to be seen), and Japanese companies have been active in the M&A space as they seek revenue outside of their domestic markets.

Fifth, the rising interest rate environment makes insurance companies attractive targets, as the capital that insurance companies accumulate during the course of business can earn higher returns and thus improve overall return on equity.

Finally, the technology arms race and the rise of InsurTech have been drivers of M&A. When seeking inorganic growth, insurers consider the acquisition of technology platforms and talent, along with the revenue, customers and scale (e.g., Travelers and Simply Business).

The M&A pump is primed.





## The impact

What does this mean for insurance buyers in North America? As we've said, recent M&A has not had a material impact on rates and capacity, but it is reducing the number of competitors in the field. Given the capital fluidity that is the industry's "new normal," we don't foresee a dramatic impact on rates, but we do expect that consolidations will result in more underwriting discipline, which may serve as a backstop against another free fall in rates.

Perhaps a less obvious, but important effect of carrier combinations is in claim handling philosophy. Carriers have different approaches to handling claims. The strictness with which policy language is enforced, for example, can vary considerably, even in cases where policy wordings are similar. In the case of a merger, the culture of the acquiring company will usually come to dominate and, for insureds used to dealing with the acquired company, the claim experience may bring some surprises. A risk advisor with experience in handling claims with both legacy companies might offer useful perspective, and possibly help ward off such surprises.

## Another source of growth

In addition to organic and inorganic growth, surely another path to growth is InsurTech. Some see the rush of investors into various corners of this growing field and sense a widening bubble that could well burst like the tech bubble of the late 90s. That bursting, however, did not stop the world from going online. We certainly expect to see M&A and partnership activity with InsurTech in mind, particularly with regard to consumer and small business insurance, as companies develop the digital ecosystems that almost certainly represent the future of our industry.

M&A is likely to continue in our industry, for reasons that are tactical, strategic and transformational – or all three. What that will mean, buyers, is change: changes in risk management options that could require changes in risk management efforts. Insurance and risk advice have long played a key role in navigating such changes. That much, at least, is unlikely to change.

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# Looking forward, looking back

Comparing our rate predictions from spring 2018 to those we are presenting in these pages, we expect a continuation of modest price rises. In casualty lines, these increases should be in the low single digits; for property, increases could be a bit higher for programs affected by losses, though not as steep as the rate hikes immediately following 2017's mega losses, and some property buyers will be able to renew flat.

Here are some lines that have seen their forecasts change since last spring:

- Forecast auto rate increases are edging up into the low double digits at their top end.
- Workers compensation predictions call for flat renewals to small decreases for the first time since 2011.
- For directors & officers buyers, the occasional decreases predicted last spring are past, and small increases are now forecast.
- Political risks saw a reversal, from small decreases to single-digit increases, due to the heating up of international tensions.
- Environmental insurance buyers are facing slightly better conditions, with rates expected to be flat or rise by up to 15%; better than the +10% to +20% range predicted in the spring.
- Health care professional rates are now expected to offer a mix of decreases and increases, a departure from a long period of steady incline.
- In aviation lines, a brief respite in price declines is over; now buyers can expect a mix of declines and increases.

In short, most buyers can expect their insurance spending to rise in 2018.

Overall, 14 lines are expected to see price increases, two will see decreases and nine will see a mix of both (or flat renewals).

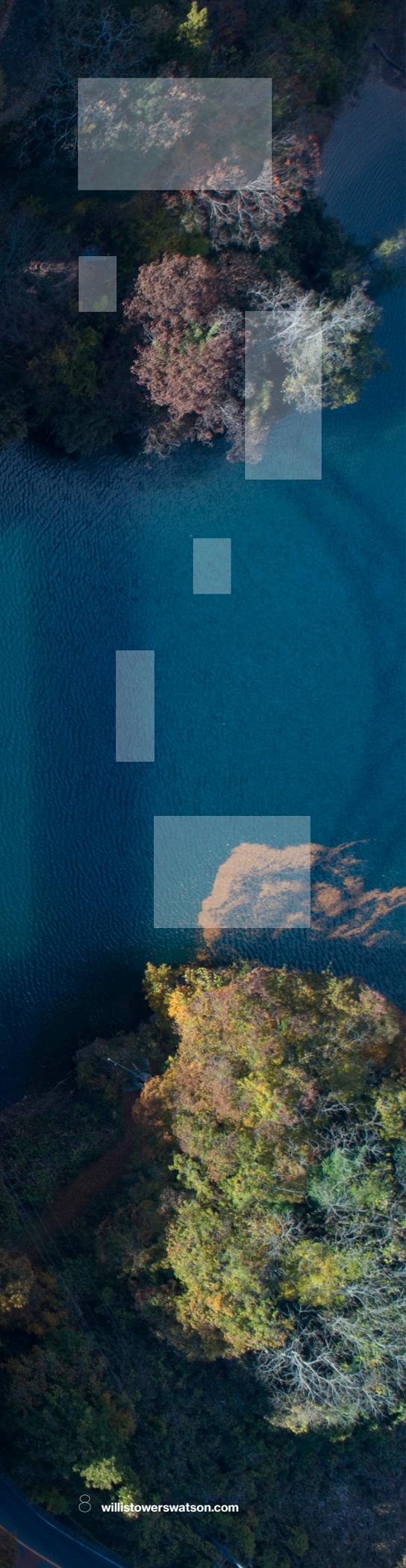
## Market trends: lines facing increases, decreases or a mix\*

MR issue	Decreases	Increases	Mix/flat
2019	2	14	9
2018 spring update	2	10	10
2018	7	7	9
2017 spring update	10	6	7
2017	10	6	7
2016 spring update	9	8	5

\*The 2019 figures reflect the addition of marine, cargo and senior living/long-term care as separate lines of business. The 2018 spring update figures reflect the absence of marine in this issue; the 2017 figures reflect the addition of international coverage as a separate line; and the 2018 figures reflect the addition of product recall and the subtraction of employee benefits, which are no longer covered in this report. In this issue, casualty lines are discussed in one combined report but are included in this table as separate items.

For more insight on how you can prepare for a marketplace in flux, contact your local Willis Towers Watson representative.

For a more retrospective review of the recent rating environment see our [Commercial Lines Insurance Pricing Survey data](#).



# InsurTech for risk managers

## Evolution in revolutionary times

Much has been written and speculated regarding InsurTech, but let's bring it back to what Insurance Marketplace Realities is all about: How will it affect what you pay for insurance? Here it is in a nutshell. So far, not much. Someday, a lot. In the meantime, here's what to look for.

For smaller businesses, for whom risk transfer is not so much a strategic question as something to check off the list, the online automation of the insurance purchase is already here, or at least around the corner. It's about price shopping, convenience and reliability. Think of a small, cute reptile, and how 15 minutes can save you – you get the idea.

For most of our clients, however, risk management is a bit more complicated, and the global value chain of risk transfer is more complex as well.

Technology addresses several aspects of that value chain. Technology is involved in the operational elements of the insurance transaction – the paperwork, as it were, and the transfer of data and information. Technology is involved in the decision making process – we, for example, have a host of insurance line-specific analytic tools and models available now to prove it. Underwriters are using technology to better discern “good” risks from “challenging” risks. Technology is involved in the distribution of risk transfer products, as mentioned above, for smaller, simpler insurance purchases.

At some point there will be price implications at each point technology touches. Operational improvement can lower costs to the point of lower pricing. Decision-making tools directly impact both the structure of your insurance program and how much insurance you may choose to buy – which will surely impact your overall cost of risk. As underwriting becomes ever more sophisticated, prices may decline for good risks but rise for challenging risks. In a broader sense, technological distribution has the potential to disintermediate the process, which could create downward pressure on price.

It's the last point on disintermediation, and the disruption it implies, that has the attention of many in the discussion of InsurTech. Disruption is certainly the intention of most if not all of venture capital coming into play. It's important, however, to recognize that much of the technology in the works and on the horizon is not about disrupting the present value chain, but enabling it and improving it. In a recent study of InsurTech investment, we asked investors to characterize the goal of their investments: 9% said disrupting the value chain, 30% said disintermediating customers from incumbents, and 61% said enabling the value chain.

Another useful perspective is to understand that technology comes in many flavors, styles and modes. Here's one list:

- The internet: A potential distribution platform.
- Cloud computing: An avenue for accelerated and integrated data analytics.
- Telematics: Auto risk and the combination of telecommunications, vehicular technologies, road sensors, instrumentation, wireless communications, etc.
- AI: Automation and artificial intelligence that will eventually impact the way most business is conducted.
- Transactional: Blockchain may seem to be already wearing out its buzzword welcome, but in fact, it's just getting started; we are seeing implementation in the field and undiminished predictions of the efficiencies that could result.

Taking a geopolitical view, some have noted that developing economies are in the process of broadly taking up insurance as a mainstay of business and will be doing so free of legacy insurance cultures and the inertia that can surround those cultures. These economies may also be more primed to accept 21st century technology. We may see some of the testing ground for InsurTech products in various markets around the world.

