

INSURANCE MARKET UPDATE

Northeast Ohio RIMS

September 9, 2014

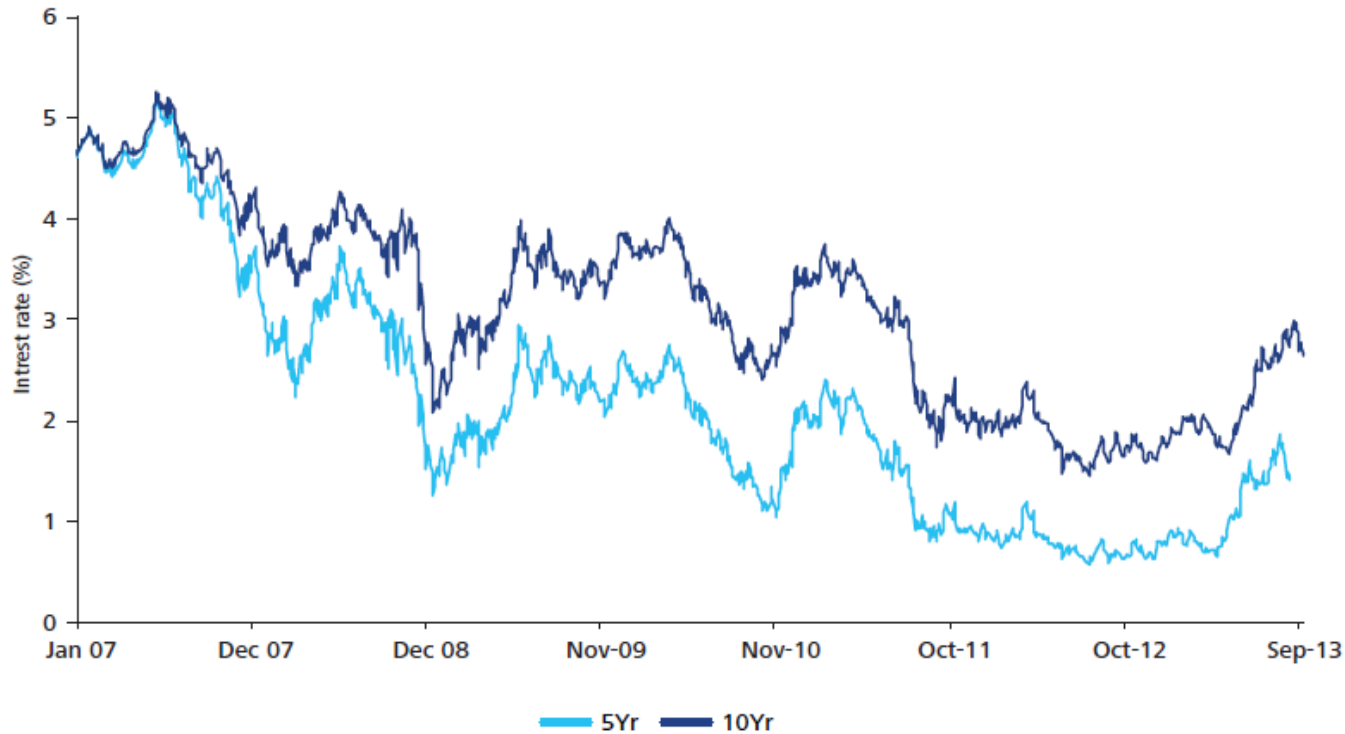
SAFE HARBOR STATEMENT

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Agenda

- **Industry Financial Review**
- **Economic Indicators**
- **Line of Business Pricing Outlook**
 - General Liability
 - Workers Compensation
 - Automobile
 - Umbrella/Excess Liability
 - Environmental
- **Industry Pricing Outlook**
 - Construction
 - Energy
 - Aviation
- **Questions**

