COMMERCIAL PROPERTY & CASUALTY MARKET OUTLOOK
Insights from USI National Practice Leaders
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EXECUTIVE SUMMARY

The commercial property and casualty market dynamic today is driven by two powerful, conflicting forces: large catastrophic losses and excess capital.

Despite experiencing five of the 15 costliest global catastrophes in the past two years, coupled with multiple large wildfires and other major loss events, which collectively caused in excess of $125 billion in total insured damages, the P&C industry remained stable in 2018, resisting significant and sustained market-wide rate increases. While the majority of P&C insurance buyers faced modest rate increases in the low-single digits, the steepest hikes were isolated to certain catastrophic property lines and a few liability lines.

Looking ahead to 2019, USI expects the rate trends to continue although the duration and magnitude will be difficult to sustain and may flatten out or possibly reverse for some lines. The majority of insureds are expected to experience flat to +5% rate changes, with rate variability rising or falling depending on the coverage line, program structure, loss history and market appetite. Pricing challenges are likely to persist in specific coverage lines such as property-exposed accounts in wind-prone areas, habitational risks and large commercial trucking fleets.

P&C market surplus will likely continue to grow, fueled by a booming economy, resultant growth in net written premiums and ever-expanding levels of alternative capital. In the face of competition from other carriers looking to deploy their surplus capital, incumbent markets are often reluctant to walk away from what they perceive to be below market pricing and will rather look to strike a compromise with clients and brokers to retain business.

Faced with underwriting challenges in the past year, carriers are more likely to ask for moderate-to-high rate increases for many insureds in the public company directors’ and officers’ space, employment practices liability and medical malpractice for healthcare providers in certain classes. By contrast, guaranteed cost workers’ compensation buyers are expected to benefit from rate reductions despite rising loss trends in most states. For other liability lines, rates have likely bottomed out as markets focus on underwriting discipline.

Highlights

- The P&C industry is well capitalized and surplus now stands in excess of $760 billion. The industry’s combined ratio as of mid-2018 is 98% per various rating agencies, however, this will likely approach 100% by year’s end.
- The diversified global reinsurance market will continue to spread the impact of catastrophic losses out in an efficient manner.
- Alternative capital, such as insurance linked securities, continues to grow year over year and is expanding into casualty and other non-property lines, keeping pressure on both traditional insurance and reinsurance margins.
- The pace of insurer consolidation will continue but is not likely to reduce competition in most lines in 2019.
- Insurance companies are benefiting from years of investment in data and analytics, robotic automation, mobile solutions and other technologies.
- Rising interest rates, lower tax rates, and adequate loss reserves will bolster insurance companies’ net investment income.

Challenges

- Insureds in windstorm, flood and fire prone areas are likely to experience upwards rate pressure.
- Insureds in more hazardous industries or with deteriorating loss profiles may be forced to consider retaining more risk to maintain rate.
- Liability loss cost trends are still outpacing rate increases, which may be unsustainable in the long term.
- Changing social perspectives and a growing awareness of sexual misconduct over the past year have led to more reported accusations and heightened dialogue over equal pay, wrongful termination and harassment.
- Despite advances in technology, commercial automobile continues to be a difficult line to underwrite and remains unprofitable despite years of steadily increasing premium rates offset by multi-million dollar jury awards.
Given the dangers to the public, potential damage to company brand and reputation, and the complexity of global supply chains, food safety is the biggest challenge facing the food and beverage industry and product recall insurers.

Cyber risk including high profile data breaches and imposter fraud are now common events, increasing board-level focus on cyber, crime, and reputational risk loss mitigation.

The steady uptick in punitive damage awards and emerging tactics such as legal financing trends are having an increasingly detrimental impact on the severity of liability losses.

The National Flood Insurance Program and Terrorism are key legislative issues to watch in 2019 and 2020.

**How USI Can Help**

Commercial insureds are entering 2019 with significant optimism about global economic activity. However, there is less certainty over how the recent spate of catastrophic losses and changing market dynamics would impact individual accounts.

In this time of uncertainty, USI is committed to helping clients gain greater control over insurance placement and program design decisions, rather than leaving the process to chance or the discretion of underwriters. Our experts will work with insureds to proactively articulate to carriers how their specific risk differs from other companies in the same industry.

USI’s tools are designed to help clients compete in today’s business environment. To analyze our client’s business issues and challenges, the property and casualty team leverages USI ONE®, a fundamentally different approach to risk management. USI ONE integrates proprietary business analytics with a network of local and national technical experts in a team-based consultative planning process to evaluate the client’s risk profile and identify targeted solutions. USI’s OMNI Knowledge Engine™, a real-time interactive platform created from more than 100 years of solving the problems of over 150,000 clients, and the Risk Performance Navigator, a web-based exposure assessment application, provide critical insights that clients can use to differentiate their risk profiles from competitors and better navigate challenging market conditions.

For more information about our tools and solutions, visit www.usi.com.
<table>
<thead>
<tr>
<th>Product Line</th>
<th>2019 Rate Forecast</th>
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<tbody>
<tr>
<td>Property non-catastrophic with good loss history</td>
<td>Down 3% to up 3% *</td>
</tr>
<tr>
<td>CAT property with minimal loss history</td>
<td>Flat to up 5%-10%</td>
</tr>
<tr>
<td>CAT or non-CAT property with poor loss history</td>
<td>Up 10% to 15% +</td>
</tr>
<tr>
<td>Primary general/products liability</td>
<td>Flat to up 5%</td>
</tr>
<tr>
<td>Primary automobile liability with good loss history</td>
<td>Up 5% to 10%</td>
</tr>
<tr>
<td>Primary automobile liability with poor loss history</td>
<td>Up 15% +</td>
</tr>
<tr>
<td>Umbrella &amp; Excess Liability</td>
<td>Flat to up 3%</td>
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<tr>
<td>Workers’ Compensation Guaranteed Cost</td>
<td>Down 10% to up 5% *</td>
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<td>Workers’ Compensation Loss Sensitive</td>
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<td>International Liability</td>
<td>Down 5% to 10%</td>
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<tr>
<td>International Property</td>
<td>Flat to up 5%</td>
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<tr>
<td>Medical Malpractice</td>
<td>Flat to up 15% + *</td>
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<td>Commercial Construction</td>
<td>Down 5% to up 5% *</td>
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<td>Up 5% to 20% *</td>
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<td>Network Security &amp; Privacy (Cyber)</td>
<td>Flat to up 5%</td>
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<td>Flat to up 10%</td>
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<td>Private Company Management Liability</td>
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<td>Aviation</td>
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<td>Environmental Pollution Legal Liability</td>
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<td>Environmental Contractors Pollution</td>
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<td>Environmental Combined general liability/pollution</td>
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<td>Kidnap &amp; Ransom</td>
<td>Down 5% to up 5%</td>
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<tr>
<td>Representations &amp; Warranties</td>
<td>Down 5% to 10%</td>
</tr>
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* - Rates will vary by geography, industry and loss experience
PROPERTY INSURANCE MARKET

As predicted in USI’s 2018 P&C Market Outlook, the catastrophe losses of 2017 were mostly an earnings event versus a balance sheet event.

