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INSIGHTS | 2016

MARKET PERSPECTIVE

CANADA INSURANCE MARKET REPORT 2016

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MARSH & McLENNAN COMPANIES

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FOREWORD

As part of our commitment to keeping you informed, Marsh is pleased to present you with the *Canada Insurance Market Report 2016*. Through data and analysis, it provides a snapshot of current market conditions and risk trends across major lines of coverage and industry/specialty sectors. The report reflects the experience of Marsh insurance professionals who work daily with the global insurance marketplace and provide clients with risk management advice.

With 2016 under way, the global insurance marketplace appears to be heading in the general direction of soft pricing, reflecting insurer capacity, competition, and relatively low catastrophe losses. At the same time, the insurance industry will continue to be affected by macro dynamics, including global economic, political, regulatory, technological, and environmental developments.

In addition, the insurance industry is also experiencing some significant developments within the industry that bear watching throughout 2016, including:

- Large-scale mergers and acquisitions.
- Executive leadership changes.
- A reduction in and changes in underwriting appetite at several companies.
- Some insurers' disposition of unprofitable segments.
- Recent announcements regarding potential and actual reinsurance underwriting.

These developments may ultimately produce positive outcomes, such as a prolonged healthy, competitive market with higher levels of innovation, new product offerings, and improved service.

Companies of all sizes and in all industries around the world choose Marsh for our breadth and depth of experience, expertise, and capabilities. These traits are critical in a volatile market, as is our ability as a trusted strategic advisor to help you navigate complex risk challenges and assess and recommend markets.

We thank you for the trust you place in Marsh every day. Should you have any questions about this report or the industry and market environment, please do not hesitate to reach out to your Marsh representative.

Best regards,

Alan Garner
President & CEO, Marsh Canada

EXECUTIVE SUMMARY

Following are some key takeaways from Marsh's *Canada Insurance Market Report 2016*.

PROPERTY/CASUALTY INDUSTRY

- Economic growth in Canada trailed that of the US, in large part due to declining commodity prices and, as a result, premium volumes growth has been limited.
- Throughout most of 2015, we saw not only the general property and casualty markets but also specialty markets for marine, aviation, and in some cases, executive risk aggressively underwriting for best-in-class risks to maintain existing premium volumes.
- This trend resulted in continued reduced rates despite overall loss ratio trends that for many insurers are approaching 100% and above on a combined basis.
- Looking ahead into 2016, we anticipate that this downward rate trend will continue into at least the first two quarters of the year.
- Claims from weather-related events now equal and are overtaking fire damage losses in many parts of the country.
- According to the Insurance Bureau of Canada, pay outs from extreme weather have more than doubled every five to 10 years since the 1980s.

MAJOR COVERAGE LINES

General Liability

- The Canadian general liability market will continue to be not only flexible but also very competitive through most of 2016.
- While it will be harder to find deep discounts above 15% to 20%, modest discounts in the 5% to 10% range should be available for many classes of risk.

Automobile

- For large fleets, auto rates should remain flat going into 2016.
- There is still a reasonable amount of competition in this segment, but rates and premiums are driven for the most part by individual account loss ratios.

Property

- For 2016, most small- to mid size companies should see their property insurance rates remain stable, with credits potential in the 0 to 5% range rather than the 5% to 10% range.
- For larger companies, industrial and technology-driven companies, and large real estate companies, competition, the amount of insurance purchased and loss records will drive end results, but the market should remain reasonably competitive for 2016.

Financial and Professional Executive Risk

- D&O insurance limits are expected to remain stable. Depressed market capitalizations mean there is no impetus to increase limits at this time.
- Mounting loss experience in the mining sector and feared claims in the oil and gas sector are leading insurers to treat these industries with scepticism.

Cyber Risk

- Demand for cyber risk insurance will likely continue to rise as organizations increasingly adopt cloud-based services and accelerate the amount of sensitive data collected.
- Also fuelling interest and demand are a dynamic threat landscape that continues to gain in levels of sophistication, a more regulated operating environment, and an increase in class action litigation.

INSURANCE MARKETS BY SPECIALTY

Captives

- Generally, the captives marketplace remains stable.
- Recently, we have begun to see some insurers charging — or considering charging – for providing support developing pricing, if they are not otherwise involved in the risk.

Energy

- Marsh anticipates that the insurance market for energy companies will continue to soften across all lines in 2016, particularly for upstream exploration and production as production stalls.
- There continues to be an abundance of capital in the energy insurance marketplace.

Environmental

- The number and size of environmental claims continue to grow.
- As a result, it is becoming increasingly difficult for companies to obtain coverage for more challenging environmental risks for example, real estate development.

Marine

- Companies with hull and marine liability exposures may begin to see a reduction in market options; although for 2016, we do not anticipate that this reduction will lead to any significant increase in rates.

Small and Midsize Businesses

- Rates continue to increase in the range of 3% to 5% at renewal with many of insurers.
- Increased interest in the small and medium size (SME) market among insurers is driving greater competition and will likely continue to keep rates stable in 2016.

Note: For specific insurance market and risk trends by industry, see the "Insurance Markets by Industry" section of this report.

PROPERTY/ CASUALTY INDUSTRY

For the second year in a row, the commercial insurance marketplace in Canada continued to move forward in an uncertain manner under what can only be described as very challenging trading conditions. Economic growth in Canada trailed that of the US, in large part due to declining commodity prices and, as a result, premium volumes growth has been limited.

In addition, throughout most of 2015, we saw not only the general property and casualty markets but also specialty markets for marine, aviation, and in some cases, executive risk aggressively underwriting for best-in-class risks to maintain existing premium volumes. This trend resulted in continued reduced rates despite overall loss ratio trends that for many insurers are approaching 100% and above on a combined basis.