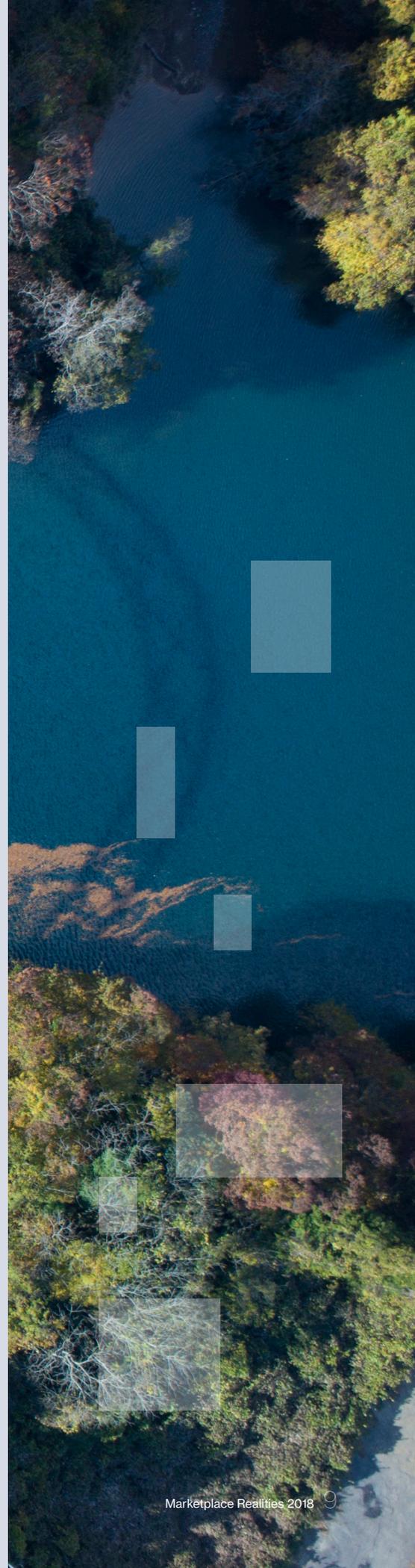
The auto insurance case is one of the most instructive. As mentioned in the technology list above, telematics are going to change the world of auto risk. This is already happening. To the extent to which technology is changing the way we drive, it's changing the nature of the risk we're insuring. To the extent to which the data we can gather about the behavior of drivers and the condition of the vehicles they drive is changing our assessment and understanding of every experience, it's changing the way the risk is underwritten. As for the broker/advisor, our role will be to help our clients navigate this changing roadmap.

Then there's self-driving cars and what that does to the whole equation – but we won't get into that here.

Suffice it to say that all segments of the insurance value chain, insured, insurer and the advisor in between, will be affected by technology. The changes that each experiences will impact the others, all in ways we can't foresee. Despite the uncertainty, however, we are bullish about our industry's ability to adapt to change. In fact, we think the image of our industry as stodgy does not fit with historical facts – look at the development of cyber insurance as just one example of our industry's response to changing times. We are also bullish about the fundamental value proposition of our industry – a global web of risk takers who provide organizations with certainty against risk.

For the insurance buyer, the impact of InsurTech is only gradually being felt. For most in the trenches of insurance, InsurTech represents evolution – evolution in revolutionary times.

The InsurTech evolution also serves as a reminder that it's our role as the risk advisor to be involved every step of the way, because in the end, it's not about price, but about value.



# Property

## Key takeaway

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Following the record setting catastrophic events of 2017 and 2018, underwriters will continue to take a more critical look at exposures; adjusting portfolios and appetites accordingly. In addition to early client engagement, we recommend broad market review to challenge existing solutions, validate incumbent participation and provide competitive program structures, especially in more challenged occupancies or catastrophe-exposed portfolios.

## Rate predictions

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### Non-cat

Flat to +2.5%

### Cat

+2.5% to +7.5%

### Cat with heavy losses

+10% or more

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**Global aggregate nat cat events of 2018 have been comparatively light, and despite setting records, Hurricanes Florence and Michael will not be significant market events. Absent any significant losses or market changing events through the end of the year, we expect the current rate environment to continue.**

- Estimates of losses from Florence are currently ranging between \$1.7 billion to \$4.6 billion (source AIR). Due to lower wind speeds, flood rather than wind appears to be the main driver of loss. Loss estimates from Michael are higher, some as high as \$10 billion (AIR), stemming from both wind and storm surge damage. But the total insurable loss from either storm is not expected to adversely impact markets.
- The availability of alternative capacity, which prevented the market hardening many predicted a year ago, remains a significant factor in absorbing these losses.
- All of the alternative reinsurance capital that was lost in the 2017 major catastrophe events has now been replaced. Alternative capital now makes up a larger proportion of dedicated global reinsurance capacity than ever, with the estimated \$82 billion of alternative capital representing over 19% of global reinsurance capacity.
- The moderating rate environment we have experienced thus far in 2018 has seen exceptions based largely on account-specific cat losses, geographical aggregation concerns, overall portfolio reassessment by underwriters and a hard market for heavily loss-impacted accounts.

### Property capacity remains abundant across the industry.

- Despite ongoing M&A activity and a continued push for optimal use of capital, overall industry capital remains strong. The first of the reinsurance meetings held in September reiterated that there is ample capacity for cat risks. The influx of alternative capacity has created a more stable environment with less volatility following industry losses.
- We have seen only small segments of hard market activity driven by a few loss-sensitive occupancies and cat-exposed geographies (e.g., Caribbean and Gulf Coast).
- Heavily loss-impacted regions such as the Carolinas, Florida, Georgia and Texas are likely to see tougher renewals, especially for buyers who experienced losses in 2017 and 2018.
- Overall industry surplus hit a record high of \$752.5 billion, and the infusion of capital hampered insurers' efforts to impose across-the-board rate increases following the 2017 catastrophes.

**Global insured losses from disaster events in 2017 were \$144 billion, the highest on record.**

- Hurricanes Harvey, Irma and Maria resulted in combined insured losses of \$92 billion, equal to 0.5% of U.S. GDP. Preliminary estimates from the Swiss Re Institute indicate that total global economic losses from disasters in the first half of 2018 were \$36 billion, significantly down from \$64 billion at the same juncture in 2017.
- California wildfires are emerging as a potential source of mega losses. This year, they have already accounted for \$845 million in insured losses.

**As carriers continue to struggle to charge desired rates, scrutiny on terms and conditions increases.**

- First-party cyber coverage exclusions are common.
- We are seeing the addition of small percentage deductibles (1 – 3%) for hail in Colorado, Oklahoma and Texas (hailstorms represent 70% of the average annual property losses from severe convective storms and are on track to cause over \$10 billion in losses in 2018).
- Additional scrutiny on high hazard flood locations has emerged as heavy flooding has resulted in increased losses and demonstrated the vulnerability of portfolios across the globe.

**There continues to be a concentrated push by major insurers to right-size portfolios and increase overall profitability.**

- Overall portfolio reassessment and review of geographical spread of risk by insurers are causing pockets of market hardening.
- Domestic markets and various Lloyd's syndicates have undergone a complete review of appetites for certain industry classes, with both rate implications and reductions in coverage.
- Challenged occupancies include dealers open lot, hospitality, primary habitational/multi-family, international food risks, and waste management.
- London underwriters remain under pressure, with the worst reported results since 2001, encouraging a strict "return to profitable underwriting."
- Lloyd's is demanding that syndicates eliminate the worst performing 10% of their portfolios; as a result, several markets have ceased writing direct and facultative (D&F) property business.
- Domestic and Bermudian markets have been able to offer more stability in capacity and less volatility in pricing.

# Casualty

## Key takeaway

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**While workers compensation renewal rates remain soft, largely supported by combined ratios below 100, liability lines continue to be moderately stressed in North America. Although global M&A activity has led to the consolidation of insurers underwriting casualty business in North America, the overall impact on pricing and available capacity has been minimal.**

## Rate predictions

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### Workers compensation

-4% to flat

### Auto liability

+6% to +12%

### General liability

Flat to +4%

### Umbrella

Flat to +6%

### Excess liability

Flat to +2%

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**Near-term workers compensation pricing should remain soft amid an insurance marketplace with excess capacity, a rising exposure base and three years of underwriting profitability.**

- The U.S. has seen a 1.8% average increase in employment over the past two years, with states reporting employment increases across all sectors.
- Improvements in medical care and adoption of return-to-work programs have led to a decrease in lost-time claims.
- The growth of telemedicine and its adaptation into workers compensation practices should provide quicker, more efficient access to high-quality medical care and mitigate associated medical expenses and lost time from work – in turn leading to reduced claim severity for carriers.

**Auto liability is a casualty loss leader for commercial insurers and the corrective pricing action over the past three years has not yet overcome deteriorating loss costs. Insureds should expect continued upward rate pressure.**

- Written premium volume in commercial auto has expanded faster than in other market segments over the past two years; the 7.7% rise in commercial auto premium pricing in Q1 2018 is the highest rate increase in seven years.
- Completely unprecedented jury awards of \$30 – \$40 million for single plaintiff auto accidents are being levied at an alarming rate. Five years ago it would have been rare to see an auto accident incur costs excess of \$10 million.
- From 2013 to 2017 the U.S. economy pushed more vehicles on the road than ever before. During that time drivers logged 300 billion more road miles than in the previous five-year period. This has led to an uptick in frequency of auto claims, and the volatile legal environment has made those claims more costly to manage.

**While capacity in excess liability remains abundant, the frequency of catastrophic liability claims impacting umbrella and excess towers has become troubling for insurers.**

- The North America liability marketplace continues to be hit by significant catastrophic liability stemming from many issues, including California wildfires, the opioid epidemic, #MeToo litigation and liberal class action certification.
- A highly organized plaintiffs' bar is using advanced litigation tactics, including reptilian theory, to appeal to juror emotions, resulting in unprecedented liabilities for defendants.
- The frequency with which punitive awards are accompanying compensatory awards is up 20% since 2014. While many cases are settled on appeal, a punitive award puts significant pressure on a settlement and inflates the value of the case.