Property rates increased from late 2017 into early 2018 due to market uncertainty but stabilized early in the second quarter. With a few exceptions, the momentum of rate increases slowed due to a combination of competition and abundant capacity.

Going into 2019, the market dynamics appear similar to last year. The 2018 global catastrophe events have resulted in aggregate insured losses of $25-to-$30 billion, but they are not likely to have any meaningful impact on overall market surplus, which stands in excess of $750 billion.

Even though markets are likely to push for rate increases, USI expects stable renewals and in limited cases rate reductions. In loss-affected areas of the country, mainly catastrophic wind zones, rates are projected to go up in the low single-digits.

In California, which in late 2018 experienced the state’s deadliest and most destructive wildfire in history, and where insured losses are projected in the range of $15 billion to more than $20 billion, property rates are expected to firm. Other Western states are likely to face similar conditions.

The Market Today and Capacity

- Capacity remains plentiful and readily available to be deployed across a host of risks.
- Deployment of working capacity for high-hazard catastrophic perils will continue to be underwritten carefully by many insurers.
- Other classes of business will continue to experience upward rating pressures including primary habitational real estate or multi-family properties, dealer open lot, heavy chemical and agri-business.
- Alternative capacity (catastrophe bonds and insurance-linked securities) continues to grow in scope and is the major contributor to property market stability.
- Underwriting standards will remain disciplined as improved profit margins are crucial.
- Capacity for stand-alone terrorism coverage remains broadly available, with an excess of $2 billion available in the global marketplace.

Highlights

- Several U.S. property markets and certain Lloyd's syndicates that absorbed a disproportionate share of losses are re-examining their risk appetites and tolerance for specific occupancy classes and industry verticals. This will likely contribute to pricing pressure and tightening capacity in those areas.
- Carriers are conveying a desire to capture increases in named storm or hurricane deductibles for accounts that have sustained losses.
- Terms and conditions for manuscript property policies are tightening. Examples: Storm surge coverage within named windstorm or flood, percentage deductibles for hail, and convective storm.
- High-hazard flood will be analyzed and underwritten cautiously as property carriers absorb the impact of increased losses.
- Cyber security is an escalating concern as it pertains to property coverage, and will remain a hot issue for years to come.

Forecast for 2019

- Competitive rates and possibly rate reductions may be offered to non-CAT accounts with high-quality risk protection, favorable loss records, and a good spread of risk.
- Accounts with wind-related exposures and losses (notably in the Carolinas, Florida and Texas) will undoubtedly face renewals with increased rates, potentially less broad terms, and reduced capacity.
- Non-CAT accounts with frequent or severe attritional losses should expect pressure on rates and terms.
- Insurance to value (ITV) remains an important measure of calculation for property carriers.
- Markets will continue to rely on catastrophic modeling systems (e.g. AIR and RMS) to obtain geographic exposure probable maximum loss (PML) assessments and the associated CAT load which will impact capacity and pricing.
What Insureds Can Do

- Start the renewal process early.
- Data quality and integrity must remain paramount and communicated to markets properly to achieve optimal results.
- Insureds should look to obtain secondary modifying characteristics for the most accurate modeling output.
- Meet with the underwriter(s) early and often to develop and foster relationships.
- Restructure break points on layered and quota-shared programs.

### Estimated Insured Property Losses, U.S. Catastrophes, 2010-2017 (1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of catastrophes</th>
<th>Number of claims (millions)</th>
<th>Dollars when occurred ($ billions)</th>
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<tbody>
<tr>
<td>2010</td>
<td>33</td>
<td>2.4</td>
<td>14.3</td>
</tr>
<tr>
<td>2011</td>
<td>30</td>
<td>4.9</td>
<td>33.6</td>
</tr>
<tr>
<td>2012</td>
<td>26</td>
<td>4</td>
<td>35</td>
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<tr>
<td>2013</td>
<td>28</td>
<td>1.8</td>
<td>12.9</td>
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<tr>
<td>2014</td>
<td>31</td>
<td>2.1</td>
<td>15.5</td>
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<tr>
<td>2015</td>
<td>39</td>
<td>2</td>
<td>15.2</td>
</tr>
<tr>
<td>2016</td>
<td>42</td>
<td>3</td>
<td>21.7</td>
</tr>
<tr>
<td>2017</td>
<td>46</td>
<td>5.2</td>
<td>101.9</td>
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Source: Property Claim Services® (PCS®); Bureau of Economic Analysis.

(1) Includes catastrophes causing insured property losses of at least $25 million in 1997 dollars and affecting a significant number of policyholders and insurers. Does not include losses covered by the federally administered National Flood Insurance Program.
Commercial real estate companies continue to invest in new development and value-add opportunities throughout the United States. This is especially true for mixed-use urban locations catering to young professionals. Real estate transactions remain at high levels with no slow-down in sight.

Due to quality of life demands, a large part of real estate development is in geographic areas exposed to catastrophes such as flood, wildfire, severe storm, hurricane and earthquake. Insurance companies are re-thinking how to deploy capital to manage aggregations in CAT-exposed areas.

**The Market Today and Capacity**

**Multi-Family Properties** - This segment of real estate continues to experience the most significant insurance capacity challenges. Beyond the natural catastrophe losses in 2017 and 2018, multi-family portfolios are producing fire and water damage losses, causing some carriers to exit this risk class or increase rate and deductible even for low-loss level insureds. With overall segment capacity shrinking, insureds with exposures to natural catastrophe and below average loss history can expect significant rate increases.

In addition, liability claims involving tenant discrimination, wrongful eviction, and sexual harassment have been unrelenting. Real estate owners and managers will need to provide comprehensive information on risk controls and risk management strategies when placing coverage associated with these exposures.

**Commercial** - Real estate owners, developers and managers in the commercial space have a distinct advantage in the market: Quality risks remain the focus of carrier capacity offerings. Portfolios exposed to natural catastrophe need a disciplined approach to achieve an optimal outcome in the marketplace.

**General Liability** - Coverage in this space is driven by claim frequency and an insured’s risk control approach to address potential exposures. Again, quality risks will receive preferential treatment in the insurance market.

**Frame Construction** - Due to the numerous large fire losses involving single, mixed-use buildings in recent years, frame construction projects are under increased underwriting scrutiny and face capacity challenges.

**Wildfire** - Carriers in past did not fully contemplate or price for wildfire exposures for properties located in the western part of the United States. The frequency and severity of recent wildfire events will likely change this behavior and lead to intense underwriting and rate and deductible increases.

**Severe Storm** - Tornado and large hail events are occurring more frequently with catastrophic results. Carriers offering capacity on assets exposed to storm damage are now carefully underwriting the risk and proposing increases to rates and deductibles in CAT-prone states.

**Highlights**

**Cyber** - Cyber criminals continue to target real estate companies, hacking into systems and networks to steal personally identifiable information or siphon funds from tenant’s escrow accounts.

**Tenant Lawsuits** - Crimes against tenants are on the rise. Property owners and managers are under increased pressure to provide a safe premise for tenants. Insurance companies are reviewing all aspects and information related to tenant safety and security.
Real Estate Professional Liability - The current high level of real estate activity has led to an increase in claims for “mismanaged” transactions and developments. Real estate companies are advised to obtain coverages that address operational exposures.