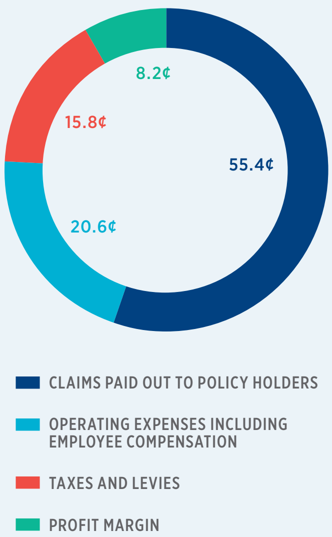
Looking ahead into 2016, we anticipate that this downward rate trend will continue into at least the first two quarters of the year. But, as insurers begin to see their final underwriting results for 2015, along with loss development projections for mid- to long-tail losses for previous years, rates could flatten out somewhat. If the 2016 storm season is more active than is currently predicted or if there is a significant North American Catastrophic (CAT) event, we could see the downward trend come to an end.

The Canadian market is dominated by a number of key indicators that will continue to influence short- and medium-term market trends:

- Of the approximately $45 billion in Canadian net written premiums, automobile premiums account for almost 50% (excluding government-managed insurance schemes). As a result, automobile results can have a significant impact on insurers' overall results and strategic directions one year to the next.
- On average out of every net premium dollar, insurers pay out 54 to 56 cents on claims, 20 to 22 cents on operating expenses and close to 16 cents in taxes. That leaves on average about 6 to 8 cents in profit, and over the past several years that number has been gradually reduced.
- Despite declining returns as a result of the low interest rate environment, capital continues to flow into the insurance market both globally and in Canada providing an abundance of choices and competition for most risks. This trend is helping keep rates and premiums for some coverages at historic lows.

AMOUNT OF PAYOUTS ON PREMIUMS RECEIVED PER DOLLAR

Source: Insurance Bureau of Canada 2015 Facts



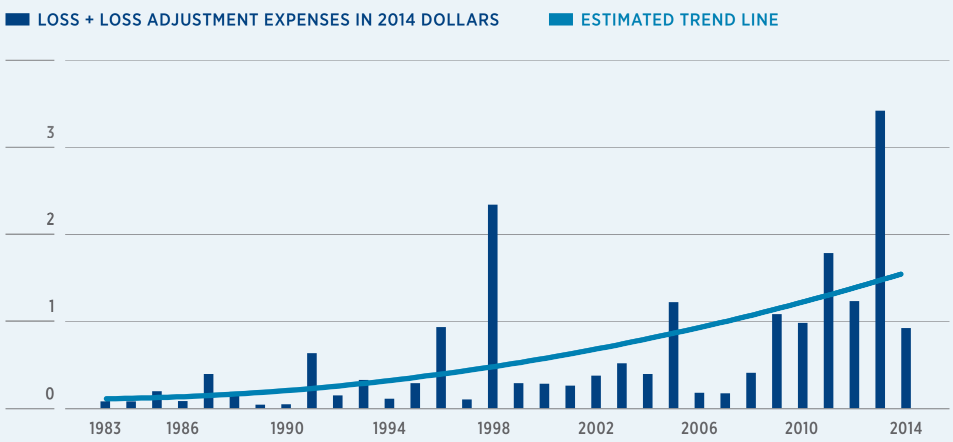
In addition, the trend toward increasing claims from severe weather events is now a major issue facing insurers in Canada. Claims from weather-related events now equal and are overtaking fire damage losses in many parts of the country. According to the Insurance Bureau of Canada, pay outs from extreme weather have more than doubled every five to 10 years since the 1980s. For each of the past six years, they have been near or above $1 billion and in 2013 were an historic $3.4 billion due to floods in Alberta and Toronto.

CAT losses in Canada are defined as losses from natural disasters that total $25 million or more. The chart on the right shows the upward trend in CAT losses that insurers are starting to face in Canada. While capital remains plentiful, rates will continue to be competitive, but as interest rates increase (as has already happened in the US) and better returns are available elsewhere, we could see rates begin to rise.

CATASTROPHIC LOSSES IN CANADA, 1983 TO 2014

IN BILLIONS

Source: Insurance Bureau of Canada 2015 Facts



MAJOR COVERAGE LINES

7 Major Coverage Lines
9 Financial and Professional Executive Risk
10 Cyber Risk

Major Coverage Lines

AHEAD IN 2016

Canadian insurance market remains competitive and flexible.

Rates should remain stable for large auto fleets.

Earthquake and flood exposures will face continued scrutiny as mapping information improves.

GENERAL LIABILITY

The Canadian general liability market will continue to be not only flexible but also very competitive through most of 2016. While it will be harder to find deep discounts above 15% to 20%, modest discounts in the 5% to 10% range should be available for many classes of risk. Notable exceptions will include mining risks, especially those with dam, dike or tailings pond exposures, upstream and midstream energy risks with significant pipeline exposure, and those risks that have been "trading dollars" with insurers over the past five to 10 years as insurers seek to bring individual account loss ratios in line.

For larger companies, reductions will be fairly modest in 2016. Underwriters feel that they have factored in appropriate credits for the types of exposures these companies experience, but they will continue to offer modest credits for best-in-class risks in order to maintain premium volumes.

We could see some changes in approach for some excess liability insurers in Canada in 2016. With the completion of ACE's merger with Chubb in early January and Catlin and XL combining forces, we could see these insurers taking a careful look at overall risk accumulations and adjusting their line sizes and prices offered as appropriate. Competition will not be as aggressive in this space as we would like to see going forward, with reduced capacity as some insurers withdraw or reduce their exposure, and new entrants, such as Berkshire Hathaway, taking a more conservative underwriting approach than anticipated.

We will continue to see both the Bermuda and London markets taking a more aggressive approach in this space to compete with domestic insurers for the best risks.

FOR LARGER COMPANIES, REDUCTIONS WILL BE FAIRLY MODEST IN 2016. UNDERWRITERS FEEL THAT THEY HAVE FACTORED IN APPROPRIATE CREDITS FOR THE TYPES OF EXPOSURES THESE COMPANIES EXPERIENCE.