# International casualty

## Rate reductions are available, with certain caveats.

- Insureds who have not marketed their programs in recent years, exercise consistent and effective risk management protocols to drive down loss activity, maintain quality underwriting data and leverage their purchasing with strategic carrier relationships, are most likely to benefit from the higher end of our predicted rate declines – or fare even better.
- The continued rate softening is largely in response to increased capacity and competition in a space that overall has performed fairly well with regard to loss activity.
- In many cases the markets writing global programs are also writing other lines with the same insureds, which helps them keep sustainable margins.
- The quality of a global program should be measured by metrics beyond price, such as the timeliness and accuracy with which local policy documents are issued around the world, as well as by the extent to which the insured is empowered with transparency into the process along the way.

## Capacity continues to grow, despite continued merger and acquisition activity.

- While the more experienced international casualty markets continue to expand capabilities to refine their offering and remain competitive, additional competition continues to emerge. The new competition is coming primarily from either established carriers entering the international market for the first time or European carriers with experience in global casualty who are expanding their offering to include coverage for U.S.-domiciled insureds.
- For insureds with relevant exposure, European-based markets can offer distinct benefits:
  - Higher primary limits, available at global and local/admitted levels
  - Higher or full limits for certain coverages such as pure financial loss
  - Extended products liability, etc.
- Rather than differentiate purely through rate, carriers are building operational tools and leveraging technology, offering underwriting flexibility and enhanced clarity around coverage issued in each country.
- Recent global carrier mergers have yet to reduce the abundant supply of capacity; rather, they have helped enhance market offerings as well as underwriting depth and expertise. Recent announcements of potential further mergers are likely to have similar results.
- Underwriters are under ever more strict guidelines to require clear and consistent exposure information from insureds, limiting or even removing the ability to offer coverage for 'if-any' exposures as well as excess-DIC coverage over unknown local coverages in local geographies.

## Key takeaway

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**Due to the importance of tight administration and collaboration on cross-border insurance coverage, servicing capabilities are just as important as coverage and price when selecting the right global insuring partner.**

## Rate predictions

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-5% to -10%

## Contact

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### **Changes in market regulation and issues of compliance remain a major concern.**

- Rising protectionism and state-driven regulation continue to impact the marketplace. Federal agencies are requiring use of in-country capacity rather than pure-fronts. Insurance and tax audits as well as regulations stipulating premium payment warranties (e.g., cash before cover) are also on the rise. Buyers should be aware that any restrictions on the exportability of risk and premium will limit the corresponding amount of underwriting and claim settlement authority that can be centralized.
- Brexit is forcing carriers to reposition their Freedom of Service (FOS) infrastructure to locations on the European continent, requiring a fair amount of movement and re-training of staff. Additionally, insureds who may have received a FOS policy from a carrier's U.K. office, also representing local coverage for the U.K., are likely to receive that admitted coverage separately at renewal.
- While there is flexibility in terms of where international premium allocation can be invoiced and collected in most countries, offering insureds the ability to centralize a majority of the cash flow and administration, diligence is increasingly important for insureds to evidence a consistent and defensible premium allocation methodology in the event of program audits.

### **Global programs of all sizes are becoming more sophisticated.**

- Employers are under a greater obligation to ensure the safety of their traveling and overseas workforce. Buyers can support these efforts by taking a global approach to foreign voluntary workers compensation (FVWC), kidnap, travel assistance, benefits, etc.
- For companies with existing global programs and business connectivity around risk, opportunities are available to streamline operations by leveraging relationships with a select number of global carriers, minimize coverage gaps, ensure economies of scale and open the door to multi-year deals.
- For the buyers of large, complex global programs, clarity of coverage will be increasingly important, not just at the master-policy level but also at the locally admitted level. International commercial contracts can include specific insurance requirements that could impact program design.
- Businesses are experiencing complex claims in a widening array of geographies, requiring a close examination of the necessary local coverage. Depending on the extent of the need, coverage can be accomplished through alternative risk structures, captives or manuscript policy forms.

# Product recall

## **The product recall marketplace continues to harden but at a slow pace.**

- Frequency and severity of loss continue to steadily climb.
- Market capacity has stabilized since a major market exit in late 2017. While M&A activity has involved product recall carriers, we have seen little ripple effect, likely because in many cases the merging carriers have maintained their separate books of business.
- Carriers rarely deploy their full capacity on any given risk as they seek to better manage their overall risk portfolio.

## **Contracts increasingly require suppliers to include recall in their insurance portfolio.**

- Retailers and distributors, including grocery chains, are more cognizant of recall exposures impacting store sales.
- Auto manufacturers are passing recall responsibility down to tier I and II supply companies.

## **Negative media attention magnified by online and social media reaction is intensifying contamination and recall losses.**

- Large-scale ingredient recalls are impacting high-profile food manufacturers, though in many instances there are no actual product defects but rather plant and/or manufacturing deficiencies at suppliers.
- A massive foodborne illness outbreak linked to romaine lettuce grown in Yuma, AZ had industry-wide ripple effects on lettuce sales – and brightened the spotlight on product recall exposures.

## **Key takeaway**

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**As the product recall marketplace grows more sophisticated, companies are increasingly evaluating their worst-case scenarios and how coverage can support their balance sheets should their reputations be compromised.**

## **Rate predictions**

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Flat to +5%

## **Contact**

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# Cyber risk

## Key takeaway

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**As organizations continue to make substantial investments to strengthen their security and privacy protections through technology and become more vigilant about the human element of cyber risk, they will have further leverage to press on pricing and coverage improvements.**

## Rate predictions

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-3% to +5%

## Contact

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### **Most cyber renewals for both primary and excess cover are averaging single-digit increases.**

- Insurers have tightened pricing and retention guidelines for companies that have not addressed vulnerabilities.
- With claim activity or recent incidents, increases may be higher.
- Where organizations have demonstrated increased levels of security and internal policy controls, underwriters have offered premium decreases. Increased competition in the marketplace has also played a factor as insurers fight to write the better risks.
- Excess capacity is very competitively priced, often below 60% of the underlying primary rate.

### **Cyber insurance uptake and cyber insurance losses continue to rise.**

- Total cyber premiums are set to climb through 2018. Industry observers expect global premiums to reach \$10 billion by 2020.
  - Global ransomware and cyber-extortion claims dominate headlines. According to *Cybersecurity Ventures*, 2017 costs are estimated to exceed \$5 billion, a 15-fold increase in two years.<sup>1</sup> Ransomware and cyber-extortion costs are expected to rise to \$11.5 billion by 2019.<sup>2</sup>
  - Middle market clients (annual revenues below \$1 billion) in low-hazard industry classes continue to see a very competitive marketplace with aggressive pricing and broad policy language, as many carriers seek to enter the space.
  - There is a steady increase in capacity, with new U.S., London, Bermuda and Asian markets providing aggregate limits of up to \$600 million in some cases.

### **Coverage is evolving to cover regulatory risk, reputational damage and gap exposures.**

- The E.U. General Data Protection Regulation (GDPR) went into effect in May 2018, and the California Consumer Privacy Act will go into effect in 2020. We have seen cyber markets more affirmatively address coverage for claims stemming from the GDPR and for claims anticipated under the California Consumer Privacy Act.
- We are seeing the extension of business interruption coverage to include the loss of business income resulting from adverse publicity stemming from actual or even alleged cyber events.
- More markets are looking to address gaps in property, general liability and special crime coverage to include perils arising from cyber exposures, and certain markets are beginning to blend cyber and property coverages. This fact is especially relevant given the increased reliance on the Internet of Things (IoT) and the potential for damage beyond financial loss.

**Carriers are growing increasingly sophisticated in their underwriting.**

- Carriers continue to focus on better management of limits deployed on programs, with many offering no more than \$10 million on a given placement. Some carriers will consider deploying additional limits but may require significant retentions to do so.
- Insurers are exploring data analytics partnerships with InsurTech and FinTech firms in an effort to gather and optimize exposure data, allowing underwriters to assess how organizations and their employees handle sensitive data. Underwriters want to understand an organization's cyber culture; this can offer opportunities for buyers to differentiate themselves if they are developing holistic approaches to cyber risk across people, capital and technology.
- Carriers continue to be accepting of manuscript applications and conference calls in lieu of standard applications. This has led to more competitive pricing due to the increased amount of information provided.

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1. Cybersecurity Ventures, *Global Ransomware Damage Costs Predicted To Exceed \$5 Billion In 2017*

2. Ibid.

# Directors and officers liability

## Key takeaway

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**Overall, expect more disciplined primary directors and officers (D&O) underwriting and pricing, similar to what has developed over the last 12 to 18 months, as insurers monitor claim trends and more carefully deploy capacity.**

## Rate predictions

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### Overall

Flat to +5%

### Public company – primary

Flat to +7.5%

### Public company – excess

-5% to +5%

### Private and not-for-profit

Flat to +10%

### Side-A/DIC

-5% to flat

### Financial institutions

Flat to +3%

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**Many D&O renewals are likely to see pricing flat to up slightly.**

- **Competition:** Even with recent insurer M&A activity, competition remains ample. However, expect more underwriting discipline, including insurers taking a more conservative approach in the deployment of capacity potentially tempering competitive pressure. Nevertheless, an increasing rate environment could reinvigorate competitive pressure.
- **Support of incumbent carriers versus marketing:** 2019 renewals may challenge the more price-sensitive buyers in their support of incumbent insurers. If achieving the most competitive pricing is the primary goal, marketing the placement will certainly be needed. For most buyers, as reflected in our *2018 Management Liability (Directors and Officers) U.S. Survey*, insurer quality (financial strength and coverage expertise) and long-term relationships matter, which may mean paying slightly more premium or accepting smaller discounts.
- **Private and not-for-profit companies:** Financial health and industry matter. Financially distressed firms or companies in volatile or emerging industries will likely continue to see premium increases, higher retentions and/or coverage restrictions.
- **Excess:** The high cost of defending claims is putting lower excess, public company (including IPO) layers more clearly “in the burn layer.” We expect continued upward rate pressure from incumbent, low-excess insurers. (See *Support of incumbent carriers versus marketing* above.)
- **Side-A/DIC:** We are still likely to see competition-driven pricing based on the profitability of the product. For Side-A, even small dollar decreases, when expressed as a percentage of the premium, may seem substantial.