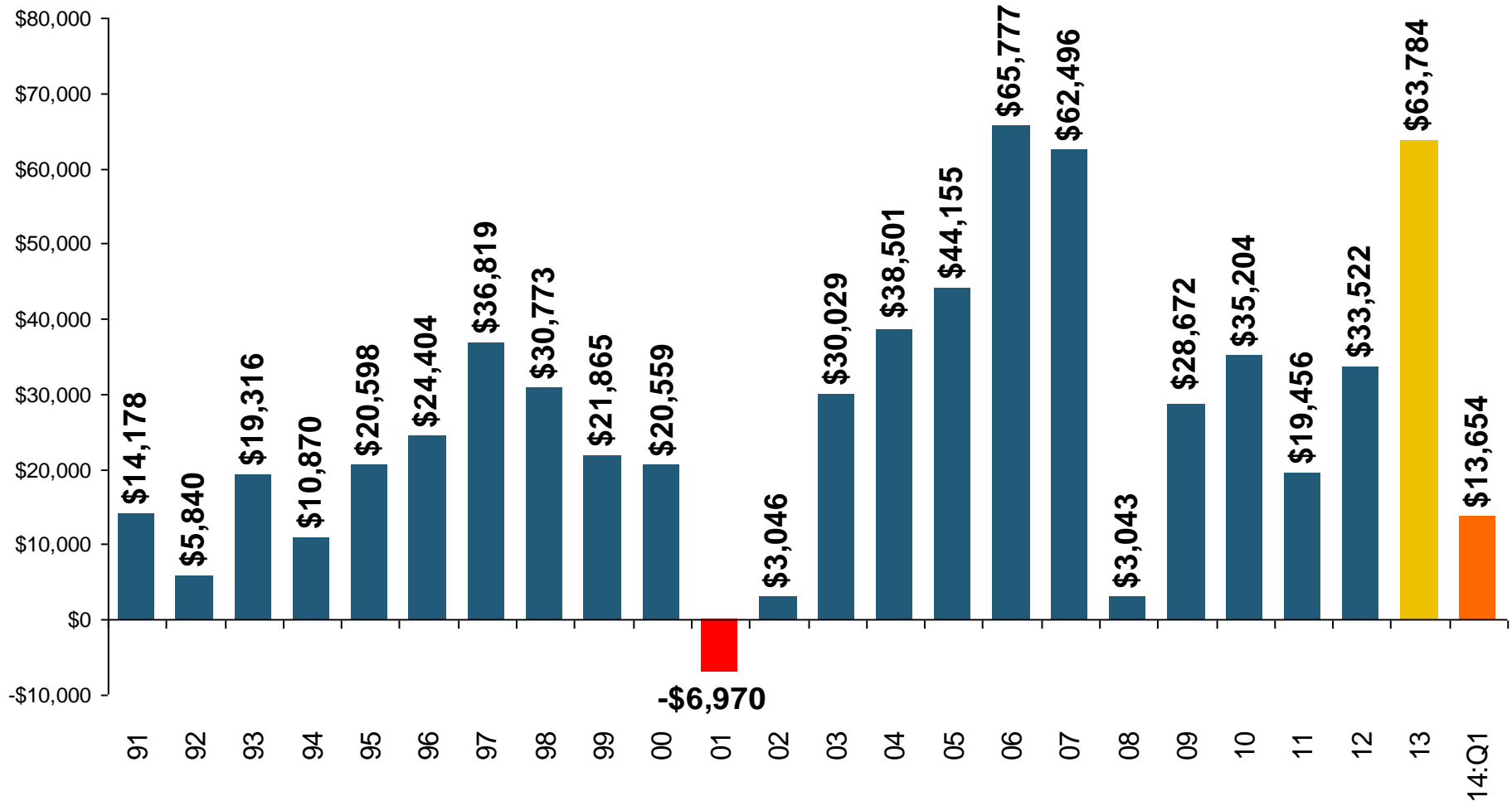
Low Treasury Yields - AGAIN



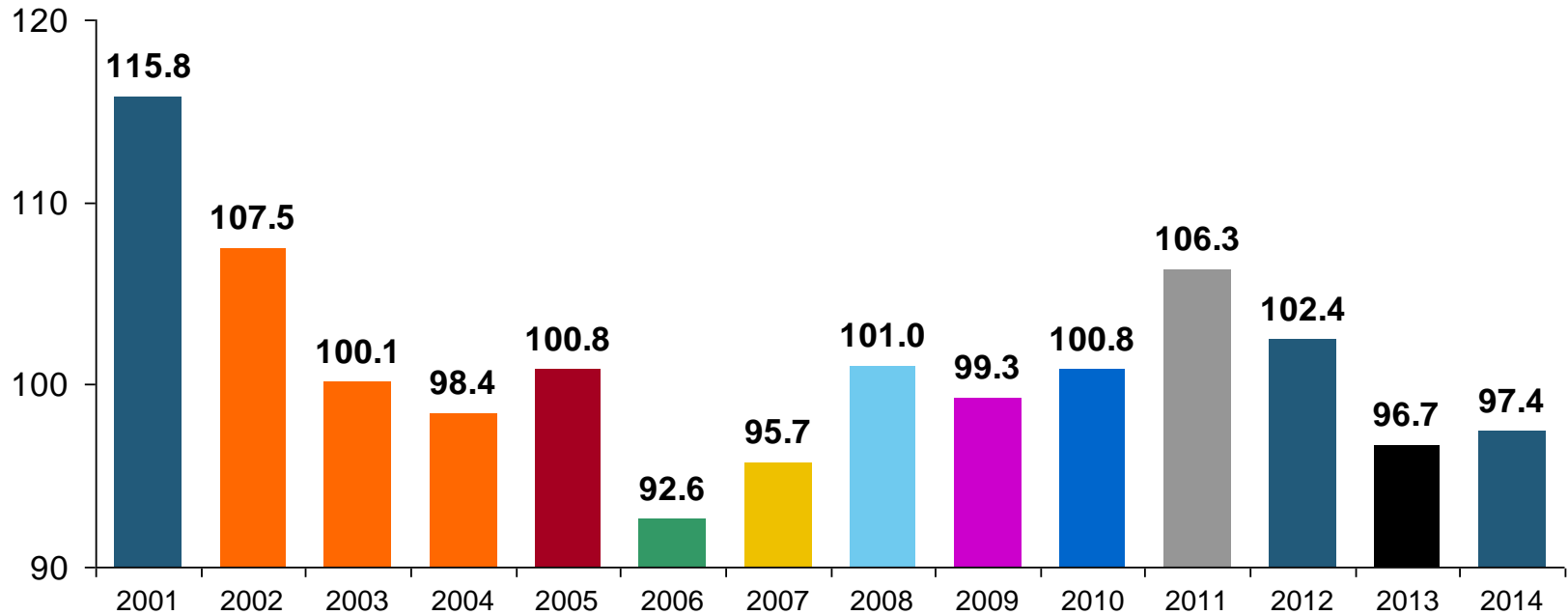
Source: US Department of Treasury. "Historical Treasury Rates."

<http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-LongTerm-Rate-Data-Visualization.aspx>. 2013.