AUTOMOBILE

The private automobile class is driven by overall results on a province-by-province basis. Overall, we believe rates will be stable across the country throughout 2016, with continuing pressure in many provinces for governments to control both premiums and accident benefits.

For large fleets, auto rates should remain flat going into 2016. There is still a reasonable amount of competition in this segment, but rates and premiums are driven for the most part by individual account loss ratios.

PROPERTY

Capital and capacity remain plentiful for Canadian property risks and the market remains competitive for most market segments.

Falling commodity prices have decreased available premiums in the mining and upstream energy sectors, and as a result, insurers are competing aggressively to hold on to what they have in the hopes that rates will begin to rise in 2016 (or more likely in 2017.) In other segments, while there has been competition for best-in-class risks, reductions have not been as deep. On average rates fell in the range of 7.5% to 10% in 2015, at a time when many accounts were being written below their technical premium levels.

Many insurers continue to focus on ensuring that at least retentions are at the correct levels for both earthquake and flood exposures even if they are unable to get the rating levels they want. This trend will likely continue into 2016, especially for flood as mapping information becomes better and more consistent.

Fortunately in Canada, general property losses remained at reasonable levels in 2015. That said, overall results continue to creep upwards compressing loss ratios for many insurers and leaving little available for any large CAT event.

For 2016, most small- to mid size companies should see their property insurance rates remain stable, with credits potential in the 0 to 5% range rather than the 5% to 10% range. For larger companies, industrial and technology driven companies, and large real estate companies, competition, the amount of insurance purchased and loss records will drive end results, but the market should remain reasonably competitive for 2016.

Overall, the Canadian insurance market remains competitive and flexible. Insurers are actively trying to maintain premium volumes despite the difficult trading environment. In addition, we believe that there will continue to be a focus on mergers and acquisitions within the general property and casualty insurance marketplace where opportunities exist.

OVERALL, THE CANADIAN INSURANCE MARKET REMAINS COMPETITIVE AND FLEXIBLE.

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Financial and Professional Executive Risk

AHEAD IN 2016

Rates will remain stable.

Market for primary coverage for dual-listed companies will be firmer.

Social engineering losses on the rise.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

In recent months, we have seen strong pressure on primary pricing for D&O coverage. An increase in deductibles is often required to maintain existing rates. However, the insurance market for excess coverage is soft, and competition can lead to overall savings.

D&O insurance limits are expected to remain stable. Depressed market capitalizations mean there is no impetus to increase limits at this time. However, it takes several years of sustained low market capitalization and severe budgetary constraint before directors and officers are willing to entertain limit reductions.

Mounting loss experience in the mining sector and feared claims in the oil and gas sector are leading insurers to treat these industries with scepticism. Recent claims development is proving to be very significant in terms of overall premium volume.

RISK TRENDS

Dual-listed Companies

Many Canadian companies are listed on both the Toronto (TSX) and New York Stock Exchanges (NYSE). In certain class-action lawsuits, this dual listing could result in defence costs and settlements in both jurisdictions, resulting in increased insurance claims. The market for primary D&O coverage for dual-listed companies is firming.

Social Engineering

Social engineering is a non-technical method of intrusion hackers use that often involves tricking people into breaking normal security procedures, which allows the hackers access to secure systems. It is one of the most significant human risks facing many organizations. We are seeing increased instances of losses resulting from social engineering activities where individuals purport to be employees, clients, or vendors.

Declining Commodity Prices

Canadian companies, particularly those involved in the resource sector, continue to be impacted by declining commodity prices. As a result, companies are pushing hard for premium reductions, which is particularly challenging for those with declining risk profiles.

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Cyber Risk

AHEAD IN 2016

Cyber risk will be a hot topic with boards of directors.

Demand for cyber coverage will continue to increase.

Regulatory environment will continue to evolve.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
CYBER	INCREASE 0% TO 10% (EXCLUDING THE RETAIL AND HEALTH CARE SECTORS, WHERE INCREASES HAVE BEEN MUCH LARGER)	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Two major themes emerged in 2015 that resulted in a marked increase in the purchase of cyber coverage and consultative engagements by organizations of all sizes, and in a variety of industries:

1. Cyber risk and its potential impact on the organization has become a topic of concern for boards of directors. This development has led to more formal governance and investigation with respect to both resiliency and financial protection.
2. Despite market volatility, insurers continued to respond to increased demand by offering broader cyber insurance coverage, including coverage for contingent business interruption (CBI) and cyber-induced property damage, as well as by expanding the availability of loss control services, including risk assessment tools, breach counselling, and event response assistance.

While we do not anticipate any significant entrants to the marketplace in 2016, we do foresee the continued use of consortiums as a means to spread risk, and the introduction of large facilities, for example, swaths of capacity, in order to address increased limit requirements for large institutions. For smaller organizations with minimal perceived risk, niche players continue to introduce forms/products with an aim of providing modest limits and a streamlined underwriting approach.

We expect demand to continue to rise as organizations increasingly adopt cloud-based services and accelerate the amount of sensitive data collected. Also fuelling interest and demand are a dynamic threat landscape that continues to gain in levels of sophistication, a more regulated operating environment, and an increase in class-action litigation.

RISK TRENDS

Internet of Things (IoT)

Privacy, regulation, and product liability are just a few of the myriad of risk management considerations that will increase in importance as more IoT devices come online, and few industries will be exempt from this phenomenon given the application for use in both the industrial and consumer segments. A number of risk-related questions will need to be addressed as a result; for example, what are the privacy implications of utilizing connected devices to monitor patients' health or glean the habits of customers? What product liability do manufacturers face if the technology in their devices fails or is inaccurate? Are existing laws sufficient to address this type of technological innovation? It will be imperative for organizations to examine carefully their exposures and weigh the risks and rewards as their products and services evolve and incorporate this 21st century innovation.