**Discipline may mean more active responses to key loss drivers and dynamic, growing risks.**

- **Securities class actions (SCA):** Public company SCA frequency trends remain at historically high levels. With stock markets at near record levels, severity of losses could worsen due to precipitous stock drops. Also, more merger and acquisition suits surviving the transaction effective date could drive up losses. Result: These loss trends will likely fuel pricing pressure.
- **Cyber, M&A and privacy:** As markets adapt to new risk dimensions, such as social media impact (e.g., #MeToo), privacy compliance risks from GDPR and California's Consumer Privacy Act and other dynamic cybersecurity risks, we may see a wave of wording initiatives looking to expressly delineate whether coverage is afforded. Result: Pressure on certain "silent" coverages, namely cyber. (The term silent cyber is commonly used to loosely describe the elements of cyber coverage that may be found in traditional policy wordings that do not explicitly address cyber perils or loss.)
- **IPOs/ICOs:** Already a tough class of D&O to place, these risks will be even harder to place as insurers monitor the impact of the SCOTUS decision in *Cyan, Inc. v. Beaver County*. However, as the scarcity of capacity for offerings pushes rate and terms, we may find opportunistic carriers willing to step in – for the right price.
- **Coverage:** New products and features will continue to be offered. Meaningful new features may come with a price. Areas of focus are likely to include investigation coverage, social media, crisis and reputation protection, #MeToo-related and Side-A DIC enhancements.

# Employment practices liability

## Key takeaway

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**Societal shifts are pushing a modernized corporate culture that prioritizes inclusion and diversity. Legislation is increasingly holding companies and their leaders accountable for employee-related issues. Expect sharpened scrutiny of internal policies and procedures regarding harassment and gender-bias claims – and higher retentions for middle market companies and all California-based organizations**

## Rate predictions

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### Overall

Flat to +5%

### California

+5% to +10%

### Media/entertainment

+15% to +30%

## Contact

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### Class action waivers in employment arbitration agreements stand.

- The Supreme Court held that class action waivers in employment arbitration agreements are valid and enforceable.
- The decision does not impact state laws allowing collective actions, such as California's Private Attorneys General Act (PAGA), agency-initiated actions (suits led by the Department of Labor and the Equal Employment Opportunity Commission (EEOC)) or claims by non-employees.
- Legislation to carve out sexual harassment claims from class action waivers is in the works.

### The #MeToo movement shows no signs of slowing down.

- The EEOC has filed more than 10 lawsuits against various organizations charging them with harassment.
- Underwriters are taking an extensive look at policies and procedures, training and claim processing, paying close attention to whether higher executives are aware of company values.
- Workplace culture remains the key driver behind the presence or absence of workplace harassment.

### Pay equity is another issue moving to the forefront in the U.S. and abroad, making it a major concern for insurance carriers.

- California, New York and Massachusetts have led the charge for broadening state equal pay laws, but New Jersey now has the broadest equal pay law in the U.S. More states continue to enact wage disclosure/transparency laws and ban salary history questioning.
- Globally, many countries have begun enforcing legislation that encourages pay transparency through required pay data reporting
- Underwriters are inquiring about pay equity reviews, whether or not required by law.

### Capacity remains stable and rising rates may encourage more interest on the part of carriers.

- Merger and acquisition activity among carriers has had little impact on the EPL marketplace.

# Errors and omissions

## **Traditional E&O market capacity continues to erode as carriers focus on underwriting pure cyber risk**

- We expect small price increases for clients with significant professional services offerings.

## **Insureds should review their E&O exposure and existing coverage as part of their strategy to address growing cyber exposures.**

- Companies should review the limitation of liability and indemnification clauses in their customer contracts, as underwriters are more closely scrutinizing these provisions, especially as they relate to unforeseen cyber risk exposure.
- Further, as a best practice, when insurance is required in a customer contract, the type of insurance (E&O and or cyber) should be specified.
- Companies should review customer use policies and guarantees regarding any estimated or guaranteed service availability.

## **Carriers are growing increasingly sophisticated in their underwriting.**

- Insurers have tightened pricing and retention guidelines for companies offering just-in-time services or guaranteed uptime or output time in their service contracts.
- Certain carriers are limiting or restricting certain classes of business in response to large recent claims.
- Carriers are reviewing and examining their exposure to intellectual property risk and are reviewing insureds' intellectual property clearance procedures to understand the risk of third-party intellectual property claims.
- Although carriers continue to accept manuscript policies to directly address professional services risk, they are beginning to increase premiums for these policies.

## **Key takeaway**

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**As professional services firms continue to leverage technology, claims alleging a failure to properly render those services are increasingly overlapping with traditional cyber coverages.**

## **Rate predictions**

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Flat to +5%

## **Contact**

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# Fidelity/crime

## Key takeaway

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Despite recent court decisions favorable to policyholders regarding social engineering cases – a key focus in the fidelity/crime sector – buyers should not jump to the conclusions that they are protected without an affirmative grant of social engineering coverage.

## Rate predictions

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Flat to +5%

## Contact

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**The market is in transition as it evaluates the impact of recent policyholder-friendly court decisions that found coverage under the computer fraud insuring agreement of commercial crime policies for social engineering schemes.**

- While these rulings are favorable for policyholders, other courts have ruled otherwise, and it is important to continue to evaluate the affirmative social engineering language available in the marketplace.
- Large losses are impacting markets in both the U.S. and London and the schemes being perpetrated continue to evolve and test the ability of the coverage to respond.

**Recent court decisions in *Medidata Solutions, Inc. v. Federal Insurance Company and Am. Tooling Center, Inc. v. Travelers Cas. & Surety Co.* have caused insurers to take a step back and reconsider their policy wording.**

- The Second Circuit, applying New York law, ruled that Medidata was entitled to crime insurance coverage and that the computer fraud section of the policy provided coverage for a social engineering scheme.
- Similarly, the Sixth Circuit, applying Michigan law, reversed a prior ruling in favor of the insurance company and ruled that American Tooling was entitled to coverage for money lost in a social engineering scam.
- In both cases, the computer fraud insuring agreement, previously viewed as limiting coverage for a hacking event, was broad enough to provide coverage for losses involving an insider being duped.

**The market will react; we have seen carriers amending policy language to specify that the computer fraud insuring clause is not intended to cover social engineering schemes.**

- The market continues to offer affirmative grants of coverage for social engineering.
- Insureds need to evidence strong internal controls and policies and procedures that limit their exposure to these losses.
- Separate questionnaires are still being required and coverage language continues to vary by carrier.

**Due to the potential overlap between fidelity/crime policies and other policies (e.g., cyber, kidnap and ransom [K&R]), organizations are evaluating their exposure and determining which policies are most likely to respond.**

- Carriers are starting to impose clarifying language to eliminate overlaps.
- In general, for losses involving funds or tangible property, insureds should look to their fidelity/crime policy.
- For losses involving theft or loss of intangible assets, such as data, insureds should look to their cyber policy first.
- For ransomware attacks and the like, a K&R (special crime) policy may provide some coverage as well.

**While flat rates are predicted for 2019, one U.S. lead market is pushing for increases of up to 10% across their book.**

- An increase in crime losses has started to affect the leading London syndicates.
- M&A activity among carriers has not impacted this line of insurance.

# Fiduciary

## Key takeaway

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Consider adequacy of limits as loss trends have been pushing up loss frequency and severity.

## Rate predictions

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### Overall

-5% to +5%

### Companies with large concentrations of company stock in benefit plans

Flat to +12.5%

### Companies without/limited company stock in their plans

-10% to +5%

### Financial institutions without proprietary fund exposure

-3% to flat

### Financial institutions with proprietary fund exposure

Flat to +50% (or more)

### Employee (ESOP) owned firms

+5% to +10%

### Commercial private and not-for-profit (NFP) entities

-3% to +5%

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### Expect stable pricing except on challenged classes.

- **Stable capacity:** Notwithstanding recent insurer M&A activity, the fiduciary market will likely remain competitive, with over \$500 million in advertised capacity. However, for asset managers with proprietary funds within their plans, it can be challenging to find willing capacity.
- **Primary market concentration:** A few carriers will continue to lead the vast majority of programs. Nevertheless, other insurers may be opportunistic and competitive.
- **Blended coverage:** Private/not-for-profit companies often buy fiduciary as part of a larger management liability package, with directors and officers (D&O), employment practices liability (EPL) and/or other coverages. For public companies (and large private companies), blended programs are far less common, with D&O likely separate from fiduciary. Blended coverage with EPL and/or crime, however, is a consideration.
- **Rate:** Premiums and retentions are generally flat, but faced with excessive fee-suitability claims, incumbent carriers want increases (though they may settle, in part, for a higher retention). Market factors, however, are tempering those positions as new, opportunistic players may see post-claim plans as better risks. Excess rates remain very competitive. Material changes in plan assets, specifically employer stock, may result in increases in premium (and securities retention for publicly traded companies). Church plans, universities and public plans may continue to see increased rate pressure.
- **Coverage terms:** Terms have largely been stable, except for challenged classes where terms have been restricted. Asset managers face higher retentions or exclusionary language related to proprietary funds. Regulatory dynamics – including those around privacy, like GDPR – may drive innovation, but we have seen less carrier innovation in fiduciary liability than elsewhere in financial lines.