Active Shooter - The business income impact from active shooter incidents can be significant. These events, which often generate lawsuits alleging inadequate security, can create significant financial liabilities for real estate owners and managers.

What Insureds Can Do

Insureds can achieve better results if they are able to present themselves as a quality risk. For instance, residing in a catastrophe-exposed location does not necessarily mean an insured is a bad risk. Differentiation is key here. Pre-loss preparation, post-loss mitigation strategies, inspection protocols, and capital expenditure details are all important strategies that should be implemented and clearly communicated to insurance carriers.

Real estate owners and managers can benefit from analytics to develop a better understanding of exposures and claim trends for property and casualty lines. Carriers use the same analytic tools to assess a prospective client in order to understand the frequency and severity of risks.

The following strategies are recommended:

- Start the renewal process early and explore multiple market strategies.
- Review the impact of various deductible options to determine the cost benefit of these alternative deductible structures.
- Understand limit needs with analytics and benchmarking.
- Establish pre-loss protocols to maximize efficiency in the event of a claim.

Source: Munich Re

Wildfire Losses in the United States, 2008-2017

![Wildfire Losses Chart](image)
The marketplace remains flush with capital, with carriers continuing to compete for premium dollars with the main exception being commercial automobile liability.

The competition is not expected to slow down dramatically in 2019, particularly for clients with exceptional loss experience and the ability to demonstrate appropriate risk management practices. The most profitable insurers recognize that lowering premium every year to gain market share is not sustainable, and as such continue to underwrite each client on their merits.

While effective in the middle market arena, predictive analytics has not disrupted the risk management segment of the casualty marketplace as some expected. Nonetheless, USI expects continued improvement of predictive analytic tools and better forecast outcomes over time.

In the primary general liability marketplace, USI expects continued competition for premium dollars in 2019; but with a slight climb in rates overall. Competition will likely remain less aggressive for more volatile industries such as pharmaceuticals, heavy construction defect-exposed clients, and energy.

Pricing in the Umbrella and Excess Liability markets are likely to remain competitive and flush with capacity. Rates appear to have bottomed out for clients in most industries and markets are seeking to reduce the amount of aggregate limits they are writing on a lead basis. Additionally, punitive damage awards are increasing in frequency and severity and this trend will need to be monitored.

“Punitive damages awards are increasing in frequency and severity.”
TRANSPORTATION SECTOR OVERVIEW

Going into 2019, the trucking business remains robust although increasing driver wages and insurance costs are eroding profits.

Costs associated with labor, maintenance, equipment, licensing and compliance have increased steadily for several years. Truckers are charging higher fees for shipping services, but much of the increase is going to cover rising driver wages, which leaves many companies still struggling to make sufficient profit.

The Market Today and Capacity

Combined ratios for commercial auto liability market have deteriorated from 113.2 in 2016 to 113.5 in 2017. As a result of the deteriorating underwriting performance, commercial auto liability insurers are increasing rates and/or deductible levels for loss sensitive accounts.

In many cases, companies with a favorable loss experience are facing initial rate increases of 5% or more. Accounts with high loss ratios and CSA (Compliance Safety, Accountability) alerts, driving violations compiled by the Federal Motor Carrier Safety Administration, are experiencing steeper increases of more than 15%.

Underwriters are scrutinizing all accounts, with a particular focus on CSA scores, loss experience, and driver quality.

Challenges

- The firming rates are only going to make things more challenging for truckers.
- Compared to many other industries, insurance costs take up a larger percentage of truckers’ revenues.
- Since transportation is a low margin business, a 10% increase in insurance costs means trucking companies need to increase their revenue by as much as 20 times the impact just to cover its related cost.
- Transportation insurance losses are being driven by large jury awards, which regularly exceed $10 million and in a few cases $100 million.
- Plaintiff strategies such as using reptile tactics and attorneys loaning money to fund litigation have also negatively impacted claim costs.
- Umbrella and excess markets are requiring higher attachment points for truckers. For some clients with fleet sizes as low as 200 units, acceptable attachment points of $1 million a few years ago are now being pushed to $2 million and higher.

What Insureds Can Do

- The current hardening market dynamic provides an opportunity for transportation companies and their brokers to leverage solutions and processes designed to reduce insurance costs.
- Companies can work with risk specialists to review CSA scores and take corrective actions. The CSA score, which is used to rate motor carriers in various categories, such as unsafe driving, crash indicator, hours-of-service compliance, and driver fitness, is now the first underwriting factor used by insurers to assess a company’s risk profile and what they should pay for coverage.
- State-of-the-art analytics and modeling tools can be used to pre-determine the appropriate pricing and deductible impact, a process that helps to strengthen the trucking company’s hand during negotiations with carriers and level the pricing playing field.

Source: SNL Financial, A.M. Best
**WORKERS’ COMPENSATION**

Workers’ compensation trends have changed little in recent years. Guaranteed cost buyers are benefiting from a competitive environment, with average rate reductions ranging from low single-digit to low double-digit. The extent of rate decreases depends on the state or location of risk, classification of business, claims experience and safety and claim control practices. For clients on loss sensitive programs, rates have bottomed out for many buyers who have experienced rate reductions in recent years, although USI expects they will face flat renewals.

**Forecast for 2019**

USI anticipates 2019 underwriting and pricing trends will be similar to 2018. In fact, many states have already approved rate reductions.

Despite this, insureds who fail to improve loss results, have declining financial results, and/or may reside in more difficult industry classes or difficult state jurisdictions, can expect moderate upward rate pressure in 2019. This upward movement will be demonstrated more in the guaranteed cost arena than in the loss sensitive program area.

Markets are insisting on increased retentions for insureds who have sustained severe losses or have a real need for premium savings. As workers’ compensation combined ratios and investment yields continue to improve, cash flow underwriting is likely to stay as robust as it was in past years. Also, the steady deterioration of auto liability experience is having some impact on overall casualty underwriting, including workers’ compensation.

**What Insureds Can Do**

Insureds should re-evaluate the effectiveness of pre-loss safety and post-loss claims handling mitigation efforts and dialogue with their broker and insurer partners to ensure they are achieving optimal results from both initiatives.

- Working with their broker, insureds should leverage proper loss and financial analytics to determine their capacity to assume risk at various retention levels.
- Reevaluate applicable collateral alternatives and premium, and loss allocation methodologies.
- Ensure experience modification factors are properly calculated.
- Ensure payroll by classification codes are accurate.
MANUFACTURING/DISTRIBUTION SECTOR OVERVIEW

The manufacturing industry continues to experience a strengthening economic rebound following the 2009 great recession, adding over 1 million jobs and demonstrating 26 consecutive months of growth as of October 2018, according to the latest Manufacturing ISM® Report on Business.

In addition to the strong growth, the manufacturing landscape is going through dramatic changes, which have led to new opportunities, innovation and challenges.

Highlights

- **Strong Output** - The Manufacturer’s Alliance for Productivity & Innovation projects that the US manufacturing sector will regain all lost output by April 2019, with 2.8% average growth between 2018 and 2021.

- **Industry 4.0** - Manufacturers are riding the digital transformation wave at rapid pace, leading to better process automation and customized production. With 3D printing, Internet of Things (IoT) and robotics, to name a few, the industry is increasing its efficiency, output and speed to market.