Evolving Legal and Regulatory Landscape

The passage of the Digital Privacy Act (Bill S-4), which will require breach notification to individuals, and a report to the commissioner where it is reasonable to believe that the breach creates a "real risk of significant harm to the individual," will create new administrative burdens, costs, and risks for organizations. Perhaps even more impactful is the requirement to maintain a record of every breach involving personal information under an organization's control. These regulations, coupled with developments pertaining to the European Union safe harbour and continued regulatory investigations by US entities, make for a complicated operating environment for Canadian businesses with operations spanning the noted geographies.

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PRIVACY, REGULATION, AND PRODUCT LIABILITY ARE JUST A FEW OF THE MYRIAD OF RISK MANAGEMENT CONSIDERATIONS THAT WILL INCREASE IN IMPORTANCE AS MORE IoT DEVICES COME ONLINE.

INSURANCE MARKETS BY SPECIALTY

13 **Captives**
14 **Energy**
15 **Environmental**
16 **Marine**
17 **Small and Midsize Businesses**

Captives

AHEAD IN 2016

Captives marketplace will remain stable.

Some risk managers will look to captives to reduce costs.

New OECD initiatives could impact tax benefits of captives.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
CAPTIVE FRONTING FEES	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Generally, the captives marketplace remains stable. One area where we have seen some recent change is in relation to developing market indicative pricing. For many captives, it is critical to be able to secure market indicative pricing. Recently, we have begun to see some insurers charging — or considering charging — for providing support developing pricing if they are not otherwise involved in the risk.

RISK TRENDS

Tax Reform

Many captives benefit from a favourable tax environment. New OECD initiatives on Base Erosion and Profit Shifting may threaten those tax positions. Companies should structure their captives to have primary business benefits first and tax benefits secondarily. Companies should engage tax advisors to stay abreast of these trends.

Economic Challenges

Tough economic times has put pressure on risk managers looking to save costs. A captive can respond to these pressures by enabling the company to take on larger retentions.

Low Interest Rate Environment

Low investment returns in the captive may create strain for some organizations. In many captive domiciles, companies can use intercompany loans to make more efficient use of stranded capital but should discuss these strategies with internal/external tax advisors

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Energy

AHEAD IN 2016

Continued softening across all lines for energy companies.

Oil by rail risks will be closely monitored.

Commodity price challenges will continue to impact energy companies' cash flows.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	DECREASE +20%	DECREASE 10% TO 20%
PROPERTY — NON-CAT	DECREASE +20%	DECREASE 10% TO 20%
PRIMARY CASUALTY	DECREASE 10-20%	STABLE -5% TO +5%
EXCESS CASUALTY	DECREASE +20%	INCREASE 0% TO 10%
DIRECTORS AND OFFICERS (D&O)	DECREASE 10-20%	INCREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Marsh anticipates that the insurance market for energy companies will continue to soften across all lines in 2016, particularly for upstream exploration and production as production stalls. There continues to be an abundance of capital in the energy insurance marketplace.

A significant decrease in exposures in the energy segment will result in lower property damage and business interruption limits purchased.

Insurers will continue to monitor oil by rail risks closely. However, insurer appetite still exists to provide coverage and limits.

RISK TRENDS

Commodity Price Fluctuations

Falling commodity prices are having a significant impact on Canadian energy companies' cash flows. As a result, merger and acquisition activity in the energy industry is likely to increase as are potential bankruptcies. Across the industry, companies are reducing staff and withdrawing capital investment to preserve cash flows.

Regulatory Roadblocks

Various regulatory roadblocks at the local, provincial, national, and international level are impeding the development of projects and stranding products, which is contributing to commodity price differentials. There is little companies can do to alter the regulatory environment beyond attempting to gain "social license" to proceed via proactive public relations and marketing campaigns. As a result, energy companies are undertaking alternative strategies to transport their products to market; for example, many are utilizing rail to transport oil and liquids rather than pipelines.

Increasing Legislative Oversight

In response to recent large losses, for example, Lac Megantic, the Canadian government is imposing legislated liability limits for rail carriers transporting oil and gas products. Insurance markets appear to be able to respond to these new and pending requirements.

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Environmental

AHEAD IN 2016

Appetite for challenging environmental risks will continue to shrink.

Cleanup standards becoming more stringent.

Environmental damage caused by overuse of road salt is growing.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
ENVIRONMENTAL	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

The number of insurers offering environmental liability insurance coverage continued to grow in 2015 and is likely to continue to do so in 2016. Despite this, appetite for challenging risks continues to shrink.

The number and size of environmental claims continue to grow. As a result, it is becoming increasingly difficult for companies to obtain coverage for more challenging environmental risks, for example real estate development. In addition,10-year policy terms can be obtained from only a handful of insurers, depending on the risk and industry.

Very few insurers will offer coverage in excess of an indemnity for known pollution conditions. Increasing cleanup costs overall have resulted in the need for companies to reassess their limits, especially for portfolio and multiyear policies.

In 2016, companies with routine environmental exposures will benefit from more choice and likely better pricing. The entry of new insurers into the environmental insurance marketplace should help mitigate any immediate impact for companies with more challenging environmental risks.

RISK TRENDS

More Stringent Cleanup Standards

Regulatory agencies and governments are imposing more stringent environmental cleanup standards. Companies need to make sure they have up-to-date site assessment information for the sites they own or are seeking to purchase.

Liability for Pollution Cleanup Costs

Regulators are becoming increasingly creative and aggressive when pursuing “persons responsible” for historic pollution conditions. Companies should make sure they have appropriate D&O and environmental insurance coverage to protect against regulatory cleanup orders.

Environmental Contamination Caused by Salt

Evidence is growing that the salt concentration of streams, lakes and groundwater resulting from road salt use is steadily increasing. Salt levels in some places are high enough to harm plants and aquatic life. Companies should make sure their road salt application practices are appropriate to their “slip and fall” exposure while at the same time minimizing the creation of future pollution conditions that could result in cleanup costs down the road.

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Marine

AHEAD IN 2016

Hull and marine liability options could decrease.

Companies looking for cost savings will have to increase retentions.