### Loss drivers continue to trend upward, putting pressure on insurers. Challenging risk classes will be impacted most.

- **Asset managers:** Asset managers with proprietary funds within their plans will face the most challenging renewals in 2019.
  - *Already been sued?* Although it may seem counterintuitive, an asset manager who has already been sued will likely be considered a better risk. Nevertheless, incumbent insurers that have had to pay for a prior or pending claim will likely look to increase premium in order to recoup some of the loss.
  - *No such claim yet?* In today's environment, claim-free is not a good thing. Insurers believe that for asset managers with proprietary funds within their plans, it is only a matter of time before a claim will be made. Accordingly, we expect pull back on renewal terms from the incumbent and limited interest from alternates.

- Expect carriers to materially narrow coverage. At least one leading insurer has and will likely continue to look to broadly exclude this risk. Increased retentions are also possible. Do not expect a premium credit to be associated with any coverage reduction. Even if coverage is restricted, it is possible that premium may nevertheless remain flat or increase.
- **Are limits adequate?** In an environment of rising frequency and severity, buyers should evaluate whether their limits are adequate for their exposure. Analytical tools can be instrumental in that evaluation.
- **Fees suitability:** Fee-suitability litigation (cases alleging that fees paid to investment management companies have eroded employee retirement plan assets and that less expensive, non-proprietary investment options should have been offered), originally focused on very large retirement plans and sponsors, is now broadening to include record keepers and fund managers. Excessive fee-suitability litigation continues to drive severity and, correspondingly, available limits of liability. A wave of 403(b) fee cases has carriers looking more closely at universities and the health care industry. Plaintiffs are now pushing for jury trials, which could adversely impact awards and settlements.
- **Stock-related:** While more than 180 stock-drop suits have been filed since 2004 and insurers remain concerned over employer stock levels, these suits have all but dried up.
- **Law:** Supreme Court rulings have heightened fiduciary risk. ESOP plan fiduciaries no longer get a presumption of prudence when investing in employer securities, and plan fiduciaries have a continuing duty to monitor trust investments and remove imprudent ones.
- **Regulation and enforcement uncertainty:** With the DOL's Fiduciary Rule vacated, the SEC proposed its Best Interests Rule. The rule does not define "best interest," but it does provide a safe harbor if certain criteria are met. Until the dust settles, the heightened risk will continue to be a challenge.
- **Governance:** Developments in plan governance have heightened fiduciary exposure to potential sanctions, correction expenses and litigation. IRS Determination Letters, once extensively relied upon by plan sponsors to ensure that a plan document complied in form with the tax qualification requirements, are no longer issued in most circumstances. Today's employers must navigate this regulatory change and ambiguity without IRS validation.

# Health care professional liability

## Key takeaway

**The health care professional liability market is in transition. Despite substantial carrier merger and acquisition activity, capacity remains widely available, yet increasing severity is manifesting in sharpened focus on underwriting rigor and rate adequacy. Buyers should be prepared for more protracted and detailed negotiations requiring forward planning and longer timelines.**

## Rate predictions

### Entity medical malpractice

Flat to +10%

### Physicians medical malpractice

-7% to flat

### Managed care errors & omissions

Flat to +10%

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## The health care industry landscape is continuously shifting.

- Increasing M&A activity, bankruptcies and (rural) closures create a shrinking pool of potential insureds and premium in the marketplace.
- Substantial regulatory uncertainty due to a fluid political landscape (What will happen with Stark laws?) will continue into 2019.
- Financial pressure: Decreasing reimbursement alongside increasing costs are leading some facilities to seek ways to expand their revenue streams.

## The sector faces new, emerging and accelerating risks.

- The opioid crisis is a key focus of carriers. To quantify exposures, carriers are asking ever more detailed questions on opioid management and control programs; MCE&O exposures are increasingly faced with exclusionary language.
- The proliferation of eHealth tools and solutions is changing health care delivery and creating new areas of liability and regulatory scrutiny.
- Sexual abuse cases are increasing; the result of intensified focus arising from #MeToo and shifting cultural attitudes.

## Increasing severity is putting pressure on carrier loss ratios and thus rate.

- Increasing severity trends, particularly in specialty areas, are putting upward pressure on rates and terms and conditions. These trends have created pricing distress in venues historically considered more favorable and within a few specialty segments of the market (e.g., correctional care risks are seeing increases of 10+ %).
- Some carriers are at an inflection point and are refining their geographic underwriting strategy and withdrawing from some segments. Yet capacity is still widely available and even growing, as evidenced by new entrants in the London marketplace.
- Expect terms and conditions to come under greater scrutiny from carriers in high focus areas: opioids, sexual abuse, cyber, etc.

# Senior living and long-term care

**Continued pressure on profitability is driving a hardening marketplace with greater volatility, underwriting scrutiny and a focus on hot-spot venues.**

- A back-to-basics approach continues to drive a heightened requirement for more detailed submissions, face-to-face meetings with underwriters, thorough supplemental information, clinical and data risk analytics and longer lead times to obtain quotations.
- Carriers continue to scrutinize this sector and several key markets have exited the space in the past 12 months. Most recently, several Lloyd's syndicates withdrew from the marketplace completely.
- Fewer carriers than ever are offering occurrence-based forms.
- Retentions (deductible or self-insured retentions) are also on the rise in efforts to improve profitability.
- However, we see new capacity entering the space and proving competitive on selective accounts.
- Merger and acquisition activity among carriers has had little impact on this sector to date.

**Several factors are creating emerging risks in the sector.**

- Class-action lawsuits focused on anti-consumer, staffing, marketing and ADA violations could be coming in more states.
- Expanded litigation beyond urban areas is affecting results in suburban and exurban venues more dramatically.
- Natural disasters, including wildfires, catastrophic storms and flooding, are drawing underwriter attention to disaster preparedness.
- Although occupancy challenges have dampened M&A in the sector, significant activity persists and a focus on due diligence, vetting policies and procedures, and mitigating turnover is critical to making sure the combinations will succeed. Underwriters will still focus on pre-acquisition loss history on assets that are in play.

## Key takeaway

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**The senior living and long-term care insurance marketplace remains in stark contrast to the overall health care industry, with less favorable conditions for buyers due, in part, to rising frequency and severity of claims.**

## Rate predictions

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+5 to +30%

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**Increasing claim frequency and severity trends, identified in actuarial and industry data, are putting pressure on carrier loss ratios, driving rate, pushing increased retentions and adding scrutiny to the overall underwriting process.**

- Recent studies indicate assisted living and memory care communities are averaging higher severity losses than those in skilled nursing facilities. Buyers will need to keep a keen eye on verdicts, settlements, class action matters and the evolution of tort conditions in various venues.
- Carriers are focusing more on management of falls, memory care and prescription drugs.
- Carriers have begun to restrict coverage grants, such as most favorable venue endorsements for punitive damages and are adding coverage triggers that allow defense costs to erode primary limits of insurance.
- Several states are seeing significant rate increases, including California, Illinois (Cook and the collar counties) and Florida.
- Natural disaster losses are negatively impacting property pricing and coverage grants.
- Auto and cyber lines of business are also under pressure due to adverse experience.
- Expect terms and conditions to come under increasing scrutiny from carriers in high focus areas.

# Aerospace

**Airlines:** This sector remains stable but is starting to show signs of hardening.

- While there is still plenty of available capacity, market withdrawals and merger activity among insurers are putting pressure on total available capacity.
- Attritional losses in this sector have grown over the last couple of years while premium has decreased, squeezing underwriters' bottom lines.
- Accounts with growth and favorable loss history can expect flat rates or only slight increases while accounts with little or no growth and unfavorable loss history should expect larger increases.
- While there hasn't been a major loss in this sector for some time, there is growing concern over recent liability awards.
- Losses in 2018 have already surpassed 2017 levels in terms of frequency and severity.

**Aircraft lessors/banks:** This segment continues to remain stable for buyers, most of whom have loss-free programs, with ample capacity readily available from both domestic and international insurers.

- The insurance marketplace for aircraft leasing companies, banks and trading groups remains competitive. Capacity is abundant, with insurers prepared to compete for market share due to the long-term profitability of this class.
- The impact of reduced capacity and a tougher pricing environment in the wider aviation market may result in more stable pricing in this profitable sector, which we expect will remain a buyer's market.
- Specific market losses have affected rates, mostly limited to ancillary hull war coverage, which is experiencing significant increases.

**Product manufacturers and service providers:** Despite evidence of hardening, this segment remains attractive, and global capacity is abundant.

- Recent large loss reserves and payments relating to major manufacturers are affecting the overall profitability of the portfolio.
- We are, as a result, seeing signs of market resolve, especially from the international markets based in London and continental Europe, and reductions in premium are now less common, especially from the incumbent carriers.
- Insurers are reviewing rating levels carefully, restricting underwriters to flat renewals. Any reductions require approval by senior management. Unless the exposure justifies a risk-adjusted reduction in premium, many buyers will find it difficult to achieve pricing reductions.
- Appetite for long-term deals is declining.
- Insurer desire remains strong for sub-component product manufacturers where capacity remains plentiful, with limits up to \$500 million.

