

UNITED STATES INSURANCE MARKET REPORT 2016

COMMUNICATIONS, MEDIA, AND TECHNOLOGY



FOREWORD

As part of our commitment to keeping you informed, Marsh is pleased to present you with this excerpt regarding the communications, media, and technology industry from our *US 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 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,



Robert Bentley
President, US and Canada Division

EXECUTIVE SUMMARY

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

RISK ISSUES

Cybersecurity

Cybersecurity is now a mainstream business concern across all industries as most companies have either been the victim of a cyber-attack, conducted business with a company that has been attacked, or expect to be attacked at some point. There is a realization that cybersecurity needs to be managed across the enterprise. From individual employees to the board of directors, everyone has a stake in cybersecurity.

Drones

Insurers are paying increasing attention to the use of unmanned aerial systems – drones. Coverage for the risks presented by drone use may be excluded from casualty policies, and insurers are concerned about personal and advertising injury risks related to drones, although bodily injury and property damage coverage may also apply. In 2016, organizations that use drones may be expected to answer detailed questions from insurers including, but not limited to, questions about drone size and intended purpose.

Mergers and Acquisitions (M&A)

M&A activity in 2015 was exceptionally high in many industries, including insurance, health care, and communications, media, and technology. Activity is expected to be high again in 2016, barring any unforeseen changes. Among the risks heightened by M&A activity are environmental exposures, including legacy pollution issues; technological risks, such as integration of systems, data protection, and cybersecurity; and regulatory issues.

INSURANCE COVERAGE ISSUES

Property

► The US commercial property insurance market continued a two-year softening trend in 2015, one that is expected to continue into 2016, barring unforeseen changes in conditions. Rates are generally decreasing for buyers as catastrophe (CAT) losses were again low in 2015, insurer competition is at a high level, and alternative sources of capital are expected to continue to buoy the market.

- The quality of data that insureds submit to underwriters will continue to play a significant role in determining property insurance pricing, particularly regarding catastrophe risks.
- Cyber issues are playing out in property policies as business interruption losses stemming from cyber-attacks are an increasing concern for many organizations.

Casualty

- The US casualty insurance market generally softened in 2015 and, barring unforeseen changes, these conditions are likely to continue into 2016.
- Automobile liability remains among the most challenging of casualty areas. Nearly half of all auto liability clients renewed with rate increases in the fourth quarter of 2015, with trucking exposures facing a particularly difficult market.
- The workers' compensation insurance market continues to improve, with generally favorable conditions for buyers. Prescription drug prices remain a cost management concern.

Financial and Professional

- ▶ Entering 2016, demand for cyber insurance continues to grow across all industries and segments. Demand for protection against data breaches remains strong as concern over business interruption risks is growing. Capacity will continue to increase for most classes, barring unforeseen changes, but organizations should be prepared to fully outline their cyber security controls for underwriters for the best results.
- ▶ Employment practices liability insurance rates generally declined in 2015 and are likely to do so again in 2016, barring unforeseen events. Wage and hour claims filings have increased, as have related insurance offerings.
- ▶ Directors and officers (D&O) insurance rates are likely to continue to decline in 2016, barring unforeseen changes in conditions. Insurer and broker coverage innovations are also expected to continue.

Aviation

- ▶ The airline insurance market is expected to remain soft in 2016, barring unforeseen events. In the fourth quarter of 2015, most buyers renewed with decreases of between 15% and 25%. Competitive markets are also expected for general aviation and aerospace manufacturers.

Captives

- ▶ In early 2015, the Internal Revenue Service (IRS) included the formation of small captives on its annual list of questionable tax avoidance strategies. Any company seeking to form a small captive should follow a strict and detailed approach to ensure compliance.
- ▶ More captives may access terrorism insurance in 2016 as awareness of the potential benefits increases.

Employee Benefits

- ▶ Employers predict that in 2016 their health benefit cost per employee will rise by 4.3%, on average, according to Mercer, one of the Marsh & McLennan Companies.
- ▶ Employers are becoming more creative in how they support workforce health. For example, about one-fourth of large employers (24%) encourage employees to track their physical activity with a “wearable” device.