Increased focus on aggregation of risk at any one location or vessel.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
MARINE	STABLE -5% TO +5%	DECREASE 0% TO 10%
MARINE CARGO	DECREASE 0% TO 10%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

With no expected increase in rates, insurers struggle to maintain top-line premium but are seeing bottom-line erosion due to claims. It is likely that insurers that have not produced profitable results will look to reduce their hull and marine liability books in 2016, and unlike past years there will be fewer new entrants to the marine insurance marketplace in 2016, particularly in hull.

That said we do expect to see some new entrants in the cargo insurance market, as despite the low rates this segment has produced some margin for insurers.

Companies with hull and marine liability exposures may begin to see a reduction in market options; although for 2016, we do not anticipate that this reduction will lead to any significant increase in rates. Similarly, insurers currently writing hull and marine liability will continue to promote cross-selling and marine and transportation companies that combine general liability coverage with their marine insurance may benefit from improved options. Companies looking for greater insurance premium cost savings will need to consider increased retentions; however, the costs may outweigh the benefits of this approach.

RISK TRENDS

Insurer Relationships and the impact on Losses

After years of reducing rates and compressed fees, hull and cargo insurance is more frequently being viewed as a commodity rather than a relationship business. Many insurers are becoming less flexible in their approach to claims handling. Companies need to be diligent in following warranties, reporting claims and ensuring there is clarity about their operations and the coverage required.

Accumulation of Risk

The fire in Tianjin China has impacted both primary insurers and reinsurers who may not have been aware of the extent of exposure they had at that location. Marine insurers will be paying more attention to their aggregation of risk at any one location or on any one vessel/conveyance. As a result, companies should expect more questions around storage exposure and values, and where exposure is high, capacity may be constrained.

Theft Loss

Theft loss is not new for the transportation industry; however, as the frequency of cargo crime increases, shippers are more often looking to transfer increasing liability to carriers or intermediaries, including ocean carriers that have historically been diligent in maintaining bill of lading limitations.

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Small and Midsize Businesses

AHEAD IN 2016

Rates will remain stable with increases in the 3% to 5% range.

Increased availability of online quote and comparison tools.

Interest in D&O coverage on the rise.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5% TO +5%	INCREASE 0% TO 10%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
AVIATION	STABLE -5% TO +5%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
ENVIRONMENTAL	STABLE -5% TO +5%	STABLE -5% TO +5%
MARINE	STABLE -5% TO +5%	STABLE -5% TO +5%
MARINE CARGO	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Many online direct-quote and quote-comparison tools are now available for the SME insurance buyer in Canada. This trend has the potential to impact the insurance buying style of Canadian SMEs going forward, but the depth of that impact has not yet been determined.

Rates continue to increase in the range of 3% to 5% at renewal with many insurers. Increased interest in the SME market among insurers is driving greater competition and will likely continue to keep rates stable in 2016.

RISK TRENDS

D&O Liability

Challenging macroeconomic conditions are putting pressure on SMEs' financial stability, which is increasing interest in D&O coverage for private companies to mitigate potential insolvency. Interest in private company D&O is also increasing. This increase is due in part to the inclusion of employment practices liability extensions that can help insulate companies from defence costs, settlements, and judgments against them for "wrongful dismissal," or discrimination allegations that may arise out of actions, such as downsizing and layoffs.

Contractor and Consultants Liability

We are seeing an increase in requests for professional liability insurance for small firms providing services as contractors and consultants for large professional service firms. This trend appears to be due to a desire of larger firms to outsource rather than hire full-time staff for project-based work.

Slip and Fall Coverage

Increasingly, it seems that slip and fall events are resulting in litigation, which in turn is leading to an increase in reported losses under commercial general liability policies across a number of industries.

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INSURANCE MARKETS BY INDUSTRY

19 Communications, Media, and Technology
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24 Mining
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Communications, Media, and Technology

AHEAD IN 2016

Rates will remain stable.

Reductions can be obtained with competition.

High profile losses and contractual obligations will drive purchase of cyber coverage.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	DECREASE 0% TO 10%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	DECREASE 0% TO 10%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
MARINE CARGO	STABLE -5% TO +5%	DECREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Challenging classes of business include transaction processors, companies that provide medical record software solutions, and organizations active in cloud services.

The insurance marketplace remained stable for communications, media, and technology companies over the past year, and these conditions are expected to continue in 2016.

There continues to be significant excess capacity in the insurance marketplace for communications, media and technology risks. Many companies that choose to go to market for competitive quotes will receive offers from multiple insurers. Incumbent insurers will need to price risks aggressively to retain business.

RISK TRENDS

Industry Convergence

The lines between communications, media, and technology companies continue to blur as they bundle software, hardware, content delivery, and content creation. Emerging trends include social collaboration technologies, mobile payments, and streaming media (i.e., content development versus delivery.)

Cyber Risk

Cyber risk coverage can form part of a technology E&O placement, or can be insured on a standalone basis, typically with the same insurer. Cyber limits are trending upwards, with many technology firms considering higher limits for event management/first-party costs. High-profile losses and contractual obligations are driving these increased limit purchases.

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Construction

AHEAD IN 2016

Available capacity is expected to increase.

Companies will be able to buy large limits at relatively low prices.

AFPs will continue to grow in popularity.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5%TO +5%	STABLE -5% TO +5%
PROPERTY — NON-CAT	DECREASE 0% TO 10%	STABLE -5% TO +5%
PRIMARY CASUALTY	DECREASE 0% TO 10%	STABLE -5% TO +5%
EXCESS CASUALTY	DECREASE 0% TO 10%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
ENVIRONMENTAL	STABLE -5% TO +5%	STABLE -5% TO +5%
BUILDERS' RISK	DECREASE 10% TO 20%	STABLE -5% TO +5%
WRAP UP	DECREASE 10% TO 20%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

New entrants into the construction insurance marketplace, particularly from the US, combined with the traditional domestic insurers and London markets, are expected to drive an increase in available capacity. Construction insurance rates are expected to remain stable for the foreseeable future. In addition, construction companies will continue to be able to buy large limits at relatively low prices.

