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## Market Realities - Second Quarter 2014 Forecast

April 24, 2014 - Spotlights

As we enter the second quarter of 2014, our clients are asking for insight into their insurance renewals. It is widely recognized that the carriers, catastrophe modelers, rating agencies and regulators grossly underestimated the frequency and severity of the North Atlantic hurricanes in 2011 and 2012. However, 2013 turned out to be a big bust with respect to projected catastrophic weather activity. After predicting that a devastating loss-year would turn the market hard, rates instead are drifting upward largely due to an interest rate environment which is making it harder for insurers to produce investment income with their collected premiums. One interesting difference in this marketplace is price increases will not be driven by capacity shortages, which is a typical hard market driver. Rate increases are primarily confined to inflationary levels, except for those risks in catastrophic loss locations, such as waterfront, wind prone and the like.

Buyers nervous about rate increases in their property placements will fall into two distinct groups. Those with little catastrophic exposure will see minimal rate increases. Those with catastrophic exposure, especially to flood or wind perils, will see higher rate increases and higher deductibles. The formula for 2013 is simple: abundant capacity + low underwriting losses + weak economy = competitive market.

Primary casualty insurance (general liability and workers' compensation) capacity remained healthy; however insured's should expect renewal increases at the rate of inflation at best. Favorable loss histories will dictate the outcome of the casualty renewal. Investment in loss prevention along with claims management and contractual controls will enhance your risk in the eyes of the underwriting community. The umbrella marketplace has firmed more significantly than the primary markets, and capacity is harder to negotiate and more expensive at renewal.

Many of you have read the news of Target's 40 million unique user cyber thefts during the holidays. Then comes along Heartbleed! The Heartbleed Internet security bug is shaping up to be worse than researchers first realized. The cyber vulnerability takes advantage of a flaw in OpenSSL, a free encryption protocol used by thousands of websites around the world to protect visitors' sensitive data, such as usernames and passwords. Heartbleed essentially lets hackers get an undetectable look at the data transmitted between a user and a server after it's been decrypted.

Make no mistake, all companies—big or small—are vulnerable to a privacy breach or a network security incident. Cyber liability can be attributable to human error, hackers, digital espionage, data theft, denial-of-service attacks, electronic sabotage, improper employee or contractor access, computer viruses, or programming errors. Despite concern over cyber risks, many companies continue to underestimate or not recognize the potentially serious financial impact of a major cyber event. 46 U.S. states have enacted some type of security breach notification legislation which imposes fines on companies who have a cyber-loss. The threat is real and our clients have approached the exposure from both a prevention standpoint and insurance coverage standpoint.

We strongly recommend all companies evaluate cyber liability coverage during their next renewal cycle.

Spencer Macalaster is executive V.P. and real estate practice leader with Risk Strategies Company, Boston.

To combat the current insurance market cycle we recommend you work closely with your insurance broker, prepare your submission early, and detail the precautions you have taken to protect your risk. Those portfolios with a spread of exposure will fare better than those with a large percentage of coastal holdings or high hazard areas.

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