THE US CASUALTY MARKET IN 2016: OUR TOP 10 LIST

Each January, Marsh's US Casualty Practice identifies key trends that are expected to shape the insurance marketplace in the year ahead. We are pleased to share with you our views on how the following ten trends could affect your company in 2016.

HOW LOW CAN RATES GO?

Most insurers report that current rates barely cover their losses after factoring in inflation and claim development. Coupled with significant competition stemming from capital surplus, insurers' results will remain under pressure. However, the economic turnaround over the last few years has led to increasing exposures, which have helped to lessen the effects of these rate decreases while also generating increased audit premiums. This dynamic should continue to offset the downward rate pressure in 2016 on competitive lines of coverage, including workers' compensation, general liability, and umbrella/excess liability. Look for insurers to remain aggressive and flexible on renewals and new business, while mitigating and cutting controllable expenses.

AUTO WARS: THE MARKET AWAKENS

Bucking the overall trend in the casualty insurance market, automobile liability will likely see increased pricing and reduced capacity in 2016. Many insurers' combined ratios have deteriorated as the frequency and severity of automobile losses has increased, including some recent headline grabbers. Accordingly, automobile liability has taken some of the spotlight away from workers' compensation results, which were under scrutiny for many years.

For tougher automobile liability risks, brokers and insureds will likely need to explore alternative markets and structures. Insureds will also need to focus on loss control techniques, including driver safety training, fleet maintenance, and the use of telematics through vehicle monitoring devices.

IT'S A SMALL WORLD AND GETTING SMALLER

As the ACE/Chubb and XL/Catlin mergers take shape, other insurers are exploring ways to create synergies around the world. Some carriers will retrench by shutting down unprofitable lines, consolidating offices to cut expenses, and finding ways to diversify capital deployment. Industry consolidation will continue, with additional mega-mergers still possible. Larger insurers will look at acquiring specialty carriers to round out their product and service offerings in niche areas.

Exacerbating the issue of less-than-optimal insurer returns in the US is the continued emergence of foreign insurers, most notably from Asia and Europe. Asian markets have been actively seeking growth outside of their home region; recent acquisitions by Tokio Marine, Fosun International, Sompo Japan Nipponkoa, and Mitsui-Sumitomo are clear evidence of this hunger. These insurers have large balance sheets and a continued appetite to diversify, and we will continue to see them expand in the US in 2016.

London is also looking to flex its muscle with US clients once again. The market softening is driving London to look for new lines of coverage to grow premium income. This, coupled with capital requirements that encourage a diversification of underwriting portfolios, will lead to a continued expansion of US liability appetite and capacity from across the pond in 2016.

BESPOKE UNDERWRITING: THE TAILOR IS IN

As competition remains strong and low interest rates force insurers to rely heavily on underwriting profitability, scrutiny of risks has increased. In order to target profitable business and identify adequate rates for renewals, insurers will need to underwrite on an account basis as opposed to a portfolio approach. This will manifest itself through:

- A greater correlation between risk and renewal terms.
- A need for increased participation of key client personnel in underwriting meetings.
- The development of industry-specific appetites and product offerings.

Insurers will increasingly rely on their data to drive underwriting decisions. As such, brokers and insureds will need to use client-specific data and exposure nuances to best represent their risks and differentiate them from peers. Advanced predictive modeling will allow for improved decision making for all stakeholders.

AND THE WALLS CAME TUMBLING DOWN

Insurers that are structured in a way that allows them to execute underwriting decisions across multiple products — including primary, excess, and international — will have a distinct advantage over their competition in 2016. Clients will benefit from the combined casualty approach that some carriers are pursuing. This approach can improve pricing, prevent coverage gaps, allow for cross-collateralization, and allow insureds to take a fresh look at global retention philosophies.

In addition, more clients will look to place higher local underlying limits. This trend is driven by stringent contractual obligations and a desire for greater compliance consistency as regulators become more assertive. The insurers taking this combined casualty approach will benefit as they will be able to provide their clients and brokers with increasingly efficient program execution for higher limits. Efficiency will become especially important in 2016 as the proliferation of regulations targeting money laundering will impact program implementation timelines and administrative costs, resulting in growing pressure to remit premiums locally.

IT'S ALL ABOUT THE BASE: ASSET-LIGHT

The "on-demand" or "sharing" economy is changing the traditional definition of employee and creating new challenges for employers. It is also blurring the lines between personal and commercial insurance as both types of carriers struggle with solving client problems stemming from this new way of doing business.

It's an open question as to whether individuals who are compensated through the on-demand economy are actually employees and thus entitled to the benefits of employment, including workers' compensation protection. This question will begin to be answered in 2016 as court cases on the topic are litigated. Employers will need to adjust to court rulings that, on the one hand, could adversely affect payrolls, heath care costs, and loss exposures; and on the other could bolster the on-demand economy, reduce employment rolls, and save employers costs.

The insurance market for the on-demand economy will have more options available from personal lines than commercial lines insurers, but those options will still be somewhat limited. Personal lines insurers have more advanced consumer platforms and are better positioned to handle large volume/small premium transactions. Personal lines insurers' technology for interfacing with customers, especially on mobile platforms, is also far more advanced than that of commercial insurers, which will enhance their ability to market their product widely.

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The plaintiff's board has proven to be quite organized and effective on behalf of claimants. For years, automobile liability claim settlements and labor law actions have been costly for insureds. In 2016, expect litigators to focus on new areas, including traumatic brain injury, police brutality, and post-traumatic stress disorder. Insureds will need to focus on loss prevention and loss mitigation techniques (including fraud mitigation) to minimize litigation expenses and settlement costs.

GET SMART: TECHNOLOGY MEETS SAFETY

Smart technology embedded in devices like glasses, watches, vests, and hard hats will become more prevalent in workers' compensation injury prevention. For example, impact/concussion monitoring devices can identify improper employee movements that could lead to injuries. Wearable devices can capture data and provide feedback, including recording what wearers are seeing and hearing. In addition to helping to prevent injuries to wearers, these devices can capture data that can help develop enhancements or changes to work sites and safety and loss control programs.

Medical case management for workers' compensation losses will also be affected by new technologies. Group health programs have commonly used telemedicine and telehealth, the practice of connecting medical providers and patients through technology such as smartphone apps, two-way video, and other remote communication. We will see an increased penetration of these tools in workers' compensation, which will help to improve access to health care and medical response to remote workers, accelerate triage of less complex injuries, and deliver cost savings.

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While employer-owned smart devices watch over employees while on the job, social media may prove to be the bane of fraudsters by providing an eye into their personal time. With the advent of information, photo, and video sharing on social media, investigators and adjustors have the ability to peek into the lives of injured claimants.

While some third-party administrators (TPAs) already use social media to determine the whereabouts and status of injured workers or claimants, trolling the web for relevant data points will increase in 2016. Someone fraudulently collecting disability or claiming to be injured in hopes of receiving a payout is much more likely to be exposed.

RISE OF THE MACHINES

While insurers and risk professionals debate whether unmanned aerial systems — commonly called drones — should be covered under aviation, technology, or general liability policies, their numbers and use will continue to climb. Many businesses are using or considering using drones for applications from deliveries to marketing to news reporting to accessing disaster sites. From businesses to hobbyists, the users behind the drones will eventually come face to face with liability stemming from damage caused by them. The insurance industry will be forced to move from a wait-and-see mode regarding accountability and damage costs, to determining how insurance will apply.

Marsh will continue to monitor these and other trends that could affect your casualty insurance programs in 2016. As always, we welcome your thoughts and feedback on these topics.

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