INTRODUCTION

Insurance Market Conditions 2015

MARKET TRENDS

Competition between insurers intensified across Europe, the Middle East, and Africa (EMEA) in 2014, placing further downward pressure on premium rates in an already soft market. International insurers are expanding operations into new geographies and lines of cover as they scramble for new business. This is presenting those organisations with attractive risks and good loss histories with the opportunity to secure premium rate reductions at renewal.

Motor insurance rates, in particular, have continued to decline across EMEA. While motor insurance is now a loss-making line of business in many EMEA countries, there is little sign of this trend abating. Clearly, insurers are taking a strategic view and using competitive motor insurance rates to gain leverage with their clients. International insurers, meanwhile, are also using their global networks and advisory services as key differentiators as they seek to expand their portfolios in this highly competitive market.

In 2014, we saw the entry of new insurers and an increase in capacity across the market, resulting in further softening. Insurers are being faced with significant growth targets, meaning that competition is therefore increasing. This, in turn, is fuelling the opportunity for negotiations for broader coverage's and enhanced wordings to benefit buyers, as well as a decrease in rates of up to 10% across nearly all classes of business.

The increased use of analytics in the insurance market is pushing the boundaries of our traditional model and influencing behavior. Over time, it will allow clients to take more control of the facts, resulting in more appropriate risk control. Furthermore, it will improve the delivery of our services, and catalyze the innovation of products across all markets.

MARKET TRENDS

Cyber Risk

There is heightened concern around cyber risk among clients. The insurance market's ability to capture relevant risk factors and develop wordings aligned to these will be essential to their protection and peace of mind.

ECONOMIC ISSUES

Despite a global fall in consumer demand, the general economy across the EMEA region continues to grow. The region will progress with a two speed growth opportunity, with positive performances from the Mediterranean countries — Spain and Italy delivering better results than expected — and others seeing slower growth. France and Germany are two countries where growth expectations are marginal.

There have been several high-profile insolvencies recently, which have taken insurers and suppliers by surprise.
The market recognises increasing difficulties around cash flow, which is resulting in slow payment experiences, and a greater number of defaults.

POLITICAL RISKS

The localised Arab Spring of 2011 keeps blooming and has moved into a new phase of political turmoil, terrorism (for example, the Islamic State of Iraq and Syria (ISIS)), and Geo-political risk, which is impacting many geographies, businesses, and their lenders.

In 2015, we expect to continue to see ripple effects resulting from financial institutions' systemic risk (the subprime crisis), the EU sovereign crisis, and the Arab Spring. Other risks on the horizon include stress tests on financial institutions showing them to be undercapitalised, further financial institutions' bailout risk, and continuing concerns within the EU on sovereign debt.

Due to the political situation in Bahrain, there is a strong demand for political risk cover from both the private and public sectors. However, there is only a small amount of capacity available in the market, and what little exists is very expensive.

CYBER COVER

The demand for cyber cover has increased in a large number of countries across the region, including Bahrain, Botswana, Denmark, Qatar, South Africa, Spain, Sweden, Turkey, the United Arab Emirates, and the United Kingdom. Insurance capacity to cover cyber risk varies substantially from country to country; however, this is a fast-developing market, with immense potential for the capacity to grow to meet the increased demand.

CAPTIVES

The captive insurance market is expected to continue to grow in 2015. However, growth is likely to differ across regions and domiciles. A key development in the EU in 2014 was the progress on Solvency II implementation, driving familiarity with the regime into the operational DNA of the European captive industry. The emerging certainty has had a positive effect on formation activity across EU domiciles in 2014, and we expect that trend to continue in 2015.

Certainty and understanding around Solvency II has had a very positive effect on captive growth in the EU, with new formations in Dublin, Luxembourg, Malta, and Sweden in 2014.

In the US, a wave of regulatory inquiries by the Internal Revenue Service and international insurance supervisors in 2014 challenged some captive arrangements, a trend that is likely to continue as the captive market grows.

The use of alternative captive structures continues to trend upwards, making captives more accessible for small- and medium-sized companies as well as large organisations.

TAX AND REGULATION TRENDS

In Austria, public trials centred on claims in the banking sector have made insurers sensitive to extending their portfolios. Uncertainty still exists in the market, and rates are expected to increase in 2015.

Legislative changes in 2014 have resulted in rate increases of 10%-20% for motor insurance and auto liability in the Czech Republic. Meanwhile, the implementation of the new Civil Code in the country last year has resulted in premium rates for directors and officers (D&O) liability insurance increasing by as much as 10%.

Legislation in Italy making it mandatory for organisations to purchase medical malpractice insurance is expected in the next 12 months.

General liability rates in Latvia are expected to stabilise in 2015, partly as a result of legislation making it mandatory for construction companies to purchase general liability insurance.

Premium rates for medical malpractice insurance are expected to increase significantly in Namibia due to legislative changes focused on consumer protection.

The Polish railway market supervisor authority (UTK) is working on legislation that will make it mandatory for railway companies to purchase liability cover in excess of PLN100 million (EUR25 million). Certain specific provisions will apply to sublimits. This new legislation is likely to come into force in 2015, although the gradual implementation of the requirements will not likely begin until 2016.

