GLOBEX UPDATE

Events, developments, and opportunities in the international marketplace

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USA and Insurance Rates- What Can We Expect in 2019?

As we near the end of 2018, it is worthwhile noting the trends that the USA has seen over the course of the year. What can we expect from insurance rates across different lines of business in 2019?

Most Property & Casualty policyholders are expected to experience flat to 5% rate increases in 2019, with pricing challenges likely to persist in specific coverage lines such as property-exposed accounts in wind-prone areas, habitation risks and large commercial trucking fleets.

The Property & Casualty industry is well capitalized and surplus now stands in excess of $760 billion. The industries combined ratio as of mid-2018 is 98%, according to various rating agencies, but predictions are that this will likely approach 100% by the year end.

P&C market surplus will likely continue to grow, fueled by a booming economy, resultant growth in net written premiums and ever-expanding levels of alternative capital. In the face of competition from other carriers looking to deploy their surplus capital, incumbent markets are often reluctant to walk away from what they perceive to be below-market pricing and will rather look to strike a compromise with clients and brokers to retain business. Policyholders in windstorm, flood and fire-prone areas are likely to experience upwards rate pressure while those in more hazardous industries or with deteriorating loss profiles may be forced to consider retaining more risk to maintain rate.
In respect to Specialty Lines, insurers are also more likely to ask for moderate to high rate increases for many policyholders in the public company Directors & Officers space, Employment Practices Liability and Medical Malpractice for health care providers in certain

classes.

On the flip side, guaranteed cost workers compensation buyers are expected to benefit from rate reductions despite rising loss trends in most states. For other liability lines, rates have likely bottomed out as markets focus on underwriting discipline.

Beyond the natural catastrophe losses in 2017 and 2018, multifamily portfolios are producing fire and water damage losses, causing some carriers to exit this risk class or increase rate and deductibles even for low-loss level insureds. With overall segment capacity shrinking, insureds with exposures to natural catastrophe and below average loss history can expect significant rate increases. In addition, liability claims involving tenant discrimination, wrongful eviction and sexual harassment have been unrelenting. Real estate owners and managers will need to provide comprehensive information on risk controls and risk management strategies when placing coverage associated with these exposures. Meanwhile, in the Transportation sector, combined ratios for commercial auto liability market continue to deteriorate, reaching 113.5% in 2017. As a result of the deteriorating underwriting performance, commercial auto liability insurers are increasing rates and/or deductible levels for loss sensitive accounts. In many cases, companies with a favorable loss experience are facing initial rate increases of 5% or more.

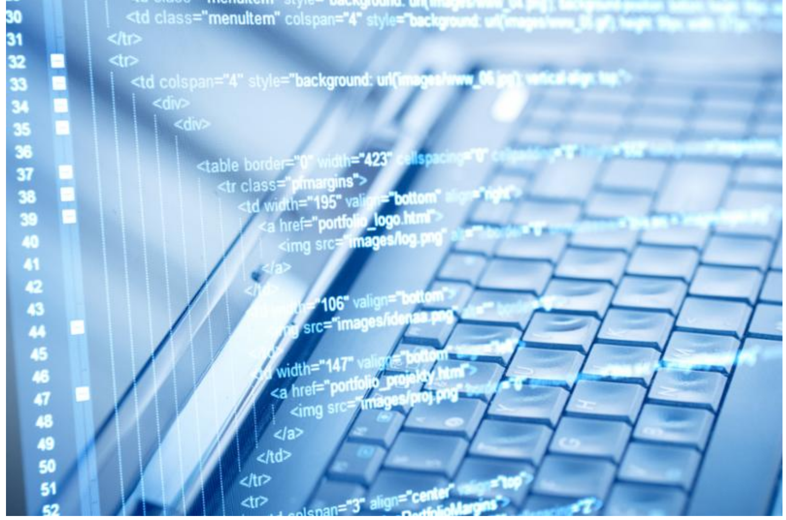
USA's Equivalent of the GDPR -The California Consumer Privacy Act of 2018