- **Skilled Labor Issues** - A number of manufacturers are looking to temporary employees as well as flex schedules to meet staffing demands and remain competitive.

Challenges

- Ensuring the integrity and quality of complex automated production processes that involve less human oversight is a significant challenge for manufacturers. An error in the underlying analysis or data will extend throughout the automated processes.

- Technology has increased vulnerabilities: E.g. Cyberattacks can lead to product failure, theft of intellectual property, and business interruption.

- Skilled labor shortage is a significant concern. In a recent study, labor costs, retention and outsourcing was cited as the second biggest challenge by U.S. manufacturers, with 98% of respondents expressing concern over finding, retaining and engaging talent.

- Given the pace and complexity of technologically advanced operations, coupled with the skilled labor shortage, employee training and safety is critical to maintaining production.

- Due to globalization, minor disruptions in the supply chain can have a significant financial impact on manufacturers and distributors.

- Contamination, spoilage and recall are having a major impact across the food industry, with U.S. food safety regulators recalling about twice as many products as a decade ago.

- According to a recent study, product recalls by The Food and Drug Administration rose 92.7% between 2012 through 2017.

- The average cost of a claim for a major recall was $9.5 million, with product contamination being the main driver for recalls in the industry.

What Insureds Can Do

- Companies should work with risk specialists to conduct a comprehensive risk assessment, identify potential vulnerabilities in operations and supply chain, and design effective risk management programs to protect against financial and reputational harm.

- Employee safety training is essential to minimize risks associated with the labor shortage. Targeted safety and risk control plans can be implemented to reduce employee injuries, mitigate workers’ compensation costs and eliminate production downtime.

- Contamination, spoilage and recall risks can be addressed with custom-tailed programs, like USI FoodSafe, that protect Food & Beverage manufacturers against loss or damage to products across the supply chain, anywhere in the world.

Due To The Inability To Attract And Retain Workers:

- **28.4%** of manufacturers have turned down new business
- **33.2%** held off plans to expand or create new jobs
- **45.4%** cite this as the biggest threat facing their business

Source: National Association of Manufacturers (2018 Q3 Survey)
Despite an increase in the frequency of natural catastrophe losses, cyber breaches, and political risk threats, the international P&C markets continued to offer rate reductions ranging from 5% to 8% in 2018.

The Market Today and Capacity

Insurers are eager to offer rate reductions but are also reviewing and shoring up terms and conditions to avoid providing cover to non-traditional P&C losses inadvertently. For example, covering cyber under a general liability policy or property policy.

Although combined ratios are over 100%, there are new entrants to the international P&C insurance market and some existing carriers that are expanding their presence. Certain markets are increasing their owned networks through acquisitions, while others have sought to reduce cost by selling unprofitable units.

Highlights

- With Brexit set to occur in April of 2019, markets with UK-based exposures have been busy addressing how to provide coverage on a Freedom of Services (FoS) basis.
- Technology continues to change the nature of risk, opening doors to new entrants, driving convergence of sectors and creating new ecosystems.
- There is rapid development in several major technologies, like Blockchain, where multiple platforms, proofs of concepts and even live products launched across lines.
- Mergers and acquisitions continue in the insurance market, with little impact on available capacity due to huge capital reserves accrued in the last five years.

Forecast for 2019

- Primary foreign casualty - Guaranteed-cost programs should experience stable but moderate (5% to 10%) rate decreases.
- Primary foreign property - Property programs should experience stable but moderate (0% to 5%) rate increases - except for risks located in catastrophic zones.

What Insureds Can Do

- For companies with a decentralized insurance program, conducting a global risk assessment is recommended. Clients can achieve anywhere from 25-to-70% rate reduction on premiums through this process, and more importantly, eliminate gaps in coverage.
- Accurately report international exposures on a timely basis.
- Push standardized loss control and safety procedures across the organization.
HEALTHCARE PROFESSIONAL LIABILITY

The healthcare professional liability insurance market appears to be at a crossroad - much like the industry in early 2000 - with increasing claim severity and rates below loss costs.

Additionally, the industry is facing increased threats and risks from emerging exposures, such as regulation, Internet of Things (including cyber), telemedicine and telehealth, all of which threaten to drive overall claim activity.

In 2018, medical professional liability insurance companies sought to end a decade of rate decreases. As a result, USI anticipates that 2019 will be a transitional year, with rates, capacity, coverage, and terms in flux based on one or all the following factors:

- Geography
- Loss experience
- Industry vertical.

The Market Today and Capacity

Overall, total capacity exceeds $9 billion but is deployed selectively depending on location, losses and industry.

At the beginning of 2018, fifteen insurers controlled nearly 60% of the total market, with a combined ratio of 73%.

Highlights

- Strict underwriting is expected to continue as carriers seek to determine premium and coverage terms based on client and jurisdictional experience.
- Insured organizations will increasingly rely on brokers to develop the most cost-efficient programs and structures.
- Where loss experience is good, insurers are likely to hold renewal premiums flat or seek slight increases in line with general inflation.
- The convergence of industry and geographic factors is creating localized hard market conditions in which rates are increasing by 50% or more, accompanied by decreases in limits, coverage, and terms.
- As insurers seek to regain a degree of overall profitability, USI expects this trend to spread and become more noticeable in poor performing geographies around the United States.

Forecast for 2019

Subject to certain considerations, USI expects rates to remain flat or increase slightly, particularly for those organizations that are assuming a layer of risk and in areas where claim experience as reflected in loss ratio is averaging less than 80%. Organizations that fall into one or more of the categories below are likely to experience reduction in limits, coverage, terms, and conditions as well as overall rate increases:

- **Industry** - Senior Living, Skilled Care, Assisted Living, Post-Acute Rehab or Physician.
- **Experience** - Five-year loss ratio is greater than 80%.
- **Geography** - Operations located in Florida, Illinois, Kentucky, Louisiana, Maryland, New Mexico, New Jersey, New York, Rhode Island, Pennsylvania, and Washington, DC.

What Insureds Can Do

- The conditions impacting insureds in certain industries, geographies and with certain loss experiences represent operational shifts in the underwriting cycles that occur every 10 years or so. To successfully navigate these cycles, organizations can seek guidance from experienced risk specialists who have successfully steered companies through previous challenging markets.
- USI recommends that healthcare organizations take the time to evaluate current and potential future exposures, quantify risk, determine risk tolerance, and explore alternative risk financing strategies that might be needed in the coming 12-to-24 months.
- For organizations that have existing risk financing facilities and structures in place, such as a captive, now is the time to evaluate current structures and determine what improvements, if any, are needed. In many cases expanded coverage and financial optimization may be necessary.

Source: NAIC
Increased spending in the construction industry is expected in 2019, particularly for large projects. Specifically, USI anticipates increased infrastructure development in the areas of education, healthcare, industrial, and non-residential projects such as office and retail facilities.

In the large construction project space, safety, specialization, timeliness and staying within budget remain the biggest risks. With good risk management and the use of Controlled Insurance Programs (CIPs), insureds can avoid disruptions, reduce loss costs, and meet expectations of all parties who have an insurable risk.

