

UNITED STATES INSURANCE MARKET REPORT 2016

EDUCATION



FOREWORD

As part of our commitment to keeping you informed, Marsh is pleased to present you with this excerpt regarding the education 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.

Education

INSURANCE MARKET CONDITIONS

COVERAGE	SEGMENT	RATE CHANGE Q4 2015	RATE CHANGE Q4 2014
PROPERTY	LARGE ORGANIZATIONS	10% DECREASE TO 5% DECREASE	10% DECREASE TO FLAT
	SMALL ORGANIZATIONS	10% DECREASE TO 5% DECREASE	5% DECREASE TO FLAT
CASUALTY	LARGE ORGANIZATIONS	FLAT TO 5% INCREASE	3% DECREASE TO 5% INCREASE
	SMALL ORGANIZATIONS	FLAT TO 5% INCREASE	FLAT TO 7% INCREASE
INTERNATIONAL	LARGE ORGANIZATIONS	FLAT TO 15% INCREASE	10% DECREASE TO FLAT
	SMALL ORGANIZATIONS	FLAT TO 15% INCREASE	5% DECREASE TO FLAT

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

Market Commentary

PROPERTY

A surplus of capacity and strong competition have contributed to generally favorable property insurance market conditions for education institutions. In the fourth quarter of 2015, buyers typically experienced rate decreases, with some able to secure double-digit rate decreases. Insurers are aggressively pursuing new business, and are more willing to consider multiyear commitments with staggered rate decreases over the term of the agreement. The market is

likely to remain competitive in 2016, and rates are expected to continue to fall, barring unforeseen events.

With concerns growing about on-campus shootings, the crisis management coverage introduced by one leading education property insurer is becoming more widely available; buyers will likely demand higher sublimits for this coverage in 2016. Meanwhile, insureds continue to struggle to provide good information to underwriters about the valuation of research, particularly the potential lost income associated with the loss of research.

Q AHEAD IN 2016

Rate increases likely for most property, casualty, and financial and professional lines.

Key claims issues: Sexual molestation, brain injuries, on-campus violence.

Underwriters scrutinizing drone use.

CASUALTY

The casualty insurance market for education generally remained firm, with most insureds renewing with single-digit rate increases. In the fourth quarter of 2015:

- ▶ General liability rates were typically flat to up 7%.
- ▶ Automobile liability rates were typically flat to up 5%.
- ▶ Umbrella and excess rates were typically flat to up 5%.
- ▶ Workers' compensation rates were typically flat to up 15%.

Barring unforeseen changes, similar rate trends are expected in 2016.

Although the frequency of casualty claims is not increasing, severity continues to grow. As losses accumulate, many insurers remain unwilling to provide full coverage for sexual molestation claims stemming from childcare operations, summer sports camps, campus housing, fraternities, and athletics. Insurers are also troubled by large settlements for slips and falls, sports injuries, vehicle-related incidents, violent acts (by students, police, and sports fans), and suicides, and most continue to take a cautious approach to the industry.

Rising medical costs — compounded by the aging of the education workforce — are driving the cost of workers' compensation claims higher. Some larger schools are considering retaining more risk to gain control over their workers' compensation costs. Meanwhile, carriers are offering deductible options with or without collateral and offering to unbundle claims administration programs in an effort to retain some guaranteed cost business.

EDUCATORS' LEGAL LIABILITY

Rates for educators' legal liability insurance — which includes directors/trustees and officers liability (D&O), employment practices liability (EPL), and educators' errors and omissions (E&O) liability — were generally stable in 2015. In the fourth quarter, rates increased, on average, by 2% to 3% for not-for-profit institutions. Rate increases were largely a result of an increase in EPL losses and Equal Employment Opportunity Commission (EEOC) filings. Other key concerns include antitrust claims, gainful employment claims, and class-action litigation related to allegations of misleading job placement statistics, which have been especially problematic for law schools. Claims alleging violations of Title IX and the failure of institutions to educate students are also on the rise, with the accompanying legal costs growing faster than the costs of other liability events.

The professional liability market for publicly traded and for-profit education institutions remains limited, and pricing is tight. These organizations are often forced to purchase D&O and EPL programs separately from E&O coverage.

CYBER

As casualty insurers have added cyber exclusions for bodily injury and property damage arising out of access to or disclosure of confidential or personal information, education institutions are increasingly purchasing standalone cyber insurance to protect against data

breaches and other technology exposures. The number of Marsh education clients purchasing cyber insurance increased to 36% in the first half of 2015, up from 19% in the same period in 2014. Pricing for cyber insurance has generally stabilized, and market capacity remains abundant.

RISK TRENDS

Drones

Insurers are closely scrutinizing the use of unmanned aerial systems, or drones, in education settings. Institutions' use of drones includes research experiments, training of engineering students, security, and athletic photography. Students, meanwhile, often build and operate drones for personal reasons, and outside parties also operate drones on education institutions' premises. Insureds should be prepared to provide underwriters with detailed information on drone use and their drones' size, ownership, and intended purpose.

Traumatic Brain Injuries

Insurers concerns about traumatic brain injuries (TBI) continue to grow. Many education institutions have faced lawsuits for sports-related injuries in collegiate athletic programs, particularly those related to football, hockey, soccer, and lacrosse. Underwriters continue to evaluate this exposure and have taken action by requiring additional information at renewal, including:

- ▶ Number of athletic participants.
- ▶ Sample waivers and releases.
- ▶ Baseline testing data.
- ▶ Information about concussion awareness training for coaches, athletic trainers, and medical staffs.

If adequate controls are not in place, some insurers are adding participant injury and neurodegenerative injury exclusions to liability programs. In 2014, United

Educators required completion of a traumatic brain injury warranty statement for intercollegiate football, supported by supplemental information and other policy language changes, including aggregate TBI limits.

Crisis Management

Active shooter events, workplace violence incidents, and other crises remain a top concern for K-12 schools, colleges, and universities. In addition to the potential for physical harm against students, faculty, and others, these events can disrupt normal operations and damage reputations and bottom lines.

If not already in place, education institutions should work with risk advisors, law enforcement, and others to develop location-specific crisis management and post-event response plans, and to test such plans ahead of a potential crisis. Among other topics, these plans should address:

- ▶ Communication between faculty, students, and other stakeholders.
- ▶ Evacuation and lockdown strategies.
- ▶ Working with law enforcement.
- ▶ Counseling for injured or affected students and families.
- ▶ Community and media relations.
- ▶ Post-incident reviews.

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