Energy

- ▶ Overall energy insurance market capacity increased in 2015, putting downward pressure on pricing. Barring unforeseen events, soft market conditions will likely continue in 2016.
- ▶ Energy companies have generally increased their focus on cybersecurity, including on regulations and adherence to certain contractual risk allocations to better manage each party’s risk and exposure to cyber loss.

Environmental

- ▶ Barring unforeseen changes, the soft environmental insurance market conditions seen in 2015, which were driven by abundant capacity, are likely to continue in 2016.
- ▶ The rapid pace of M&A activity has led to an increase in environmental insurance purchases to help facilitate transactions.

Entertainment

- ▶ The market for entertainment and events insurance was relatively soft in 2015.
- ▶ Drone use and terrorism risk are expected to be prominent issues in 2016.

Marine

- ▶ The marine market significantly softened in 2015, largely driven by a continued influx of capacity, a soft reinsurance market, and reduced losses.
- ▶ A high number of mergers among marine underwriters in 2015 did not affect the overall market.

Political Risk

- ▶ Despite significant global political turmoil and violence, political risk insurance rates generally declined in 2015 and should do so again in 2016, barring a significant change in conditions.
- ▶ High risk areas are exceptions. For example, it is difficult to obtain coverage for Russia, while portfolios that included Turkey or Brazil generally saw increases of about 10% in the fourth quarter of 2015.

Surety

- ▶ Surety market outlook for 2016 is positive, assuming continued strength in the construction industry.

Trade Credit

- ▶ The market for trade credit insurance is expected to remain generally favorable for buyers into 2016.
- ▶ Larger rate reductions were possible in 2015 for portfolio programs covering multiple debtors (as opposed to single-debtor programs).

Note: For specific insurance market and risk trends by industry, see the “Industry Specialties” section of this report.

Communications, Media, and Technology

Q AHEAD IN 2016

Property market softening likely to continue.

Slight rate increases likely for E&O liability.

Watching for impact of insurer consolidation within the D&O space.

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
CASUALTY	GENERAL LIABILITY	5% DECREASE TO 5% INCREASE	10% DECREASE TO 5% INCREASE
	WORKERS' COMPENSATION	5% DECREASE TO 5% INCREASE	5% DECREASE TO 5% INCREASE
	UMBRELLA	5% DECREASE TO FLAT	5% DECREASE TO 5% INCREASE
FINANCIAL AND PROFESSIONAL	DIRECTORS AND OFFICERS LIABILITY FOR PUBLIC COMPANIES	7% DECREASE TO 2.5% DECREASE	5% DECREASE TO 5% INCREASE
	EMPLOYMENT PRACTICES LIABILITY	4% DECREASE TO 1.5% INCREASE	FLAT TO 5% INCREASE
	FIDUCIARY LIABILITY	6.5% DECREASE TO FLAT	FLAT TO 5% INCREASE
	ERRORS AND OMISSIONS	5% DECREASE TO 5% INCREASE	FLAT TO 5% INCREASE

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

Market Commentary

PROPERTY

The property insurance market in 2015 further softened for communications, media, and technology (CMT) companies, with insurers aggressively pricing both renewal and new business opportunities. Barring catastrophe losses or other unforeseen events, these trends are expected to continue in 2016. Established CMT insurers offer the most “all risk” capacity, while less established CMT markets push to expand market share, which has increased capacity and put downward pressure on rates.

Large loss exposures and contingent time element coverage issues are key

for CMT companies with large, diverse supply chains. Exposure to large losses is increasing for insurers due to continued mergers and acquisitions (M&A) activity, especially in the communications sector and among makers of software and hardware. As companies use fewer suppliers, insurers are paying more attention to their aggregation of risk. Cloud services are also changing the dialogue as insureds and insurers alike consider the impact that large events at cloud providers could have on accessibility to data and services.

FINANCIAL AND PROFESSIONAL

Many CMT companies in 2015 experienced modest rate increases for errors and omissions (E&O) liability. This was due

in part to cyber insurance rate increases. Typically, cyber insurance is embedded within CMT companies' E&O programs. Companies that support and service a significant amount of data will likely see bigger increases than others. Insureds should articulate to underwriters their efforts around data management and security protections, and comply with rules and regulations that govern how they process, store, or transmit credit card information.