The Market Today and Capacity

- Professional Protective Liability
  - Competitive - Excess insurance is readily available for owners.
  - Project-specific coverage can also be acquired.

- Workers’ Compensation & Employer’s Liability
  - Competitive pricing and terms.
  - High deductible/loss sensitive programs are offered with creative collateral alternatives.

- Primary General Liability
  - Competitive pricing and terms in certain jurisdictions and for non-residential construction.
  - Low deductible/no collateral requirements can be obtained for mixed use development.
  - GL Only CIPs admitted markets available to underwrite non-residential construction.

- Excess Liability
  - Competitive pricing and terms available.
  - Reinstatement of annual aggregates.

- Builder’s Risk
  - Competitive pricing and terms available.
  - Low deductibles offered.
  - LEG3, which provides the broadest coverage by excluding only improvements to the original material, design or specification for large construction projects, is more readily available.

- Capacity varies by line of insurance and construction type

- Industry consolidation continues and has not yet reduced capacity or competition.

Highlights

- There is greater emphasis on job site safety to reduce claims per man-hour.
- Building Information Modeling is widespread, fostering open collaboration and new ideas.
- Blockchain technology is on the forefront and may help to provide trust and verification of compliant work.
- Uninsurable conditions must be managed in a contract between invested parties to clearly outline the risk factors and how those risks will be treated. Uninsurable conditions may include liquidated damages for delayed completion or unforeseen workforce issues.

Forecast for 2019

- Total construction spending may produce a 4% increase in premiums in 2019, compared to 2018, while rates remain mostly flat in certain jurisdictions.
- Greater funding from state and local bond measures will impact educational facility construction.
- Increased infrastructure spending possible in 2019, if approved by Congress.

What Insureds Can Do

- Start discussions early at the design phase to create a construction risk assessment plan.
- Identify and assess risk in order of importance with the right risk management partners.
- Using the construction risk assessment plan, monitor risks at each stage of the project and address any real or perceived risks in real time.
- Understand the construction project risk management goals with a clear understanding of the exposures which can be transferred.
CONSTRUCTION SECTOR OVERVIEW

Market pressures continue to squeeze profit margins for construction contractors.

With so much uncertainty around trade tariffs, interest rate increases and higher material prices, economists are questioning whether the construction industry can sustain its strong pace of growth in 2019.

The headwinds notwithstanding the construction industry had a record-breaking year in 2018 as evidenced by a 6% year-over-year increase in put-in-place construction. The growth forecast remains strong for 2019 as the industry continues to enjoy a vibrant economy with favorable outlooks for all major sectors, both private and public.

Going into 2019, immigration and labor force issues, offsite fabrication, green construction, technology advances and effective subcontractor prequalification are expected to impact construction firms’ ability to manage risk effectively and efficiently.

While capacity for construction insurance remains competitive, insurers are likely to deploy capital selectively.

### Highlights

- **Trade Tariffs** - The impact of trade tariffs on project costs and profits remain unclear. Many reports in the first half of the year showed price increases for materials like steel, aluminum and lumber even though the tariffs had not been imposed yet. Curiously, following the imposition of tariffs, the price increases stabilized, and contractors are now taking a wait-and-see approach.

- **Modular and Pre-fabrications** - Pressure to be more efficient with building processes and cost has renewed interest in modular and prefabricated construction. Modular construction utilizes off-site manufacturing locations to speed up sequencing, thus reducing build time. Additional benefits include quality control and increased worker safety. This construction method, however, raises several serious concerns, including:
  - How general liability insurance policies would respond to a potential claim.
  - Transit and supply chain exposures.
  - How workers should be categorized for the workers’ compensation program.

- **New Technology** - such as the increased use of robotics drones, GPS and laser-guided equipment on construction sites - will continue to have a significant impact on the industry. Building Information Modeling (BIM), safety applications on tablets and smartphones, drones, and wearable technology are all advancing contractor’s ability to provide faster, safer, and better-quality projects on time and on budget.

### Challenges

**Labor Shortage** - A recent Associated of General Contractors (AGC) study conducted revealed 80% of respondents were having difficulty filling skilled labor positions. The labor shortage continues to be one of the leading trends in construction since the downturn in 2008. Even with Congress passing a bill to modernize and increase funding for careers in technical education, construction firms are struggling with recruiting and retaining talent.

**Catastrophe Exposures** – Wildfires, hurricanes, tornadoes, flood, snowstorms and other catastrophes have created record property losses in the United States in the last twelve months. With construction materials and equipment heavily exposed to these disasters, construction companies face increased property risks.

### What Insureds Can Do

- While capacity for construction insurance remains competitive, insurers are becoming increasingly selective with capacity deployment.

- USI expects construction firms that are proactive and disciplined on their risk management philosophy and approach will receive a more favorable view from insurance carriers. Having a strong safety culture and the ability to articulate an organized and developed claims trend and strategy are critical points to highlight in market submissions.

- It is important for insureds to work with risk advisors on developing analytics around various risk financing opportunities. This will help drive better decision making and favorable outcomes. Also, as decisions are made concerning material purchasing, construction firms should work with their risk advisors to ensure property and builder’s risk policies are structured properly to minimize cost and maximize coverage.
Scores of celebrities, politicians, business executives, and other high-profile individuals have been accused of sexual misconduct in the workplace since April 2017.

These incidents have sparked the global #MeToo movement and provided a platform for women and minority groups, like members of the LGBTQ community, to voice concerns over troubling workplace harassment issues that have been around for many years. Employee walkouts at large companies, such as Google, have also highlighted the issue of wage disparities.

The increased focus on harassment, discrimination and wrongful termination in the workplace have created significant liability exposures for employers.

**The Market Today and Capacity**

The Employment Practices Liability Insurance (EPLI) market is currently stable, with insurers continuing to underwrite each risk separately. However, as more alleged victims come forward, USI anticipates an increase in claims and payouts, which may drive premiums up in 2019.

For now, market capacity remains in abundance. Not only are the domestic markets writing EPL risks, but Bermuda and Lloyd's of London carriers are major market players.

Also, wage and hour (FLSA) policies are available on a standalone basis from some carriers.

**Highlights**

- Heightened sensitivity around sexual harassment allegations.
- The Equal Employment Opportunity Commission (EEOC) remains aggressive in its investigation of employee claims. The EEOC has filed over 89,000 complaints on average over the past five years.
- The cost of defending an employment practices claims can climb as high as $300,000 before any indemnity has been paid. The average EPL settlement is $125,000, with a median of $200,000.
- Other areas of heightened concern are unpaid internships, pregnancy discrimination, genetic discrimination, and invasion of employees' privacy.

**Forecast for 2019**

- Larger employers continue to be the target for class/mass action claims and will be facing rate increases of 5% to 10%.
- Corporate jurisdictions such as California, Texas and New York, continue to be problematic states for employers and greater rate pressure upwards of 20% is expected in these locations.
- With a lower unemployment rate, the workforce has more options with regards to employers. This may lead to less tenured employees, with more mobility.
- We anticipate smaller commercial clients purchasing Employment Practices Liability coverage more frequently.