## Key takeaway

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**While capacity remains plentiful across the aerospace industry, a more thoughtful and strategic approach will be required to navigate the changing landscape of a market that is starting to level out after 10+ years of favorable market conditions for buyers.**

## Rate predictions

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### Airlines

Flat to +10%

### Financial institutions

-5% to +5%

### Products

Flat to +10%

### Airports and municipalities

Flat to +7%

### General aviation

Flat to +10%

### Space

-10% to flat

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**Airports and municipalities:** This segment is experiencing a distinct hardening trend.

- Soft pricing continues only for the few clients with multiyear contracts. Almost no new multiyear deals are being offered now.
- A few shock losses have shaken the market.
- Excess layers over a working layer are increasingly attractive to insurers and are more competitively priced.
- Marketing is apt to be necessary if municipal boards are to benefit from competitive options.

**General aviation:** The market is hardening quicker than other aviation segments due to loss activity and premiums well below the attritional loss level.

- Several markets, both domestic and international, have withdrawn capacity from the general aviation market, with helicopters being the hardest hit due to significant losses over the past year.
- Reductions seem to be a thing of the past, and most markets are pushing for small increases on profitable accounts and significant increases on accounts with loss activity.
- Presenting new and creative approaches, an attractive narrative, and consideration of alternative insurers can benefit clients in this changing market.
- Market conditions are stimulating innovation in the use of excess policies, retention structures, and swing protections.

**Space:** Technology advancements and new applications have created a vibrant business environment for the space sector; space insurers continue to adapt to an evolving marketplace.

- The highly competitive space insurance market continues to be attractive to the insurance buyer.
- 2017 catastrophes and several claims and anomalies within the space sector in the first half of 2018 have failed to stem the tide of further rate reductions.
- Significant overcapacity continues with an anticipation of more capacity emerging during the balance of 2018.
- Oversupply of insurance continues to be a primary driver in pushing premium rates for both launch and in-orbit risks to their current all-time lows.

# Cargo

## **The long-standing downward trend for rates is over.**

- The market turn is a result of multiple years of rate reductions and catastrophic claim events such as Tanjin, Thai floods, Atlantic hurricanes and earthquakes.
- Some industries have been hit especially hard: automobiles, life sciences, pharmaceuticals, aerospace and soft commodities.
- Attritional losses and high operating expenses have also pushed insurers to revisit their strategy and risk appetite.
- Reductions are very difficult to achieve without a thorough marketing exercise.

## **Capacity is still readily available and new capacity continues to enter the U.S. market. However, consolidation continues as well.**

- Large recent mergers will impact the cargo sector.
- At Lloyd's there continues to be a tightening, with some syndicates exiting the cargo space and an increased focus on book health rather than growth.
- Insurers are employing stricter underwriting guidelines to make better use of each market's available capacity.

## **Broad manuscript policy terms are still achievable with sharper underwriting focus on:**

- Catastrophic risk for goods in storage
- Broad wording for spoilage, deterioration and decay
- Broad control of damaged goods, including "fear of loss"
- Packing on high-tech machinery and equipment, as well as pharmaceutical and life science products
- Security on high-theft commodities, such as apparel and accessories, food and beverage commodities and pharmaceuticals

## **Key takeaway**

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**With an increase in frequency and severity of cargo claims, the market has become less predictable, and underwriters are scrutinizing risks more closely to improve profitability. Early planning and proper collection of critical underwriting data is key to achieving the best results.**

## **Rate predictions**

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Flat to +5% (good loss experience)

+5% to +15% (marginal/poor loss experience)

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# Construction

## Key takeaway

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**Auto rates continue to harden, and tightening labor markets may negatively impact workers compensation experience. Also, the use of new technologies in the construction industry is creating coverage challenges.**

*While M&A activity among insurers has yet to have a significant impact on buyers, a growing M&A wave among contractors and subcontractors is leaving fewer insurance buyers, edging up competition in the marketplace.*

## Rate predictions

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### General liability

Flat to +3%

### Workers compensation

-2% to +2%

### Auto liability

+5% to +20%

### Umbrella/excess liability

-3% to +3%

### Builders risk

Flat

### Professional liability

-5% to -10%

### Project specific/controlled insurance programs

-5% to flat

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## General liability (GL)

**Carriers are beginning to push for slight increases in GL rates.**

- Construction companies are diversifying operations and implementing cost-saving technologies (construction laser guides, laser measurers, wearable jobsite technology, etc.). Implementation of new technologies and processes are causing markets to closely evaluate new potential risks, creating upward pressure on GL rates. As more companies diversify operations, taking on new/different jobs and expanding territories, risk profiles broaden.
- Increased use of newer technologies in the construction industry is blurring the line between general liability and professional liability.

**Despite the increased liability exposure created by new technologies, markets may still be willing to reduce GL rates to offset auto increases in an effort to retain business.**

- Many are concerned that such pricing moves may leave GL underfunded, putting greater pressure on general liability rates in the future.

## Workers compensation

**Workers compensation pricing remains stable mainly because insurers are taking greater control in managing risks, including use of managed care, fee schedules and telehealth.**

- Despite plentiful challenges related to aging workers, increased opioid usage and higher medical costs, industry innovations addressing these issues have kept a lid on rates and should continue to do so through 2019.
- Telehealth facilitates greater interaction with injured workers.
- Managed care/directed care ensures in-network medical providers are used and return-to-work plans are followed.
- The industry is benefitting from greater legislative support for medical procedure and pharmacy fee schedules.

**Opioid overuse is being addressed through drug formularies.**

- Texas and Ohio have led the way in curbing opioid overuse and pharmacy costs with prescription drug formularies. Other states are following suit.

**Marijuana use presents challenges.**

- As more states legalize marijuana use, complicated claim scenarios arise.
- Increased use will impact the viability of drug screening programs.
- Reimbursement for medical marijuana varies greatly state by state.

## Auto liability

**Deteriorating underwriting results continue to put significant upward pressure on auto rates. Insureds with historically adverse auto loss experience are likely to receive significant rate increases.**

- Fleet size (vehicle count) has become a significant component of underwriting evaluation, attachment point and pricing.
- Insurance buyers with moderate to large schedules (in excess of 500 units) may be forced to increase primary limits to a minimum \$2 million combined single limit (CSL) or obtain an auto buffer layer to enable them to obtain excess coverage.
- Vehicle usage data (miles driven, location, etc.) is becoming required submission information.
- Data on vehicles “laid up” (not used for significant periods of time) or used only within the boundaries of a large construction project (limited public road use) can mitigate concern over fleet risk.
- Buyers must be proactive regarding fleet safety. Those with robust driver safety programs are generally able to obtain more competitive pricing.
- Poor experience in other casualty lines (GL and/or workers compensation) may exacerbate overall program pricing increases as carriers are unable to offset auto pricing increases.
- Few carriers are willing to write mono-line auto liability, leaving a limited marketplace.

## Umbrella/excess liability

**Umbrella/excess liability remains stable, with continued entrants into the marketplace offering substantial limits and competing for business.**

- The global landscape of markets continues to grow.
- While auto liability deterioration has continued to strain lead umbrella markets, competition remains ample, though this segment of the marketplace should be closely monitored.
- The mega cat losses of 2017 did not materially impact the umbrella/excess casualty marketplace as some feared last year. The current hurricane season seems unlikely to bring a repeat of 2017.

**Primary marketplace consolidation has led to coverage expansion, putting pressure on umbrella/excess carriers to follow suit.**

- Global competition continues to result in broadened underlying terms and conditions. In response, excess underwriters are doing a more thorough and substantive review of underlying coverage enhancements. Buyers should be careful to ensure proper follow-form coverage.

**Auto liability challenges continue.**

- Increases in auto accidents and payouts are driving negative results for primary carriers.
- Umbrella carriers are looking for higher attachments and rate increases when there are significant auto exposures.

**Builders risk**

**While the construction property and builders risk market continues to be competitive, with ample amounts of domestic and international capacity to fuel competitive terms and conditions, rising loss ratios globally may ultimately have a market impact heading into 2019.**

- The 2017 natural catastrophe events did not have the impact on terms and conditions most thought they would.
- U.S. market terms and conditions continue to be soft, with an abundance of capacity still available.
- Newer construction property markets are pushing for market share, which further drives competition.

**Wood frame business continues to be a challenging sector.**

- The wood frame arena has seen numerous large losses due to fire, as well as an increase in the frequency and severity of water damage claims.
- Some carriers have exited this space entirely or scaled back their capacity offerings.
- More stringent security requirements are becoming prevalent on wood frame construction sites (i.e., third-party monitoring).

## Professional liability

**The U.S. construction insurance market for contracting-related professional liability exposures continues to expand on both a practice- and project-specific basis.**

- Several new market entrants and increasing competition between existing carriers for renewable professional liability premium have softened the market for those buyers without adverse loss experience.
- Insureds are seeing a mix of lower premiums, higher program limits, additional sublimits and favorable policy terms at renewal – again, absent adverse loss experience or shifts in business practice mix.
- Additionally, there is increased competition to write project placements that do not contain primary design exposure for both contractors and owners, as carriers look to broaden their client base. (Architects and engineers will need separate coverage.)

**The market, however, continues to stay firm for project-specific placements with primary design exposure (project A&E or design/build project policies with all parties named as insureds).**

- Only a handful of carriers are entertaining this business, depending on the project type.
- Pricing continues to be high and varies significantly between markets, partially due to demand being driven by mega projects.
- Few exceptions are being made regarding terms and interparty/related party claims, making large design/build projects particularly difficult when trying to insulate JV partners from risk.