RISK TRENDS

Class Actions

Class-action lawsuits related to residential construction project defects are increasing. Construction companies need to assess their liability post completion and ensure that they have adequate coverage in place.

Alternative Financing and Procurement Projects

Alternative Financing and Procurement (AFP) projects, also known as public-private partnerships (P3s), are growing in popularity across the country. With projects of this nature, contractors are forced to assume greater liability and, therefore, must ensure appropriate contract management and risk transfer are in place.

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Financial Institutions

AHEAD IN 2016

Improved E&O coverage enhancements will continue to be available.

D&O rates will continue to be competitive.

Cyber risk will be a priority for boards and regulators.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	DECREASE 0% TO 10%	DECREASE 0% TO 10%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
FIDUCIARY LIABILITY	STABLE -5% TO +5%	STABLE -5% TO +5%
EMPLOYMENT PRACTICES LIABILITY (EPL)	STABLE -5% TO +5%	STABLE -5% TO +5%
CYBER RISK	INCREASE 0% TO 10%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Several Lloyd's Syndicates have put "boots on the ground" in Canada, and this has enhanced local competition. Notwithstanding this, we expect continued pressure for increased deductibles and retentions in 2016 as insurers attempt to "right-size" their global financial institutions portfolios.

Obtaining E&O coverage will likely continue to present challenges for financial institutions, both in terms of rate/premium and deductibles/retentions; however, improved coverage enhancements will continue to be available ensuring the product remains relevant. D&O rates should remain competitive as there is an abundance of D&O capacity readily available in the market.

RISK TRENDS

Cyber Risk

The rising frequency and severity of publicly reported data breaches have made cyber risk the highest priority for corporate boards of directors, regulators, and risk managers. Throughout 2015, a number of high-profile corporations faced serious brand and reputational risk issues raising awareness that, although certain functions and operations can be outsourced to third-party vendors, the brand and reputational risk issues remain with the corporation.

Insurance Optimization

Over the past few years, there has been an increase in the use of risk mapping by financial institutions to help identify coverage weaknesses, key areas for improvement for greater certainty of payment, and to support internal governance initiatives. One of the positive outcomes from such an analysis is a closer alignment between the operational risk profile of the organization and the insurance risk transfer program.

Insurance Industry Consolidation

2015 was a busy year for mergers and acquisitions in the insurance/reinsurance industry; however, it remains to be seen what impact, if any, these transactions will have on capacity for financial institutions. It is possible that we may see the need for impacted insurers to monitor and manage their limit aggregations across industries and single names.

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Health Care and Life Sciences

AHEAD IN 2016

Rates will remain stable.

New privacy laws will drive some hardening of the market for health care cyber risk.

Increased scrutiny for directors and officers of publicly traded life sciences companies.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5% TO +5%	INCREASE 0% TO 10%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	DECREASE 0% TO 10%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	DECREASE 0% TO 10%	STABLE -5% TO +5%
CLINICAL TRIAL	DECREASE 0% TO 10%	DECREASE 0% TO 10%
CYBER	INCREASE 0% TO 10%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

In 2016, we expect to continue to see new entrants in the health care and life sciences insurance marketplace. This trend will put downward pressure on premiums in many cases, in particular, the life sciences sector. In addition, insurers are becoming more receptive to enhanced coverages for health care and life sciences companies.

Rates should remain stable in most areas due to the amount of capacity available in the health care and life sciences insurance marketplace. However, with the continuing development of privacy law in Canada, we anticipate some hardening of the market for cyber insurance in the health care sector that could result in increased rates and reduced capacity.

RISK TRENDS

Constrained Public Funding

Provincial funding of public sector health care organizations has been constrained over the past several years, and this trend is expected to continue in 2016. This reality impacts risk management for health care organizations in several ways, including:

- Increased clinical risk due to lapses in patient safety and quality of care.
- Failure of equipment and building assets due to aging infrastructure.
- Emergence of new risks resulting from the expansion of operations into revenue-generating services.

Privacy Liability

Recent court decisions with respect to privacy law have exposed Canadian health care organizations to increased risk of class actions in the event of privacy breaches. In 2015, the Ontario Court of Appeal ruled that a class action can proceed against Peterborough Regional Health Centre for a breach that resulted in unauthorized access to the personal health information of its patients. Importantly, this ruling creates a new and significant civil litigation exposure for health care organizations in Canada, over and above legislatively enforceable fines and penalties.

D&O Liability

There is more scrutiny being placed on the directors and officers of publicly traded life sciences organizations. Recent declines in the stock market have created a more challenging insurance marketplace for life sciences companies looking to insure executive risks. Although there is an abundance of capacity in the marketplace, insurers are being more selective and exercising increased diligence in their approach to life sciences D&O risks.

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Manufacturing

AHEAD IN 2016

Property and casualty rates will remain stable.

Demand for cyber risk coverage will increase.

Manufacturing companies will continue to face increased competition and staffing challenges.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	DECREASE 0% TO 10%	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
AVIATION	STABLE -5% TO +5%	STABLE -5% TO +5%
CRIME	DECREASE 0% TO 10%	STABLE -5% TO +5%
ENVIRONMENTAL	DECREASE 0% TO 10%	STABLE -5% TO +5%
MARINE	STABLE -5% TO +5%	STABLE -5% TO +5%
MARINE CARGO	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Manufacturing companies can expect to see auto fleets being re-underwritten in 2016, resulting in significant rate increases. Rates across other lines should remain stable, with some downward movement, particularly in financial management-related lines such as crime and D&O.

Overall, there is increased interest in and demand for cyber risk and related insurance products among manufacturers, which is serving to broaden the coverages offered and drive prices down.

RISK TRENDS

Increased Competition

Canadian manufacturers are facing threats from traditional competitors as well as from non-traditional competitors disrupting the marketplace with new business models. Manufacturers need to anticipate changes in the competitive landscape and inspire innovation to address these new challenges.