**What Insureds Can Do**

- Set up underwriting meetings with your broker and insurance carrier to discuss updated and improved HR practices and procedures and ensure changes are clearly articulated.
- Be mindful in the hiring and firing practices as it regards employees.
- Use outside counsel, and if a corporation has specified counsel, do your best to pre-negotiate panel counsel and panel rates at the time of the renewal.
- Establish best reporting practices with your insurance broker and carrier, possibly introducing a bordereaux reporting, or other agreed upon reporting methodology. If not, report all claims as soon as possible.
Data risk has become part of every insurance conversation, from manufacturing to retail. Cyber is being viewed, more as a peril than as a line of insurance. This is resulting in some form of cyber coverage being offered as part of many other lines as well as a standalone coverage.

**The Market Today and Capacity**
- Sublimits for notifications, forensics and regulatory fines, among others, have become a thing of the past.
- Carriers are now offering coverage with “full prior acts” as they are realizing that there is no need for retroactive dates on these policies.
- Many carriers are releasing or preparing to release new forms as coverage becomes more streamlined.

**Highlights**
- Carriers continue to be concerned about aggregation as coverage expands to include contingent/dependent business interruption.
- The broadening of network business interruption to address any unplanned and unexpected network outage has some excess markets concerned.
- Underwriters continue to ask detailed questions and are utilizing third-party experts to assist in the assessment of a company’s controls, practices and procedures.

**Forecast for 2019**
- Underwriters will continue to access third-party experts in the underwriting of a risk.
- Competition will drive rate down, but the sustainability of such competition is questionable.
- Carriers will be challenged as to the scope of their coverage when the lines between data protection and consumer privacy are blurred with laws like Europe’s GDPR and the California Consumer Privacy Act of 2018.
- As global consolidation continues and programs grow larger, markets will become more enticed to offer larger blocks of capacity ($50,000,000 - $100,000,000).

**What Insureds Can Do**
- A complete and thorough submission focused on operations and controls will help get markets comfortable with a risk, resulting in more competitive terms.
- Clients should take advantage of carriers’ value-add services and electronic applications to maximize the value of their insurance spend.
- A broker needs to demonstrate market knowledge and an understanding of detailed terms and conditions. There are pockets of competitive capacity and coverage is continuously evolving.
- Establishing and maintaining a relationship with markets is increasingly important in managing premium and retention levels.
TECHNOLOGY AND PROFESSIONAL E&O

The market for professional liability has fragmented into many pieces, each with its own market condition.

Small to mid-size technology companies (up to $1 billion in revenue) are seeing significant competition as carriers push to increase their book on this mostly profitable line of business. Conversely, larger technology companies are seeing less competition and increases in rate losses in this space.

Risks that present with class action exposure (business to consumer) or have large volumes of personally identifiable information in their care, custody and/or control will, most likely, not see the amount of competition that other professional/technology firms will see.

The market remains competitive for the majority of miscellaneous professional liability risks although some classes like franchisors, real estate investment trusts and risks with exposure in the financial sector remain challenging.

The Market Today and Capacity

- Capacity remains stable although some carriers are pricing themselves out of the market when presented with a risk that has losses.
- Each carrier has its own philosophy on technology and errors and omissions coverage so finding the right home for a specific client requires a knowledgeable broker and a diligent search.
- Many carriers are releasing or preparing to release new forms as coverage becomes more streamlined.
- Market capacity tends to be $500,000,000 - $600,000,000 but capacity can be found beyond this if pricing is right.

Highlights

- Even organizations that serve other businesses are feeling underwriters’ scrutiny as many carriers are seeing multiple claims arising from the same incident/error.
- Underwriters are asking more detailed questions and are bringing in third-party experts to assist in the assessment of a company’s controls, practices and procedures.

Forecast for 2019

- Underwriters will continue to review a submission more thoroughly than in the past.
- Rates will increase for classes of business that have been deemed “high risk”.
- Markets will become more enticed to offer larger blocks of capacity ($50,000,000 - $100,000,000).

What Insureds Can Do

- A complete and thorough submission focused on operations and controls will help get markets comfortable with risk.
- Develop a better understanding of the full range of a customer’s business risks, define the scope and dialogue about how to neutralize the risk.
- Develop a detailed risk assessment checklist to prevent procedural mistakes.
Buying conditions have changed over the last year and fewer markets are willing to compete to write primary public D&O coverage.

The few carriers that continue to write this coverage are maintaining underwriting discipline and pushing for rate increases which can be significant for certain risks. Market preference for excess positions continue to support price moderation, allowing premium increases at primary levels to be mitigated in the excess layers.

Some markets have shown a willingness to expand coverage and compete on pricing.

**The Market Today and Capacity**

- **Pricing** - In general, +10% baseline price increase for primary policies for mainstream risks seems to be the norm. Desirable risks enjoy the best renewal results, but not without some premium increase.

- **Retentions** - Overall retention levels remain stable and consistent. Many underwriters are evaluating and adjusting retentions as part of the current underwriting discipline. Mergers and acquisitions (M&A) retentions are applied as needed, but this is not uniform across all markets.

- **Terms and Conditions** - No constriction in coverage is yet observed. Policies have been significantly expanded in recent years, either by the production of updated forms and or the addition of numerous endorsements. USI anticipates that consistent with the pricing discipline, exhibited markets will become more sparing and less compliant about expanding coverage.

- **Excess capacity and Side A** - High excess and Side-A placements continue to command market interest. Due to continued aggressive pricing in this space, minimum pricing levels appear to have been reached.

- **IPO Pricing** - The IPO market has hardened dramatically with severe pricing and retention structures. This market continues to get more difficult and less predictable. Carriers which have historically been leaders in writing this business have all but walked away.

- Industry consolidation continued in 2018. Certain markets appear to have significantly reduced appetite for IPO risks.

- Primary carrier options are generally consistent and some historically excess markets are repositioning to be able to write primary coverage. These carriers are more willing to do so if they feel they are getting the right deal.

**Highlights**

- Securities class action filings continue at record rates. The pace of securities litigation in 2018 rivals 2017, which was a banner year. A proliferation of plaintiff firms bringing frivolous claims underpins this trend.

- M&A related (merger objection) filings have increased substantially year over year and the trend is expected to continue. Filings have moved to federal court.

- SEC enforcement activity is below the levels experienced in 2017, but aggressive regulatory action under the current administration remains a threat.

- **Supreme Court** - Under the Cyan holding, plaintiffs can now bring Section 11 (registration statement) claims in state and federal court. USI expects litigation cost to rise as a result.

- Cyber continues to occupy a prominent position both in boardrooms and at the SEC.

- **Data Privacy** - GDPR compliance is an evolving issue.

- #MeToo movement awareness has moved into boardrooms and is already generating securities litigation.

- As international securities litigation increases, firms with international exposure continue to focus on obtaining globally compliant programs. More markets are also focused on expanding and improving efficient international coverage placement capabilities to better compete and serve their clients.

**Forecast for 2019**

The present market conditions are expected to continue into 2019. It is expected that markets will continue to push rate, despite having achieved recent rate increases. Excess markets are observant and will seek increases, although more moderately. Any significant market volatility, disruption or triggering event may accelerate these conditions. The soft years of the past are over.