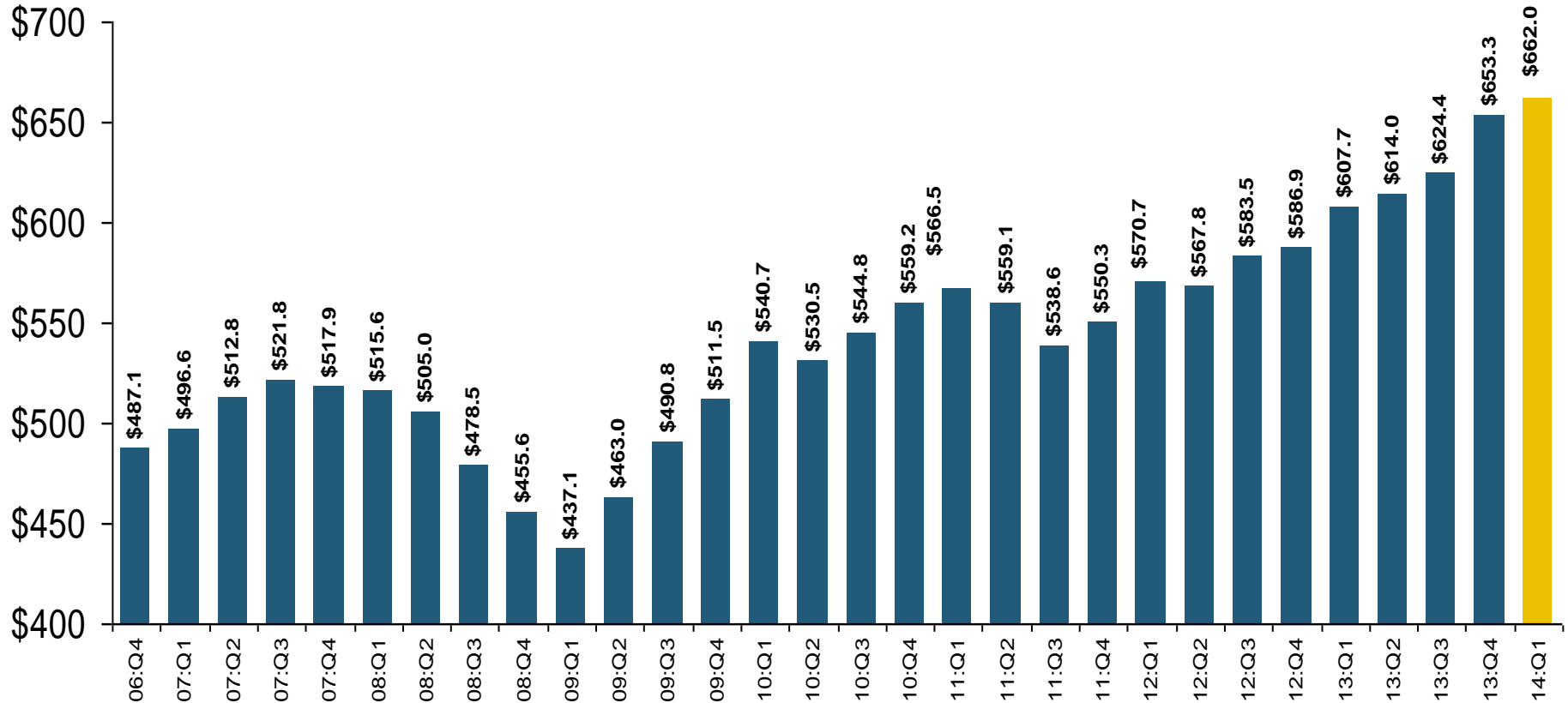
Property/Casualty Net Income



Property/Casualty Combined Ratio



Policy Holder Surplus



Economic Indicators

- **Unemployment**

- Jobless figures have been revised downward, and forecasts as low as 5.6% by mid 2015.

- **Manufacturing**

- Employment up 5.8% since Jan. 2010 to 12.1M jobs
- The value of Manufacturing Shipments in April 2014 was \$497.6B, a record high, exceeding pre-Crisis highs.
- Industries with highest growth: Durable Goods, Primary Metals, Plastics & Rubber, Food Products.

- **Energy**

- U.S. – 25.6 Trillion Cubic Feet per year – Largest Natural Gas Producer, surpassing Russia in 2014
- U.S. – Crude Oil – 9.1M Barrels per day, an 82% increase since 2008, on pace to over take Saudi Arabia in 2015.

- **Construction**

- June 2014 – Value of Private Construction hit 685B, up 37% from 2010, but still 25% below 2006 peak.