## Project specific/controlled insurance programs

**As interest in project-specific or controlled insurance program (CIP) insurance continues to grow, increased capacity in the insurance marketplace appears to be meeting the need, so we predict pricing and terms will remain competitive in 2019.**

- Increased market capacity, in some cases from non-standard markets, is triggering competitive rates on project casualty insurance, both jurisdictionally and by class of business.
- Dual-line CIPs continue, but general liability-only programs are still more prevalent – driven by low retention and limited to no collateral.
- New York's Labor Law remains a challenge for CIP market carriers due to subcontractor claim activity.

# Energy

## Upstream energy

### Key takeaway

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**Be prepared to restructure your program to mitigate today's modest rating upswing, giving plenty of notice.**

### Rate predictions

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Flat to +5%

## Downstream energy

### Key takeaway

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**The capacity now available to buyers is increasingly determined by individual risk profiles and relationships with key carriers.**

### Rate predictions

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Flat to +10%

## Contact

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## Upstream energy

**July 1 renewals saw modest rate rises compared to steeper increases in the first six months of 2018.**

- Insurers impacted most by 2017 windstorms are pushing for higher rate increases.
- Losses continue to be modest by historical upstream standards, leading to a less volatile rate environment.
- We have seen little change in overall underwriting capacity despite a handful of market withdrawals in 2018.

**Carriers will focus on profitability over premium income generation.**

- Income targets are less ambitious.
- Business planning processes are now more heavily scrutinized by senior management.
- Insurers are prepared to walk away from unprofitable business, despite the premium volume on offer.

**The presence of major insurers is growing through mergers and acquisitions.**

- Larger insurers can now boast significant capacity, enabling them to dominate the market and displace competitors.
- Established insurers with more modest capacity are expected to lose market share.

**Smaller insurers may prove to be more competitive in the months ahead.**

- Smaller insurers may need to become more competitive to maintain portfolio viability.
- Opportunities exist for buyers to take advantage of an evolving marketplace by restructuring their programs.

## Downstream energy

### **The downstream energy portfolio continues to suffer from an adverse loss record.**

- 2017 brought the worst losses of the past 10 years.
- Six losses over \$50 million have already been reported for 2018.
- Insurers that have not suffered from major losses will be more competitive.

### **Carriers will focus on profitability over premium income generation.**

- London market operations are coming under sharper scrutiny.
- We are seeing significant apprehension in the market over individual underwriter positions – enhanced by recent mergers and acquisitions.
- Income targets are now more realistic.
- Insurers are prepared to walk away from unprofitable business, despite premium volume on offer.
- Capacity available for programs not perceived as profitable is therefore becoming more limited.

### **Centralization of underwriting authority reinforces the gentle hardening dynamic.**

- Many underwriters can no longer commit to significant programs without reference to senior management.
- Erosion of underwriting authority has prevented buyers from achieving more competitive terms from the market.

### **Higher program limits are being sought by several significant buyers.**

- Factors motivating program expansion include rising oil prices, higher valued plants and increased BI values.
- This trend should yield increased premium income for insurers.

### **Some areas of the market remain competitive.**

- We have not seen, nor do we expect, significant market withdrawals.
- Recently relaunched underwriting operations are looking at existing business afresh.
- Restructuring programs will help buyers find opportunities.

# Environmental

## Key takeaway

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**As underwriting appetites continue to change, buyers will need to be diligent to find the best carrier relationship and coverage.**

## Rate predictions

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### **Contractors pollution liability**

Flat to +10%

### **Site pollution liability (PLL/EIL)**

-5% to +10%

### **Combined environmental + casualty/professional**

+5% to +15%

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**Indications of a hardening market are developing with respect to coverage terms for several risk classes.**

- Carriers are focusing on the products and classes of business where they are the most profitable, reducing market competition for certain exposures.
- High frequency and severity of loss are seen across all classes of business, especially for indoor air quality (IAQ) exposures.
- Changes in regulations (e.g., storage tanks) are affecting environmental products utilized for financial assurance.
- Coverage for IAQ and for known conditions (especially around development activities) continues to receive the most underwriting scrutiny.
- For site pollution liability (PLL/EIL) cover, small decreases are available for buyers with no loss history, while loss experience or IAQ exposures may produce increases reaching double digits.

**Changes in carrier ownership during 2018 may affect future underwriting philosophy and appetites.**

- The arrival of new entrants to the environmental marketplace slowed in 2018, reflecting a preference by some entities (insurance or capital markets) to acquire an existing book via merger or majority ownership versus building from the ground up.
- Mergers brought together carriers with differing environmental underwriting appetite and experience. We expect the merger partner with less (or none at all) environmental expertise to follow the lead of the more experienced partner.
- Some transactions have brought an infusion of new capital to environmental carriers. It is unclear how profit expectations will affect short- and long-term underwriting appetites.

**Carrier M&A has an impact on claim handling as well as marketplace appetite.**

- Carriers have different approaches to handling claims, even in cases where policy wordings are similar – the strictness with which the policy language is enforced, for example, can vary considerably. In the case of a merger, the culture of the acquiring company will usually come to dominate, and for insureds used to dealing with the acquired company, the claim experience may bring uncertainties.

# Special contingency risks: Kidnap and ransom

## Interest in active shooter/assault coverage is growing.

- Kidnap and ransom (K&R) markets as well as markets underwriting crisis management lines have shown increased interest in active shooter/assault coverage and begun offering customized solutions (either via endorsement or stand-alone) with a focus on post-incident crisis management support, legal liability, business interruption (both physical and non-physical damage) and indemnification of a variety of expenses.
- The solutions go beyond traditional terrorism or political violence coverage and we are seeing (and developing) products with the ability to complement existing terrorism placements.

## M&A activity among carriers has had little impact on K&R lines.

- Carriers merging in recent transactions have not brought together K&R markets, minimizing the impact in this space.
- The main drivers of kidnap are the continued decline of security and rule of law across numerous countries.

## Latin America

- Mexico remains the most dangerous country in the world for kidnapping, with the country's central and northern states continuing to have the highest kidnapping rates.
- The deterioration of the economic and political situations in Brazil and Venezuela will likely drive an increase in express kidnappings and extortions.
- Colombia poses a moderate threat of kidnapping as guerrillas, insurgents and paramilitaries continue to operate in the country's hinterlands.

## Middle East and North Africa

- Libya's political framework remains unstable, with militias controlling several parts of the country, ensuring a high level of risk to expatriates and locals.
- Security in Mali's northern and central regions remains poor, with several criminal and jihadist organizations, including al-Qaeda-affiliated groups, operating with increasing impunity.
- Yemen and Syria's ongoing conflicts will continue to pose very high levels of kidnap threat.
- In Iraq, criminal gangs and Islamic State Group cells continue to operate in disputed areas, kidnapping Iraqi locals, officials and foreign nationals.

## Key takeaway

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**The special risks insurance markets continue to reduce their exposure to cyber extortion events. All markets have now introduced a sub-limit for cyber extortion business interruption, and most markets are looking to restrict overall policy coverage to reimbursement of ransom, crisis consultancy fees and expenses and limited special expenses such as public relations.**

## Rate predictions

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-5% to +5%

## Contact

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### **Sub-Saharan Africa**

- In Nigeria, staff from mining, oil and development sectors face a rise in kidnap activity from insurgents, specifically in Borno, Kaduna and Delta states.
- The Democratic Republic of Congo, Somalia and South Sudan are the countries of highest danger.

### **South Asia**

- Kidnap for ransom is growing in Pakistan (particularly for foreign nationals of Pakistani origin) with the most recent cases in Punjab and Baluchistan states.
- In Afghanistan, the Taliban continue to be the main threat to foreigners and locals.
- In India, the abduction of wealthy business people's family members will continue to be a moderate threat.

### **South East and East Asia**

- In the southern Philippines, specifically central and western Mindanao and the Sulu archipelago, the risk of kidnap of foreigners by the jihadist militant and piracy group, Abu Sayyaf, will remain a high risk.

# Marine hull and liability

**In 2018, maintaining an expiring price is considered a good result; most markets are increasing rates for those with less than perfect loss records. We expect this trend to continue in 2019.**

- For best renewal results, early planning and discussions are a must.
- Clients should also be prepared to sacrifice long-term relationships with their underwriters if they want to achieve optimal financial results.

**The Lloyd's hull market is taking a tough stance on renewals, which could influence the U.S. domestic markets.**

- The changing appetite in London and a demand for stricter underwriting discipline have not yet impacted U.S. domestic markets – but they could.
- While international “blue water” tonnage is feeling the strain of increasing rates, U.S. inland and coastal tonnage has avoided the stress because the domestic hull market has a robust appetite for premium.

**There remains ample capacity in the marine liability market in both the U.S. and London.**

- Most marine liability renewals are not seeing the same pressure for increases being felt in the hull markets.

**Marketplace consolidation is a key factor in changing marketplace conditions.**

- The AXA-XL Catlin merger will be completed toward the end of 2018. The Hartford announced the purchase of Navigators, one of the largest U.S. markets for marine liabilities, in August 2018, with the deal set to close early in 2019. With this consolidation of markets, competitive leverage will decrease.
- We do not yet know whether there will be any change in philosophy or appetite for underwriting.

**The London Lloyd's market, a significant player for U.S. marine risks, has recently seen several key syndicates cease underwriting.**

- The remaining syndicates have been asked by Lloyd's management to provide business plans with a strategy for profitability.
- These developments have already resulted in a tightening of pricing, which is likely to continue into 2019.