- **Preparation is key**

- **Stay closely tuned to the market and keep your finger on the pulse**

- Above all, set proper expectations with clients.
PRIVATE COMPANY EXECUTIVE LIABILITY

The driving risk factor for private company executive liability in 2019 will continue to be Employment Practices Liability exposures given the impact of the #MeToo movement.

EEOC filings are at historical levels, with a strong focus on sexual harassment claims. An increase in total loss values is expected as the new slate of claims start to mature and close.

Financial performance continues to be a leading area of D&O risk for private companies. Also, there is early indications of increasing claims related to the responsibilities of executive management in addressing operational risk issues. These issues may include:

- Maintaining a safe work environment for employees who are concerned about violence or harassment and abuse.
- Classification of employees, post Dynamex, with increased investigation from state Departments of Labor.
- Preparedness for implementation of GDPR and other cyber risk controls.

**The Market Today and Capacity**

- Overall market capacity is plentiful; in excess of $500 million.
- The number of market participants continues to grow with several new entrants in the last year, offsetting some acquisition activity.
- Competition is robust, but some carriers are tightening capacity with smaller limit levels or moving to ventilated layers.

**Highlights**

- Sexual harassment
- Employee classification
- Workplace violence
- Cyber risk compliance and controls.

**Forecast for 2019**

- Continued, gradual firming of the market.
- Small pressure on rate, particularly for EPL.
- Close management of limits capacity.
- Carrier focus on retention levels with some upward movement.
- Increased diligence in underwriting risk control by executive management.

**What Insureds Can Do**

- Develop a strong marketing strategy with your broker by establishing renewal goals, setting expectations and targeting strong potential carrier partners.
- Provide underwriters an early and comprehensive submission that highlights strong internal controls and commitment by the executive team to risk management.

“Financial performance continues to be a leading area of D&O risk for private companies.”
Following an extended soft market and declining rates, 2018 experienced the biggest price fluctuations in the aviation market in many years. The year was also marked with a great deal of capacity change. A number of major syndicates left the aviation insurance market.

These changes and consolidations on the horizon should continue to edge pricing upwards in 2019.

In general, 2018 was a relatively safe year for the aerospace industry, but combined losses are expected to exceed $2 billion due to existing, declining losses.

The Market Today and Capacity

- **General Aviation** - Industrial fixed wing aircraft are perhaps the least affected by the current winds of change. Capacity is abundant but small to medium increases of 5% to 15% are expected on most renewals. Due to several rotor-wing losses in 2018, rotor-wing risks have seen the largest increases.

- **Airports and Municipalities** - While capacity is still high, rates are increasing for the most part. Large loss-impacted risks can expect significant increases in premium, 10% or more, with demand for higher retention.

- **Service Providers and Product Manufacturers** - Losses tend to drive the renewal pricing discussions in this class. Clients who have significant loss history are experiencing increases in the double digits. Grounding claims have had an impact and may lead to more changes.

Highlights

- Increasing underwriting standards and decreased flexibility.

- Overall capacity is still high but premiums are climbing.

- More aviation syndicates and markets are expected to consolidate.

- Underwriters are expected to continue the measured approach of increasing rates while seeking to avoid a market influx if rates and returns become too high.

Forecast for 2019

- Steady flow of losses combined with natural disaster losses will continue to shift pricing upwards.

- Underwriters will continue the push for higher premiums and reduced coverage.

- Unmanned Aircraft Systems (UAS) will continue to be a dynamic growth sector within aviation, but with small premiums, the long-term contribution to growth does not look to be significant.

What Insureds Can Do

- Present your broker with the most relevant, updated information on your business and highlight your focus on safety.

- Keep an open dialogue with your broker about what to expect at renewal and how many markets will be available to quote your business.

- Work with an aviation professional who can negotiate the best coverage for your premium using their knowledge of the small niche aviation market.
The crime insurance market continues its trend of stability.

Employee theft and social engineering fraud claims are the most prevalent.

Social engineering claims have nearly doubled since the previous year and is fast becoming the most important coverage an insured has. It is no longer a question or whether it will happen to an insured, it is a question of when and how prepared the insured is to lessen or eliminate the severity of the loss. Insurance can soften the loss sustained but there are caps on the limits being offered. Underwriting requirements are less invasive for additional limits but remain in place.

The Market Today and Capacity

- Crime insurance market remains stable.
- Market capacity continues to be abundant with continue trends to offer multiple year terms.
- Offerings for social engineering fraud coverage still fluid in terms of appetite within the market.
- Over $10 million in overall market capacity.

Highlights

- Employee theft claims remain the leading claims with social engineering claims becoming a fast second.
- Bitcoin/Cryptocurrency claims are becoming more prevalent and policy working needs to be adapted to cover these exposures.

Forecast for 2019

- Rates remain flat.
- Changes in premium will be brought on by changes in ratable exposures (employee count, revenues, claims activity, etc.).
- Social engineering will continue to be a growing issue for carriers which may lead to new policy language.

What Insureds Can Do

- Implement employee education on how to spot and avoid social engineering fraud.
- Formalize specific policies to implement authentication procedures internally to ensure approval and processing is legitimate.
- Careful screening during the hiring process can help reduce the chance of employee dishonesty.
- Employee termination procedures should be implemented and closely monitored.
While the market for fiduciary liability insurance has been fairly stable, fee litigation is not abating.

USI expects insurers to re-evaluate rates in 2019. Premium are likely to increase in the 5%-range on average. Sponsors or plans with increased exposure may experience higher than average increases.

The Market Today and Capacity

- While capacity is still plentiful, excessive fee litigation is not going away. There are several law firms now pursuing actions against plan fiduciaries of smaller plans with assets under $500 million. Historically, the focus has been on plans with assets greater than $1 billion.

- Insurers are beginning to look for rate increases on a case by case basis. Momentum with increasing D&O premium rates is leading these same underwriters to focus on other management liability lines.

- While currently these increases are usually in the higher risk group of policyholders, we anticipate a more macro approach by Q1 2019. Excess rates have stabilized and in many cases, increased limit factors are going up. While not yet a “hard” market, the landscape is firming.

The Key drivers of rate are:

- Fee litigation - targeting defendants with plan assets over $1B historically but the landscape is changing and plaintiff lawyers are looking at smaller plans.

- Investments in proprietary funds in the financial services industry, especially for smaller plans (<$500M).

Highlights

- Higher Education, Not-for-Profits and Healthcare continue to be a target for plaintiffs with various allegations of excessive fees and inadequate investment options.

- Financial Services companies with investment options in proprietary funds will find it very difficult at renewal. Many insurers are reluctant to offer terms at all, and those who will are limiting coverage by demanding small sub-limits for claims arising from these investment options and higher retentions. While difficult to place, there are insurers that will offer coverage although premium rates will be higher than average.

Forecast for 2019

Expect rates to begin to increase in 2019 along with the general market push on rates in most management liability lines. Insurers argue rates have bottomed out.

What Insureds Can Do

- Clients should present robust underwriting submissions to include:
  - Process to select, monitor and make decisions regarding the Plan, investment options and third-party service providers.

- Whether client utilizes third parties to assist in the selection and review of investment options.

- Process for periodic review of fees paid by the Plan, including peer benchmarking review.

- Risk management documents which provide detailed descriptions of processes and control over these areas of risk.