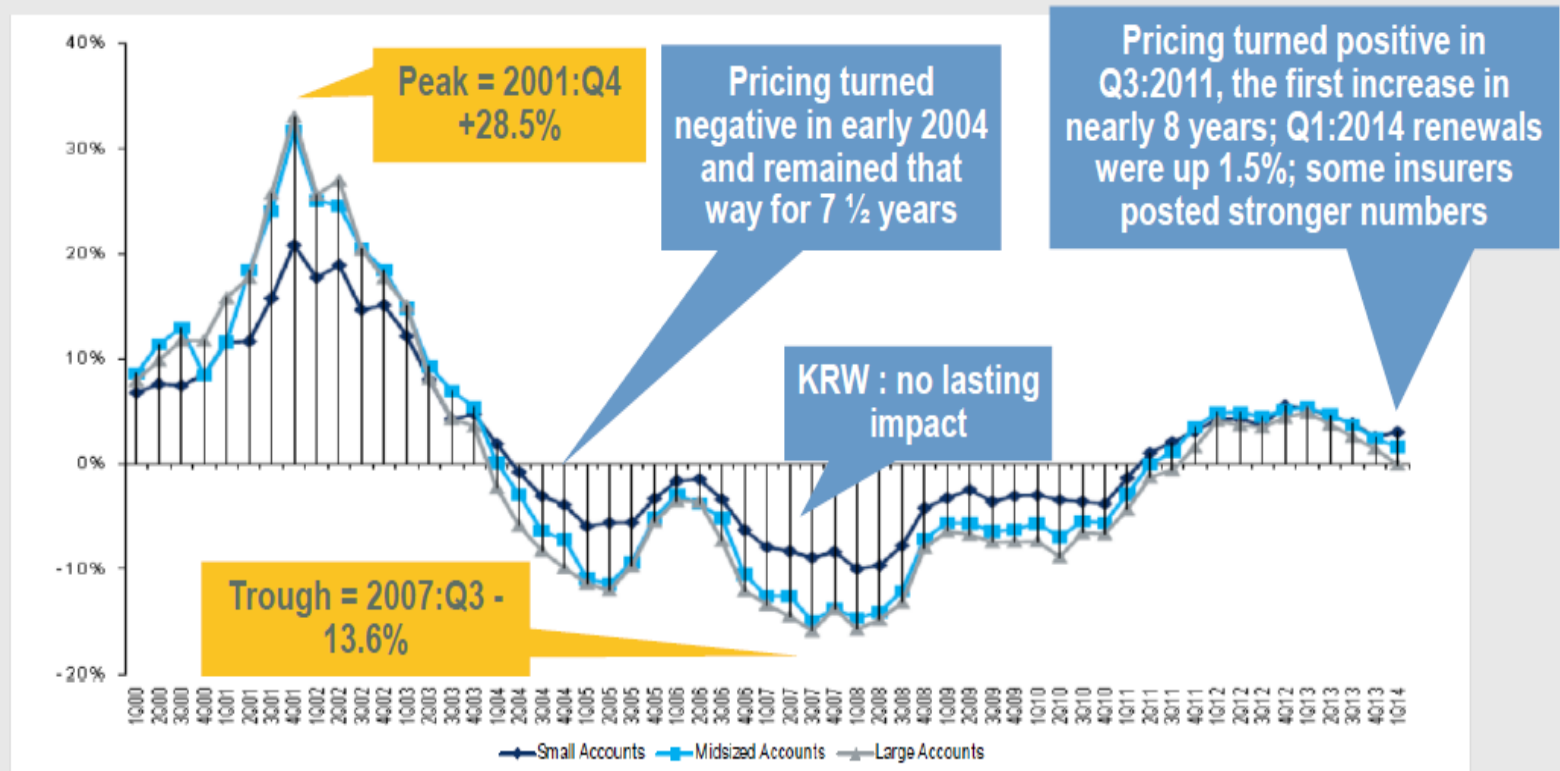
2015 Outlook

Party like its 1999!!

Change in Commercial Rate Renewals, by Account Size

1999:Q4 – 2014:Q1

Percentage Change (%)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

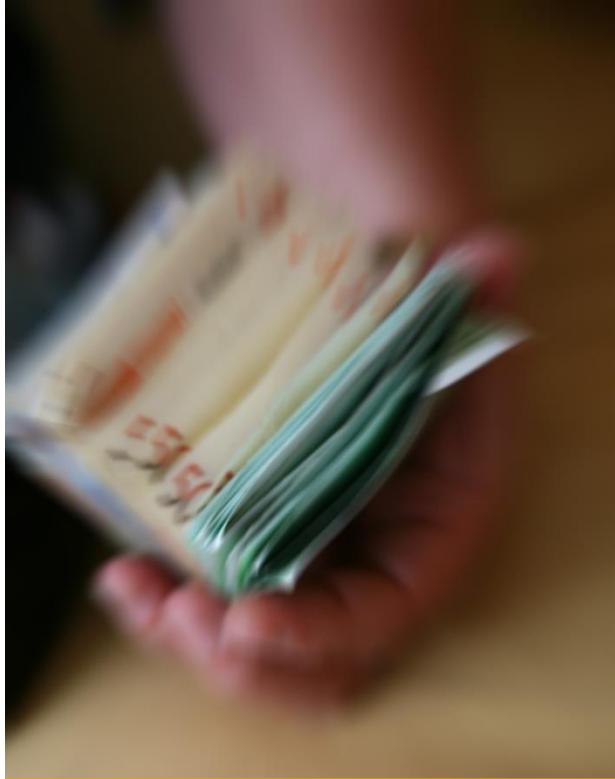
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

