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## **Market realities – 2018 Forecast: Predictions regarding the overall insurance environment - by Spencer Macalaster**

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As we enter the second quarter of 2018, our clients are asking us for our predictions regarding the overall insurance environment. For the last 9 plus years the insurance marketplace has seen significant inflows of capital, combined with reasonable loss experience and carrier surplus. The markets for the most part have remained stable throughout 2017. Rate changes, if any, were primarily confined to inflationary levels, except for those risks in catastrophic loss locations, such as waterfront, wind prone and the like.

However the storm clouds of a hardening insurance market are becoming increasingly evident. We can characterize 2017 as the year of catastrophic events. Three major named storms hitting Texas, Florida and the Caribbean Islands took their toll with an estimated insured cost of over \$75 billion. The Mexican earthquake hit the insurance market as well with losses estimated to exceed \$1 - \$2 billion. Finally, the California wild fires cause extensive loss throughout Napa and northern CA. We do not know the extent of the insured loss from this event, but some estimates between \$3 - \$6 billion. In total, the loss experience for 2017 is proving to be the largest in history, causing a significant ripple effect throughout the insurance and re-insurance marketplace.

Buyers nervous about changes in their property placements will fall into two distinct groups. Those with little catastrophic exposure will see single to low double digit rate increases. Those with catastrophic exposure, especially to flood or wind perils, will see significantly higher rate increases and higher deductibles.

Primary Casualty insurance (general liability and workers' compensation) capacity remained steady; insured's should expect renewals with rate of inflation increases. 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 will be more expensive at renewal.

We believe the "tipping point" for most insureds has been reached when it comes to Cyber Liability.

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. The threat is real and our clients have approached the exposure from both a prevention standpoint and insurance coverage standpoint. We recommend all companies evaluate cyber liability coverage during their next renewal cycle.

Executive Management Liability insurance continues to show signs of firming with most renewal rates increasing 5% or more, primarily driven by employment practices related claim exposure. Even companies with claim free exposures are experiencing rate increases. Companies with global operations should evaluate the evolution of corporate laws expanding the duties of D&O's in many foreign jurisdictions. Coverage voids may exist for foreign D&O's at subsidiaries of U.S. parent companies. Purchasing local D&O policies in countries that do not recognize non-admitted U.S. D&O policies is a prudent option.

Strong loss prevention measures combined with claims management and contractual standards are increasingly important, thereby presenting the best possible risk to the carriers. In addition to building strong risk management relationships with your broker and underwriters, approaching the marketplace early will allow for the negotiation of the most competitive program the markets will offer. We recommend you work closely with your insurance broker, prepare your submission early, and detail the precautions you have taken to protect your risk.

Organizations are encouraged to keep the above issues in mind when building a comprehensive risk management plan alongside a qualified insurance broker. Remember, implementing policies and preventive measures can go a long way toward managing your organization's overall risk.

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