Staffing Challenges

The current labour market is characterized by shortages of qualified candidates and reduced retention rates among employees. Manufacturers need an effective staffing management strategy, blending full-time personnel with specialized professionals who can be brought in on an as-needed basis to face these challenges head on.

Increasing Importance of Technology

A key to survival and growth in the Canadian manufacturing industry is innovation. Fostering innovation requires a significant investment of time and money, neither of which Canadian manufacturers have in abundance.

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Mining

AHEAD IN 2016

Rates will continue to fall.

Recent tailing facility failures will drive increased scrutiny of placements with pollution coverage.

Continued focus on cost-cutting could impact workplace safety and equipment maintenance.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	DECREASE 0% TO 10%	STABLE -5% TO +5%
PROPERTY — NON-CAT	DECREASE 10% TO 20%	DECREASE 0% TO 10%
PRIMARY CASUALTY	DECREASE 0% TO 10%	STABLE -5% TO +5%
EXCESS CASUALTY	DECREASE 0% TO 10%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%	INCREASE 0% TO 10%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
AVIATION	DECREASE 0% TO 10%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
ENVIRONMENTAL	STABLE -5% TO +5%	INCREASE 0% TO 10%
MARINE	STABLE -5% TO +5%	STABLE -5% TO +5%
MARINE CARGO	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

The insurance market for mining risks remained soft throughout 2015, and we anticipate that these conditions will persist in 2016.

We do not anticipate that any new insurers will be entering the market in 2016 or that capacity will increase; however, despite the economic challenges facing the industry, insurers currently servicing this market segment are expected to continue to be committed to the mining sector.

Premium volumes are being driven downward, primarily by reductions in business interruption values.

With high-profile tailing facility failures, such as the incidents at Mount Polley in British Columbia and Samarco in Brazil, property and third-party liability placements with elements of pollution and cleanup coverage will continue to be closely scrutinized, including coverage reviews and demands for additional underwriting information.

RISK TRENDS

Cost and Productivity Efficiencies

Slumping commodity prices have forced mining companies to pare down and look for productivity gains to improve their bottom lines. This focus on cost-cutting could impact areas such as workplace safety and equipment maintenance.

Commodity Prices

Consumption of base metals and other commodities continues to fall, particularly with the continued decrease in demand in China. As a result, commodity prices are falling, which is negatively impacting the Canadian mining industry.

Stakeholder Relations

Mining companies are required to engage with all levels of government, regulators, local communities, special interest groups, and employees. This engagement sometimes comes at a cost. Despite the decline in commodity prices, these parties have not softened their positions and, as a result, mining companies continue to have to invest in proactive stakeholder relations.

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Power and Utilities

AHEAD IN 2016

Demand for cyber risk coverage will continue to increase.

Due to new NLCA coverage requirements, demand for nuclear liability coverage will increase.

Severe weather events related to climate change with the potential to impact power infrastructure on the rise.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5% TO +5%	INCREASE 0% TO 10%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	INCREASE 0% TO 10%	INCREASE 0% TO 10%
EXCESS CASUALTY	INCREASE 0% TO 10%	INCREASE 0% TO 10%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
ENVIRONMENTAL	INCREASE 0% TO 10%	STABLE -5% TO +5%
BOILER AND MACHINERY	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

The insurance market for Canadian power and utility was soft throughout 2015 due to a continuing over-abundance of capacity in the marketplace. These conditions are expected to continue into 2016.

Demand for cyber risk coverage for power and utility companies is expected to continue to increase; unless capacity growth keeps pace, premium rates will likely rise in 2016.

Operators of nuclear power generating stations are expected to purchase $650 million in nuclear liability coverage in 2016, up from $75 million in previous years. This increased coverage is prescribed under the Nuclear Liability and Compensation Act (NLCA). New, approved underwriting entrants are being introduced to augment capacity and compete with the nuclear pools that provided the required coverage limit in the past.

RISK TRENDS

Cyber Risk

For generation, transmission, and distribution companies alike there is an evident, increased interest in procuring coverage for cyber risk. Power clients and their boards of directors have expressed concerns related to business interruption, extra expense, and regulatory actions arising from cyber attacks.

Climate Change

According to Environment Canada, as a result of climate change, severe weather events that have the potential to impact the power infrastructure are now expected to occur every six years. Previously, these types of events were expected to occur only once in 40 years.

New Infrastructure

There is expected to be a significant increase is new power and utility developments and refurbishment projects in the next several years. The Conference Board of Canada estimates $350 billion in power and utility infrastructure investment will be required over the next 20 years.

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Rail

AHEAD IN 2016

Competitive property rates for companies with good loss profiles.

Stable rates for casualty coverage.

Underwriting scrutiny of rail companies will continue to be intense, particularly for casualty exposures.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	DECREASE 0% TO 10%	STABLE -5% TO +5%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

With relatively few losses occurring in 2015, the property insurance market for rail companies softened in 2015. In the fourth quarter, most rail property owners renewed with rate decreases of approximately 5 to 10%. Competitive market conditions are expected to continue into 2016 for companies with strong loss profiles.

Rail insurers are aggressively competing for business and offering attractive pricing, terms, and conditions. Insurers are offering capacity in different positions on property programs and expanding capacity. Companies with significant losses typically did not see the same level of rate decreases but were able to avoid increases due to market competition.

The casualty insurance market for railways remained stable to firm in 2015. Larger rate increases were tempered by new capacity entering the marketplace, particularly from Lloyd's syndicates. In some cases, underwriters were willing to offer slight decreases to maintain their positions with certain accounts. Stable market conditions are expected to continue in 2016.

RISK TRENDS

Safe and Accountable Rail Act (Canada)

In June 2015, the House of Commons of Canada passed the Safe and Accountable Rail Act, amending the Canada Transportation Act and Railway Safety Act. The new law:

- ► Strengthens the liability insurance requirements for federally regulated railways.
- ► Establishes a supplementary, shipper-financed compensation fund to cover damages resulting from railway accidents involving the transportation of certain dangerous goods.
- ► Provides Transport Canada inspectors with greater oversight powers.