General Liability



- Capacity is still abundant
- Tort System Cost as a percent of GDP is down from 2.21% in 2003 to 1.68% in 2013
- Underwriters are generally less flexible when considering manuscript endorsements vs. ISO language
- PRICING PREDICTION: -5% to +2.5%

WORKERS' COMPENSATION

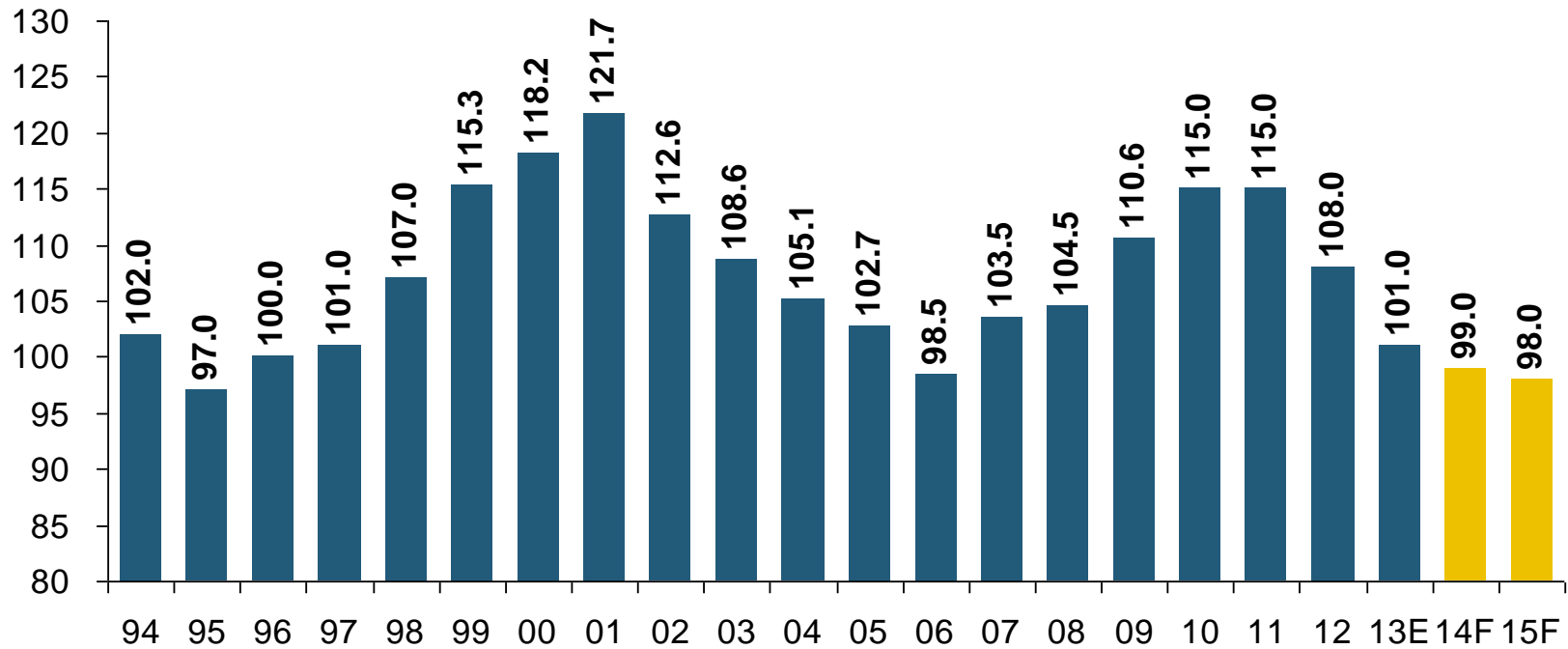


RATES MIXED

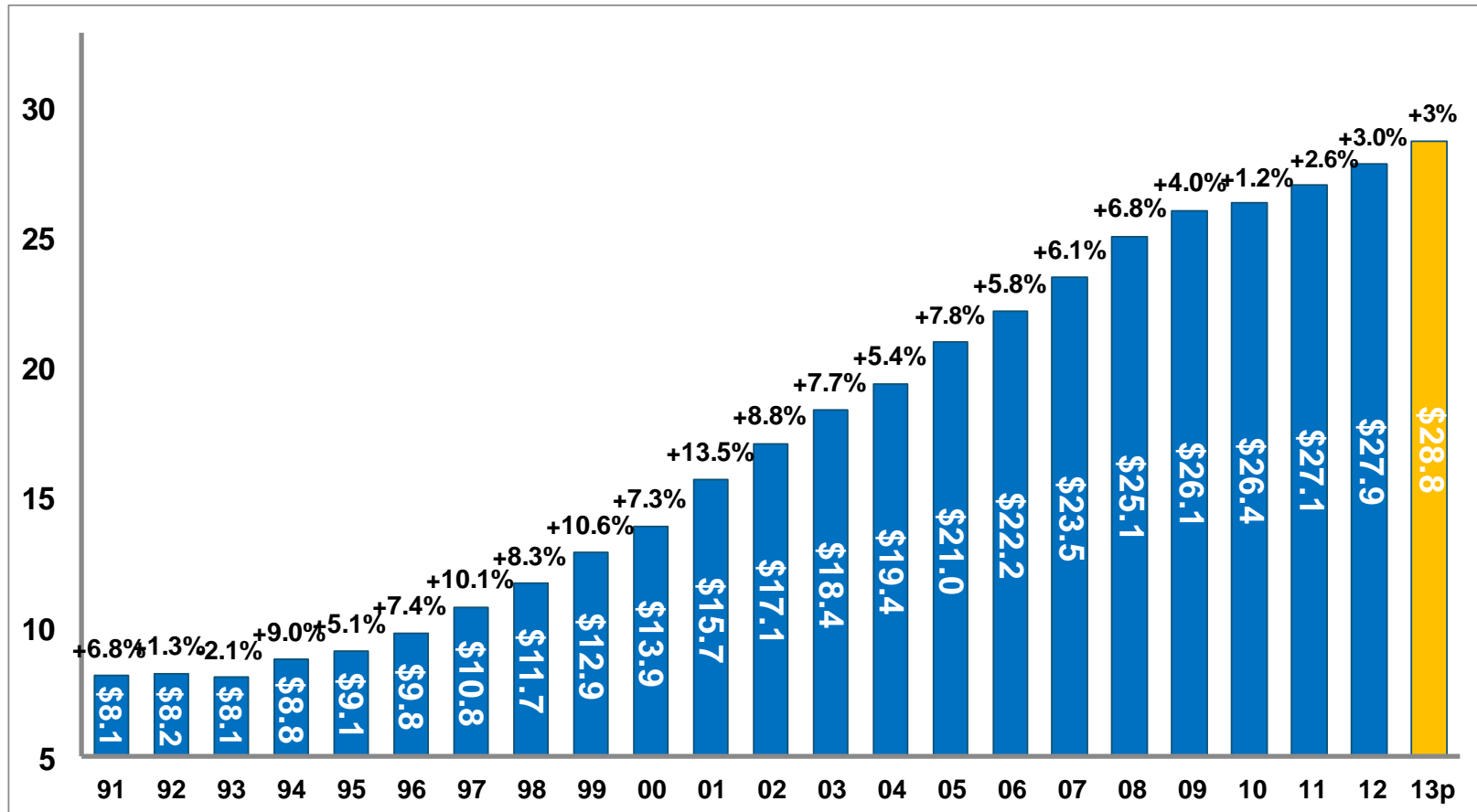
Overall combined ratios for WC improved in 2013 due to pricing trends and some improvement in medical inflation trends.

- Full impact of the Affordable Care Act on WC cannot yet be measured, industries that are moving more jobs to part-time status and hiring more part time employees are seeing the increases in frequency typical with newer employees.
- The market for monoline Workers' Comp and Excess Workers' Comp insurance has become more restrictive in availability, capacity and pricing.
- Workers' Comp rates continue to be driven by medical costs that are rising faster than inflation.
- PRICE PREDICTION : -5% up to +20% in CA

WC Loss Ratio



Average Medical Cost per Lost-Time Claim



California Workers Compensation



SB 863 Primary Goals:

- Increase permanent disability benefits by 30%
- Improving delivery of quality medical treatment to injured workers while decreasing unnecessary costs.
- Reduction of disputes and litigation costs by establishing fee schedules.