The excess insurance market typically saw rate increases in 2015, a trend that will likely continue into 2016. Minimum premiums are facing the largest percentage increases in the excess market. Generally, any minimum premium increases are

offset as the excess market offers more limits in terms of cyber drop-down, a trend that is expected to continue in 2016, barring unforeseen events. Total market capacity for technology E&O is more than \$800 million; however very few, if any, companies are purchasing limits of more than \$500 million.

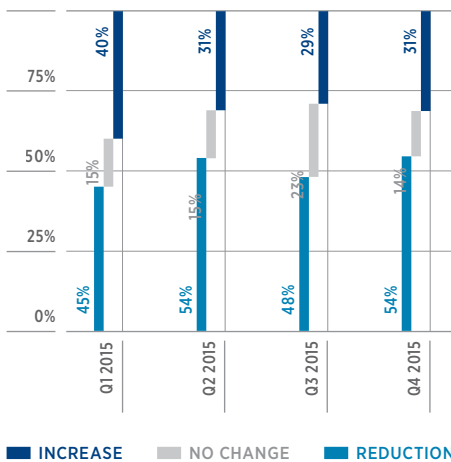
In 2015, director and officers (D&O) liability rates generally softened for companies with stable stock prices and no claims history. Decreases in rates were due in part to increased capacity and competitive pricing on excess layers of insurance. Increases in the primary levels were typically driven by changes in risk profiles such as market capitalization increases and financial results. These trends are expected to continue in 2016, barring unforeseen events. Also, insurance market consolidation has created a smaller pool of primary insurers, the effects of which remain to be seen, but which could cause additional increases in rates in the near future.

CASUALTY

The overall casualty insurance market was generally stable, with many CMT companies with minimal losses achieving rate decreases in the fourth quarter of 2015 (see **Figure 1**). Ample capacity

FIGURE 1 PERCENT OF US GENERAL LIABILITY CMT CLIENTS WITH RATE CHANGES

Source: Marsh Global Analytics
Numbers may not add up to 100% because of rounding.



and insurer competition contributed to generally declining rates, a trend that is expected to continue in 2016, barring unforeseen events.

Companies that marketed their insurance programs typically saw multiple competitive quotes from insurers. Incumbent insurers often were willing to pre-negotiate a renewal rate several months in advance and often at a moderate 5% rate decrease to prevent their insureds from marketing their program. This applied more to general and excess liability than to workers' compensation or auto liability. Workers' compensation prices remained relatively stable in 2015 and are expected to continue to do so in 2016; however, pricing often depends on the company's exposures in particular states.

All CMT insurers have taken a stance with respect to the new "access and disclosure" exclusion to varying degrees. Many CMT companies that did not previously have the exclusion in their general liability policy saw them added into policies effective in 2015. Insurers varied in their flexibility as to which version of the exclusion they attached.

Other coverage issues that surfaced in 2015 included the use of unmanned aircrafts, or drones. Moving into 2016, CMT companies using drones should hold discussions with their insurance advisors and general liability and aviation insurers about the best way to add coverage.

RISK TRENDS

Mergers and Acquisitions

M&A and corporate restructuring activities are occurring across all CMT sectors. This has created significant insurance challenges, including capacity issues. Acquiring companies often need to rethink their insurance needs as they merge the risks of the acquired company into their programs while insurers assess the additional capacity. CMT

companies spinning off particular units can be challenged by how to separate insurance programs. M&A activity can also exacerbate a company's cyber risks as data security protocols are merged.

Information Infrastructure and Data Security

The technology risks of cyber-attacks, data fraud and theft, and breakdowns in critical information infrastructure are strongly connected to each other and to risks such as terrorist attacks and global governance failures. CMT companies are more aware than ever of the potential impact of these risks on their ability to continue operating in the event of a disruption. Recent high-profile losses within the CMT industry have sparked interest among companies to better understand the effects of a cyber-attack on business interruption.

Emerging Business Models

Companies working in the sharing economy — the peer-to-peer based sharing of goods and services typically facilitated by community-based online services — can often experience dramatic shifts in their risk profiles. For example, a company that created an online application for driver services no longer is just a technology platform provider; they are assuming the traditional risks of a transportation company. Sharing economy companies are quickly working to better understand their evolving risk profile as there have been significant losses. More claims and coverage issues are expected in 2016.

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