Underwriting Scrutiny

Underwriting scrutiny of rail companies remains intense, particularly for casualty exposures. Underwriters continue to seek additional detail on hazardous material types, carloads, miles, and routes. Insurers are also seeking information related to instances when passenger and freight railroads intersect or share corridors.

Flood Exposure

Insurers continue to be concerned about flood exposures for both freight and passenger railways. Railways that have purchased flood insurance on critical assets may not have seen rates decline as much as those that did not purchase the coverage, given insurers focus on maintaining minimum pricing levels. However, where competition has been especially strong, underwriters may be slightly more generous with flood pricing to win or retain business.

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Real Estate

AHEAD IN 2016

Competitive rates for companies with good loss profiles.

Increased severity and frequency of environmental claims.

Increased demand for cyber risk coverage.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	INCREASE 0% TO 10%	INCREASE 0% TO 10%
PROPERTY — NON-CAT	DECREASE 0% TO 10%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	DECREASE 0% TO 10%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	DECREASE 0% TO 10%	STABLE -5% TO +5%
ERRORS AND OMISSIONS (E&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
ENVIRONMENTAL	INCREASE 0% TO 10%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Abundant property and casualty capacity is helping keep the market for commercial real estate insurance competitive. Recently completed mergers are not expected to have a material impact on market capacity, class of business appetite, or pricing.

Companies with best-in-class risks and good loss experiences should see continued rate reductions in 2016.

Coverage for multifamily residential properties and those that are exposed to water damage and flood risks will continue to be challenging to obtain without rate or deductible increases.

New insurance coverages of interest to real estate companies include cyber risk and social engineering.

RISK TRENDS

Urban Development

Continuing brownfield developments and changing regulations have resulted in an increase in the frequency and severity of environmental claims. A strong due diligence process will assist, however, real estate developers may have to accept higher retentions to maintain rates at current levels.

Cyber Risk

Media attention continues to fuel interest in cyber insurance for real estate companies, which have recognized that cyber risk is more that just an IT issue. Companies should undertake an analysis of what, if any, coverage is available through existing insurance policies to identify potential coverage gaps.

Climate Change

While we did not see the extent of natural catastrophe losses in 2015 that we did in previous years, evidence does indicate that insurers are applying increased scrutiny to the underwriting of natural catastrophe risks.

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Retail/Wholesale

AHEAD IN 2016

Rates will remain stable.

Increased demand for cyber risk coverage.

Increased claims will continue to be an issue in the retail and wholesale sector.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY — CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PROPERTY — NON-CAT	STABLE -5% TO +5%	STABLE -5% TO +5%
PRIMARY CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
EXCESS CASUALTY	STABLE -5% TO +5%	STABLE -5% TO +5%
DIRECTORS AND OFFICERS (D&O)	STABLE -5% TO +5%	STABLE -5% TO +5%
CRIME	STABLE -5% TO +5%	STABLE -5% TO +5%
ENVIRONMENTAL	STABLE -5% TO +5%	STABLE -5% TO +5%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

The insurance market for the retail and wholesale sector is expected to remain stable in 2016, with abundant capacity for these risks. We do not anticipate any new market entrants or additional capacity in 2016.

Retail and wholesale companies should look to increase casualty limits to protect against increasing losses. They should also consider purchasing cyber risk coverage as a risk transfer strategy to help mitigate the impact of potential breaches on their brand and reputation.

RISK TRENDS

Mergers and Acquisitions

Uncertainty in the retail/wholesale sector has resulted in increased merger and acquisition activity, along with international expansion. As a result, companies are taking a more global approach to protect their business

Cyber Risk

As retail operations become more mobile, cyber crimes are becoming more sophisticated and frequent. Companies are looking to risk transfer as a solution to help manage technology, network,and data exposures.

Increased Claims

Increased insurance claims continue to be an issue in the retail and wholesale sector. As losses continue to increase, insurers will be seeking increased premiums to cover the costs. Companies with proper claims management programs in place are better set to help mitigate losses.

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Transportation and Logistics

AHEAD IN 2016

Rate increases in the range of 2% to 10%.

Instances of telematics/usage-based insurance will rise.

Liability expectations for marine intermediaries and transportation companies will continue to increase.

INSURANCE MARKET CONDITIONS

COVERAGE	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
TRANSPORTATION	INCREASE 0% TO 10%	INCREASE 0% TO 10%

The above represents the typical rate change at renewal for average/good risk profiles.

Market Commentary

Overall, the marketplace for fleet transportation insurance is expected to continue to push for annual premium increases in the range of 2 to 10% in the near term. Capacity for primary automobile coverage for 2016 has decreased but remains stable for the excess/umbrella markets, including risks with US exposures. As the traditional insurance market tightens, the number of offshore group captives targeting good fleet risks will continue to grow. In addition, telematics/usage-based insurance is expected to enter the Canadian fleet marketplace in the near future, with the potential for premiums to be adjusted based on the on-road driving performance data of the fleet.

RISK TRENDS

Driver Shortage

As a result of demographic and regional challenges, there continues to be a shortage of qualified drivers in the Canadian transportation industry. Factors such as an aging workforce, gender imbalance, and competition from other industry sectors have been reflected in driver recruitment and retention initiatives. The future professional truck driver will need to be better trained and have a higher education level than today's drivers to cope with the evolving technologies being installed on vehicles to improve safety and productivity.

Broker/Freight Forwarding Liability

With increasing regularity, companies are being included in lawsuits based on the negligent hiring of freight carriers. When hiring a carrier, shippers must be able to prove that they have completed the necessary due diligence — having a certificate of insurance and a copy of the carrier's registration on file is not sufficient.

Contractual Liability

The liability expectations placed on marine intermediaries and transportation companies continue to increase, forcing those in the business of handling cargo to seek higher limits and broader coverage terms to meet those contractual obligations. Where insurance coverage is not available on reasonable commercial terms, decisions must be made about whether or not to accept, modify, or reject the contract.

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NOTES

About Marsh

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