Results:

- Mitigated rate increase by 3%. WCIRB set to recommend an additional 6.7% increase
- Ambulatory surgery center fee schedules led to a 26% fee reduction. 56% reduction in duplicate fees for spinal hardware (110M) . 59% (270M) reduction in new liens.
- IMR and Resource-Based Relative Value Scale – Too soon to tell if effective.

AUTOMOBILE



STRUCTURE REVIEW

Large auto fleets will continue to see pressure for higher retentions.

- A key issue is umbrella attachment points and the use of buffer layers before the umbrella market will attach.
- Attachment points and buffer layers are impacted by the choice of primary markets
- Umbrella underwriters are requiring higher attachments for large fleets that include higher hazard vehicles.
- Pricing is also being impacted by underwriters' heavier reliance on reinsurance than we have seen in the recent past.
- PRICING PREDICTION: -7.5% to +3%

UMBRELLA AND EXCESS LIABILITY



A Different Tune

Capacity abundant in the U.S., London, Bermuda and elsewhere.

- Average length of time between payment of premium and time losses paid is 8 years.
- Most Favorable Venue (MFV), is back to being given at no extra charge.
- Some carriers cutting back on maximum limits due to perception of inadequate pricing for the exposure at higher excess attachments.
- Side Car Enhancements
- PRICE PREDICTIONS: -10% to +2.5%

ENVIROMENTAL



Breadth of product offerings, capacity and underwriting appetite differ dramatically among the 30 carriers focused on environmental exposures.

- Many insurers expanded coverage in their base Contractors Pollution Liability and site-specific Pollution Legal Liability forms.
- Some products, such as Cleanup Cost Cap, have become extremely difficult to procure.
- Layered program structures more common now that few insurers offer more than \$25M in capacity.
- Long-term policies are less available for operational exposures. One to three-year terms are preferred, though 10 year terms are available for project specific applications.
- PRICE PREDICTION:
 - Contractors Pollution: -10% to Flat
 - Site Pollution: -25% to Flat

CONSTRUCTION



- Capacity – Traditional Carriers seeking to extend to included construction
- Construction All Risk and Erection All Risk sector continues to see competition with limited number of major projects to compete for.
- Construction defect exposures creates a regional difference in rate movement.
- PRICE PREDICTION: -3% to +5%

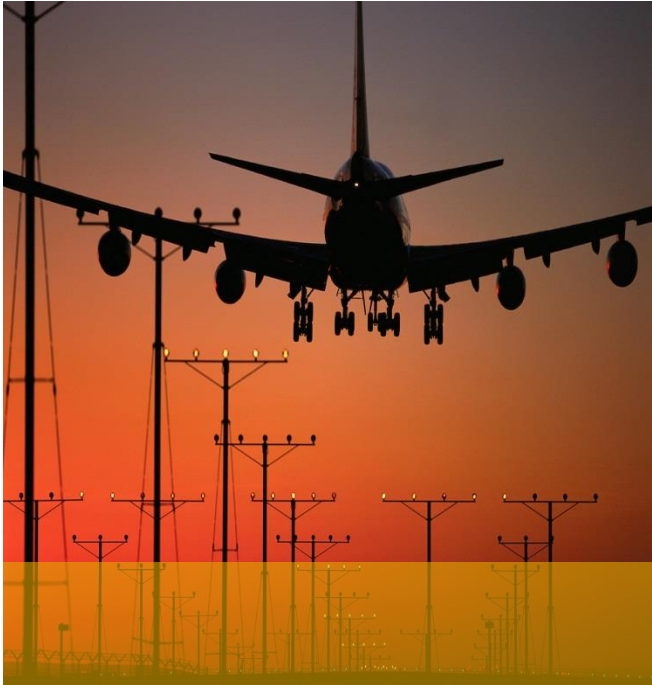
Energy



More Capacity

- **Downstream**
 - Capacity at record high
 - Appetite for North American business continues to grow as new infrastructure comes on stream.
- **Upstream**
 - Capacity increase and Captive participation are reducing pressure.
 - New insurers entering the market
- Price Prediction: -10% to Flat

AVIATION



- Average fleet values grew 9% in 2013 and passenger numbers by 8%
- December 2013 Rate reduction was 10%
- Additional Capacity in London
- **PRICE PREDICTION: -10 to flat – excluding Airlines**

THANK YOU!

QUESTIONS?

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