**Some underwriting capacity in the U.S. is set to expand early in 2019.**

- This could counteract some of the consolidation discussed above.

## Key takeaway

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**For the first time in many years the marine market is hardening. The days of easily achievable, across-the-board reductions for clients with good loss records appear to be coming to an end.**

## Rate predictions

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### Hull

Flat to +15%

### Marine liability

Flat to +10%

### Excess liability

Flat to +10%

### USL&H

Flat to +10%

## Contact

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# Political risk

## Key takeaway

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**Because political risks are inherently difficult to predict, global companies should take a proactive approach in addressing political risks in their portfolio and act with urgency before crises unfold – insureds with political risk policies will be glad to have protection in place for countries of rising risk, such as Russia, Turkey, Brazil and China.**

## Rate predictions

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Flat

## Contact

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### Times of international tension intensify the interest in political risk solutions

- Trade war rhetoric has foreign investors concerned about retaliatory measures in host countries, including restrictions on currency transfer, holding up goods in customs, revocation of import/export licenses or outright embargos, sanctions, boycotts and expropriations.
- Major geopolitical developments giving rise to political risk include deterioration in U.S.-Russia relations, heated U.S.-China tariff talks, election of a leftist government in Mexico, continued political crises in Brazil and Argentina, and the recent currency deterioration in Turkey.
- Middle East destabilization lingers on, as evident in the continued Gulf Cooperation Council boycott of Qatar and the unresolved Syrian civil war.
- Recent claims in the political risk market have spanned multiple sectors (consumer products, manufacturing, food and beverage, oil) demonstrating that geopolitical risk is not limited to certain industries.
- Interest in political risk cover is particularly high with regard to China, Mexico, Russia, Nicaragua, Turkey, Argentina, Egypt and Hungary.

### Currency inconvertibility and non-transfer have become increasingly popular political risk coverages.

- Markets are extremely cautious with risks in Nigeria, Angola, Azerbaijan, Ethiopia, Egypt and other cash-strapped, commodity-dependent countries that have seen some currency inconvertibility/non-transfer losses.
- The losses highlighting this exposure (the inability to convert local currency into hard currency and/or transfer any currency out of a foreign country due to local capital controls) are inspiring buyers to seek higher limits.

### The political risk insurance market remains open and competitive due to a continued influx of capital.

- The total capacity per risk has surpassed \$3 billion, more than doubling the capacity of \$1.3 billion available a decade ago.
- New markets continue to enter the field, while long-time political risk carriers and Lloyd's syndicates increase their capacity.
- There has been some M&A activity in the PRI underwriter space, with modest impact on the marketplace.
- Despite a steady increase in claims recorded by Lloyd's from 2014 to the present, the marketplace remains healthy and keen to write new business. Rates are generally flat except in high-risk countries, where rates can be considerably higher.

# U.S. surety

## The marketplace remains healthy and continues to evolve.

- The surety industry continues to outperform most other financial service sectors, which overall have performed exceptionally in the last 18-24 months. Written premium levels have increased for most surety companies year over year, with loss ratios decreasing in most cases, according to SFAA reports.
- New entrants in 2017 and early 2018 added significant new capacity, while acquisitions and expansions improved ratings.
- Merger and acquisition activity is projected to continue at a rapid pace for at least the next year. While this could impact competition, it is also likely to create new market and product opportunities as newly combined companies look to maintain profitability and position.

## Surety companies are looking for new growth areas and commercial surety remains a focus.

- New products are being developed, although only a limited number have been deployed.
- There is a renewed effort by surety companies and brokers alike to push surety bonds as an option to replace letters of credit where the obligees are open to them.
- Insurance program bonds, environmental and creative commercial contracts are being written more readily and accepted more frequently.

## Sureties will see opportunities in 2019.

- Large multinational construction firms in Asia/Pacific and Europe will continue to invest in North American construction firms and U.S. infrastructure projects. Current tax reform for large C corporations will drive funds repatriation into the U.S., which will increase economic growth and productivity.
- Continued demand for repair and replacement of neglected infrastructure will drive creative P3 contracting opportunities. Look for more private involvement in traditionally public projects.
- Rapid and aggressive residential development could give way to increased public services activity as schools and municipalities launch projects to accommodate demographic changes in many areas of the country.

## Key takeaway

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**Greater surety capacity than ever is putting downward pressure on rates and improving underwriting conditions for buyers.**

## Rate predictions

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Flat to slightly lower

## Contact

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**The marketplace is not without challenges.**

- In early 2018, we saw the liquidation of the second largest contractor in the U.K., Carrillion, and default/restrictions placed on a leading Brazilian contractor, Odebrecht. While their U.S. obligations have not gone into default yet, the unrealized project failures may restrain underwriting requirements for global contractors. We are watching these situations closely for potential losses that could firm up surety rates.
- Since surety business outside of the U.S. involves significant reinsurance support, any reinsurance losses, related to surety or not, could impact surety rates.
- Labor shortages are reaching critical levels resulting in project delays, schedule slides and rising labor costs, which are certain to impact balance sheets and backlogs in 2019. Upward pressure on costs from economic and political activities combined with unfulfillable demand will continue to strain contracting budgets.

# Terrorism & political violence

**While ISIS is on its heels militarily in Syria and Iraq, its ideology and fighters returning to their homelands will continue to pose a critical global threat.**

- Overall, global incidents of terrorism have continued to decline, but security experts insist the threat persists and terrorist groups will focus on sophisticated attacks.

**Rates are mostly flat, with reductions possible in certain cases.**

- In countries or regions where security is deteriorating, rates are increasing in line with heightened risk. When carriers make capacity available it is snatched up quickly.
- In locations of heavily aggregated risk, New York City for example, the decline in rates in recent years has limited carrier appetite and diminished capacity. Demand for coverage in these areas, while steady, has yet to exert sufficient upward rate pressure.

**Most insurers are maintaining or even increasing their capacity and appetite, as well as expanding their product offerings.**

- There has been a notable increase in market capacity for nuclear, chemical, biological and radiological (NCBR) terrorism risks.
- Market capacity stands at approximately \$4 billion.
- Products responding to active shooter or malicious attack events have been available for several years, but growing interest in this area is stimulating marketplace creativity.
- Despite M&A activity among carriers, we have seen no impact on capacity thus far.

**In June of this year, the U.S. Treasury issued a review of the Terrorism Risk Insurance Program (TRIA).**

- Estimated total earned premium from 2003 – 2017 is approximately \$37.6 billion (excluding captives) and \$45 billion including captives.
- The Department of Treasury reiterates that a cyber incident can constitute a certified act of terrorism under TRIA.
- The report confirms that the 9/11 terrorist attacks resulted in approximately \$44 billion in loss.
- With TRIA set to expire at the end of 2020, the terrorism insurance sector is in something of a wait-and-see mode. We hope – and expect – that Congress will address the question of reauthorizing the federal backstop for terrorism insurers in a timely manner and avoid the confusion that ensued in 2014 when the law was allowed to lapse.

## Key takeaway

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**As pricing and capacity have stabilized after a period of price declines, insurers are increasingly trying to differentiate and innovate, bringing new benefits and challenges to insurance buyers.**

## Rate predictions

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Flat

## Contact

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# Trade credit

## Key takeaway

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**The strategic use of the trade credit product to enhance supply chain finance programs is now a key driver of revenue for trade credit insurers.**

## Rate predictions

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Flat to +5%

## Contact

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### Conditions vary by industry sector.

- The ongoing insolvencies and highly leveraged balance sheets in retail remain a challenge, resulting in very conservative underwriting in this sector.
- The oil and gas industry's stabilization has insurers looking to expand programs in this area of credit risk.

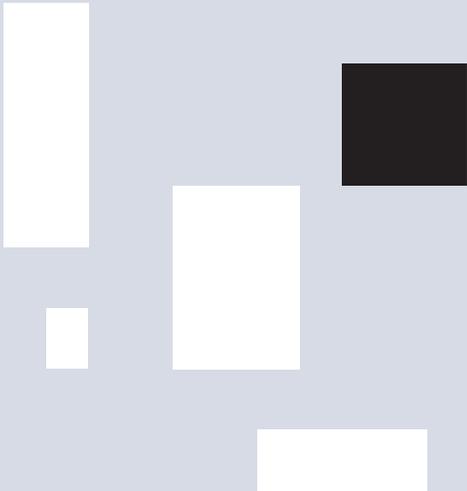
### Regional/geographic variance is also a major driver.

- Uncertainty in the Korean Peninsula has increased demand for insurance protection for credit risks across the APAC region.
- As England struggles with adjusting to Brexit, higher than average credit insurance claim activity will continue in the U.K.
- Insurers are looking to increase their risk appetite for LatAm credit exposures now that the economies of Brazil, Colombia, etc. are trending up.
- The ongoing weakening of the Argentinian Peso and the Turkish Lira has most insurers hesitant to write new business in these markets.

### Trade credit insurance premium rates are expected to remain flat or rise modestly through the rest of 2018 and into 2019.

- Large losses are impacting the carriers, which will tighten their underwriting stances.
- Trade credit insurance continues to support asset-based lending, receivables purchase programs and securitization wraps as companies monetize their receivables, and banks look to enhance their collateral for risks assumed.
- Bank-driven premium has traditionally produced lower loss ratios, thus helping offset general price increases in the overall market.
- The recent merger activity between insurers (and brokers) has had little to no impact on the trade credit market.





## About Willis Towers Watson

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