Compulsory health insurance regulation is currently being implemented in phases in Qatar. Organisations with expatriate employees are awaiting guidelines from the Supreme Council of Health on coverage requirements for the expatriate population.

New legislation is being prepared by the Slovenian Government regarding insurance premium tax and financial services tax. Both taxes will most likely increase (from 6.5% to 8.5% on premium and on broker's commission) in 2015.

The South African insurance regulator, the Financial Services Board (FSB), launched its long-awaited Retail Distribution Review (RDR) in November 2014. The legislation is part of the FSB's Treating Clients Fairly initiative, and will have wide-reaching implications for South African insurers and intermediaries.

The Swiss Government is planning to transform social security with its Swiss 2020 Pension Reform. Keeping state pensions at current levels will require a 2% rise in value-added tax. As for occupational pensions, which are a separate category in Switzerland, lowering the "conversion rate" (Umwandlungssatz) would add no less than 1.7% to employees' payments, based on specialists' calculations. The reform proposals are currently being discussed and negotiated in parliament, and voters are expected to go to the ballot box in 2015.

In the United Arab Emirates, the implementation of Dubai Health Authority (DHA) regulation for midsize businesses and small to medium enterprises will ensure that demand for health insurance remains strong throughout 2015 and beyond.

In Zimbabwe, some insurers are struggling to meet a new minimum capital level of US$1.5 million that came into force on 30 June 2014. Those insurers that fail to meet the new level face being suspended from transacting renewal and new business.

Since 1 January 2015, professional indemnity cover (up to US$500,000) for insurance brokers and agents in Zimbabwe has been handled by the Special Risks Insurance Consortium (SRIC), with the balance taken up by reinsurers. This has created higher capacity for professional indemnity limits compared to other professions. A standard rate (yet to be confirmed) will apply, which will likely result in a change of reinsurers' retention limits and policy terms.

Rate Increase Forecasts 2015

General Liability

Rates: Decrease 0% to 10%

New capacity continues to enter the market, and new and existing insurers all have significant growth targets. Notably, insurers are willing to negotiate broader business interruption wordings, and there is no pressure on limits for natural catastrophe insurance.

Motor/Auto

Rates: Decrease 0% to 10%

Like for general liability, new capacity continues to come in to the market and all insurers have significant growth targets. However, we are expecting to see rates stabilise or even increase in 2015 due to poor loss experiences. For now though, competition is still resulting in premium rate reductions on the majority of accounts.

Employers' Liability

Rates: Decrease 0% to 10%

Strong competition has resulted in enhanced wordings and broader coverages becoming available. This situation is not expected to change in 2015.

Property: Catastrophe (CAT) Exposed

Rates: Decrease 0% to 10%

Property: Non-CAT Exposed

Rates: Decrease 0% to 10%

An abundance of activity and high growth targets make this a buyer's market. Notably, insurers are willing to negotiate broader business interruption wordings, and there is no pressure on limits for natural catastrophe insurance.

Environmental

Rates: Stable -5% to +5%

Additional capacity in the UK environmental insurance liability (EIL) market has been provided by the entrance of several new insurers. The market continues to provide commercial pricing on environmental risks, and many long-term policies are seeing premium rate reductions on renewal. Large limits and long-term policies for environmental risks have become less commonplace, and the market is looking to provide more operational risk policies.

Directors and Officers (D&O)

Rates: Decrease 0% to 10%

There is an abundance of capacity in the market at present. Rates generally are stabilising, although on accounts where the client is pushing for reductions or remarketing, rates have continued to decline. Any one claim (AOC) is becoming more common.

Financial Institutions

Rates: Decrease 0% to 10%

Enhanced wordings and broader coverages are all signs of a softening market; however, this is not the case for professional indemnity (PI) insurance for the largest risks.

Professional Liability

Rates: Decrease 0% to 10%

Insurers are taking advantage of cheaper treaty reinsurance and looking for increased capacity programmes. This, together with a benign claims environment, has led to a further softening of the market.

Medical Malpractice

Rates: Decrease 0% to 10%

Capacity has increased significantly in the past 12 months, leading to a reduction in premium rates at renewal.

Marine Cargo

Rates: Decrease 0% to 10%

Rates typically reduced by 10% in 2014, although risks with good loss histories were sometimes able to secure rate reductions of up to 20%. This rule did not apply to accounts that had significant losses, however, where we have seen "underwriting corrections". The cargo market continues to have a surplus of capacity, and it remains a buyer's market despite cargo underwriting results being marginal.

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Employee Benefits: Health

Rates: Increase 0% to 10%

Employee Benefits: Life

Rates: Increase 0% to 10%

Employee Benefits: Accident & Health

Rates: Increase 0% to 10%

The Life insurance market has hardened in recent years; however there has been a slight softening recently due to the arrival of new insurers to the market, going across both accident and health. Private medical insurance has remained static, with no new players coming in to the market, and average inflation coming down over the last couple of years, potentially linked to claims control measures implemented by insure