“Premiums are likely to increase in the 5%-range on average in 2019.”
In 2018, the environmental insurance market was impacted by insurance company merger and acquisition activity and a growing economy that drove more buyers to seek coverage.

More corporations are aware of environmental risks and want to use environmental insurance to protect their assets. This is in contrast to previous years, when environmental insurance was used mainly to satisfy a transaction, contract or regulatory requirement.

Carriers adapted well to the increased demand for environmental insurance products, although, going forward, they will need to create better underwriting efficiencies to meet the demand.

With more companies buying environmental insurance today, the claim frequency and severity continues to trend upwards. USI does not anticipate the trend dissipating in 2019. Mold claims continued to pose the biggest challenge, with a number of hospitality risks exceeding $10 million in mold claims.

USI expects continued growth and a competitive rate market in 2019 for most classes of risks except petrochemical, oil and gas, power and utility, and mining. Underwriting discipline is expected in certain real estate risks, such as hospitality, which will be forced to assume higher retentions and/or more restrictions for mold coverage.

### The Market Today and Capacity

The environmental insurance market remains highly competitive, with close to 50 insurers offering more than $600 million in limit capacity.

### Highlights

- The environmental market is experiencing a surge in private citizen lawsuits.
- State Regulation of Perfluorooctane Sulfonate (PFOS) and Perfluorooctanoic Acid (PFOA) continue to be hot issue. Insurers are scrutinizing risks, and will exclude coverage at the hint of these high-risk chemicals.
- Mass Torts and Product pollution liability risks are an escalating issue, especially after big court decisions against Monsanto on its product roundup.
- Increase in Violent Storms – that cause release of toxins either from historical site conditions or from storage of fuels or hazardous substances or from building materials. More corporations are buying pollution insurance.

### Forecast for 2019

- Rates are expected to stay stable, but vary by coverage line.
- Pollution legal liability rates are likely to range from a 5% increase to 5% decrease.
- Contractors’ pollution rates: flat to 10% decrease.
- Combined general liability/pollution: flat to 7% increase.

### What Insureds Can Do

- Create an environmental risk profile to identify exposures associated with an operation, qualify and quantify the impact on the organization, set retention levels and how to manage the risk.
- Develop customized risk maps which identify potential fines and penalties, known and unknown remediation, closure of facilities, and toxic tort liability.
- Develop sophisticated risk modeling platforms that can include the use of Monte Carlo analytics to look at a range of probabilities and to forecast potential liabilities over a long horizon.
- Develop internal educational tools, loss mitigation strategies, and identify the proper resources in environmental consulting and engineering to address environmental, health and safety matters or complex legal liability matters.
KIDNAP, RANSOM AND EXTORTION (KRE)

Rates remain stable as insurance capacity is largely unchanged again this year. Clients benefit from broad coverage extensions with the possible exception of cyber-related expenses. Kidnap and ransom insurers have made a concerted effort to clarify their intent surrounding this ever-evolving exposure.

The Market Today and Capacity

- A number of large carriers have moved away from underwriting KRE risks through their dedicated KRE underwriting group, choosing rather to their management liability teams.
- Market capacity remains largely consistent with most insurers routinely willing to offer $10 million to $25 million for traditional KRE exposures although higher limits are also available.
- Although ransom payments from cyber-extortion is a covered peril, KRE insurers have taken a firm stance that added expenses and costs such as loss of earnings, forensics, notification and liability should be covered under a cyber insurance product. KRE insurers routinely sublimit these additional expenses to $1 million or less depending on the overall KRE limit.
- A major carrier has introduced a new policy form that includes cyber extortion as a dedicated insuring agreement. This change allows the carrier flexibility to address cyber extortion separate from traditional kidnap and ransom.
- Also noteworthy is AIG’s push to endorse an enhanced assault extension to its D&O, employment practices and/or KRE policies.
- At least one major carrier has noted an uptick in take-up rate for workplace violence extension - a trend USI expects will continue.

Highlights

- Historically, focus has been placed on international travel as the precursor for KRE exposure. Red24 (now WorldAware) reports that 82 people are kidnapped for ransom daily which translate into more than 30,000 people annually. Moreover, 4 out of 5 business travelers are going to medium, high and extreme risk destinations.
- Although problematic countries and regions such as Mexico, Venezuela, Nigeria, Afghanistan, Iraq, Lebanon, Libya, North Korea, Pakistan, Somalia, Syria, Turkey and Yemen present ongoing risks and challenges, increased attention to domestic terrorism and workplace violence has been the focus of many U.S. clients.
- Since 2015, crypto-ransom kidnappings have been recorded in 12 countries, according to Control Risks.
- Moreover, a crisis incident response firm’s aptitude in handling crypto-ransom payments is also key.

Forecast for 2019

Competition among insurers remains healthy and will continue to keep rates and pricing aggressive. USI expects this trend to continue during 2019, resulting in pricing that is flat to +/- 5% depending on specific risk factors.

What Insureds Can Do

- Now more than ever, an integrated risk management approach that includes travel risk and security policies, physical facilities security, systems security, emergency repatriation, including medical assistance as well as business continuity is required.
- Work closely with risk specialists to coordinate KRE, cyber, general liability and crime insurance policies and pay attention to ‘other insurance’ provisions is critical.
- Be sure to include shooter and workplace violence extensions in KRE coverage, especially if coverage is not secured elsewhere.
- Clients should also confirm their KRE policy’s treatment of cryptocurrency as part of the definition of ransom.
- Clients should pay close attention to the expertise and experience of dedicated crisis incident response firms.
- Geographical footprint, training, risk assessment and mitigation services should not be overlooked.
- Remember the most important KRE insurance decision-making process remains the protection and welfare of an organization’s greatest asset, its people.
REPRESENTATIONS & WARRANTIES INSURANCE

Mergers and acquisition activity in 2018 is tracking relatively close to 2017 levels, with transaction count up 2-to-5%. On a cumulative transaction value basis, however, 2018 may be closer to a record year, according to some estimates.

There is increased uptake of R&W insurance, particular for transactions ranging from $50 million and $2 billion. In USI’s estimation, 40 to 50% of transactions in this range include R&W insurance.

The Market Today and Capacity

- Insurers continue to cite growth rates in excess of 20%.
- The number of insurers writing U.S. domestic transactions is nearing 25 now, up from 10 in 2015.
- The increased number of insurers and capacity have fostered competition, resulting in roughly a 10%-premium decline in 2018, compared to 2017.
- Uptake levels continue to increase due in part to R&W coverage being required as part of formal auctions or bid process.

- The growing number of insurers has led to greater interest in writing R&W insurance for $25-to-$50 million transactions – an underserved segment of the market prior to 2017.
- The number of dedicated primary insurers has remained fairly constant in 2018 and USI expects the same into 2019.
- Overall R&W market capacity continues to grow.
- Most insurers have at least $25 million in capacity with a growing number now offering $50 million to $100 million.
- Insurers with large $50-plus million capacities increasingly are looking to ventilate their capacity, limiting the primary writings to $30 or $35 million, especially when excess layers are purchased.
- USI expects a marked increase in the number of R&W insurers in 2019.
How can we help?

For more information regarding this topic, please contact your USI Consultant, or visit us at www.usi.com

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