The California Consumer Privacy Act of 2018 (CCPA) , which was signed into law by Gov. Jerry Brown in June, becomes effective Jan. 1, 2020, and is similar in some respects to the European Union’s General Data Protection Regulation. Risk managers should start internal discussions with key stakeholders about implementing the CCPA and the impact it may have on their business operations.Extensive industry reports outline which businesses are covered by the CCPA; its key obligations; how personal information is defined under the legislation; the rights provided to California consumers under the law; and how it compares with the GDPR. Stakeholders should consider the impact of the legislation on current and future business models, specifically those that rely on the sale of consumer data. Stakeholders should also consider whether key operational changes needed to comply with CCPA can be implemented only in the portion of the business that touches California consumers, or whether the implementation should be across a larger part of the organization, recognizing that other states could implement laws similar to the CCPA in the future.
Under the CCPA, companies are being encouraged to conduct an analysis of the consumer data they hold. They should also develop requirements and documents unique to their business and a gap analysis to determine where operational controls may be needed.

Everyone is Requesting Cyber Insurance – But Who Really Understands It?

Brokers, Risk Managers, and

Insureds are all asking insurance companies to provide Cyber Cover, with the continuous incidents of Cyber-attacks. But what does Cyber Insurance really cover, and why do the definitions vary all across the board?



First steps would include simplifying wordings by using standard definitions. Therefore, if some item is not covered, then one would use an exclusion instead of removing the definition. For example, almost all policies refer to the ‘computer system’, but policy definitions differ considerably, for instance some exclude industrial control computers and at least one excludes laptops. Many insurers use the ‘computer system’ definition to add in cover for third-party systems. It would be simpler if the definition was standardized, such as “computer systems” which means all electronic computers including operating systems, software, hardware and all communication and open system networks or websites and mobile devices including but not limited to laptops, data storage devices, smartphones, iPhones, tablets, personal digital assistants, electronic office equipment, and equipment controlling manufacturing processes, or forming part of machinery.

This would mean that the exclusions deal with parts of the computer network that insurers do not want to cover, rather than hiding exclusions in definitions. If insurers do want to provide cover for the computers systems of cloud providers or IT service providers then they can add something into the policy section to make that clear.

There are many other definitions that escape clarity, such as the terms “data”, “security breach”, social engineering”, “privacy breach”, and the list goes on. By starting with broader but specific descriptions of what each of the items are, then underwriters can clearly define what is NOT covered under the policy, by means of exclusions. Hopefully this should leave less room for differing interpretations of each definition.There are now forums for insurers to discuss wording issues. Even if underwriters cannot actually collaborate on a standard wording, it is essential that they are aware of the extent to which the current confusing, complicated and often contradictory wordings are stifling market growth.

Ecuador: Change in Tax Calculation Method

As of Nov 1, 2018, the "Impuesto a la Salida de Divisas (ISD)" or as we know it, the outgoing currency tax, is being calculated with a different methodology.
Whereas previously the 5% was being calculated on the ceded premium to the reinsurer, the 5% will now be calculated on the pure net premium that is ceded overseas. For any questions on this methodology please contact any member of our Globex Underwriting team.

Bahrain - VAT Tax of of January 2019

Bahrain joins the myriad of Middle Eastern countries which will have a VAT imposed as of the beginning of 2019. All policies will be subject to a 5% Value Added Tax going forth. What is yet to be determined is whether the tax is also applicable to any policies which are in mid term.

- Assisted in placing a Package fronting policy in Mexico for a company that designs and manufactures high-performance, specification grade LED and HID outdoor lighting fixtures and poles.
- Vital in implementing a Marine Stock policy in Canada and a fronting policy in Mexico for an American footwear company present in sixty-two countries worldwide.
- Secured Directors & Officers reinsurance policies in China and South Korea as well as fronting policies in Japan and Taiwan for an international investment management firm holding over US$300 billion in assets .
- Placed two Marine Transit Stand-Alone policies in Malaysia for a top service provider in the oil and gas industry specializing in sub-sea pipeline, inspection and intervention solutions.
- Assisted in implementing Construction All Risk, Third Party Liability and Delay in Start Up Fronting policies in Papua New Guinea for a construction company specialized in infrastructure renovations and complete turn-key solutions for highways,bridges, airports,and manufacturing plants.

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