



Market Conditions

MARCH 2016



Commercial Crime Insurance

By Andrew MacLeod

Favorable loss ratios and new capacity did, indeed, lead to softening market conditions in 2015. Underwriters' quotations included coverage enhancements as well as modest premium reductions.

Crime insurance market observers are really focused on the coverage enhancements rather than pricing. Everyone wanted to know whether the market would embrace offering the social engineering coverage introduced by Chubb in 2014 (social engineering covers an insured's loss due to an employee being tricked into transferring funds to a bogus account).

Most major crime underwriters now offer sub-limits of social engineering coverage, and for relatively insignificant additional premiums. The endorsements adding this new coverage are not standardized forms and should be examined for variations in terms in conditions. Underwriters market their new insuring agreement under different titles (e.g. AIG uses "Impersonation Fraud"), and we recommend comparing endorsements for differences in the terms and conditions.

A REVIEW OF INDUSTRY PREMIUM AND CLAIM ACTIVITY

Observations based on a review of the top ten insurers detailed in The Surety and Fidelity Association of America's *Top Fifty Writers of Fidelity Bonds, Calendar Year 2014* report:

- No change in insurers' market ranking measured by premium written
- A very modest reduction in premiums written
- Deterioration in loss ratios (up on average from 40% to 50%)
- The top four insurers account for over a 50% market share

In summary, continued profitability and new capacity elevated competition somewhat during the first three quarters of 2015, but from our perspective the competition can hardly be considered fierce competition.

THE MOST FREQUENT CLAIM

Do not get caught up in all of the hype over social engineering coverage. The most frequent and costly crime claims result from employee schemes involving bogus invoice fraud and/or bogus vendor fraud. These embezzlement schemes involve a dishonest employee's creation of fictitious invoices for actual vendors (often involving collusion with the vendor) and/or creating bogus vendors and invoices in order to embezzle corporate assets. Underwriters' next most serious concerns focus on employee embezzlement in foreign subsidiary operations where distance may result in weaknesses in internal controls.

UNDERWRITERS' VIEWS ON MARKET CONDITIONS FOR 2016

We asked underwriters to share their expectations for market conditions in 2016 and summarize those thoughts below:

- Premium trends – Modest reductions on status quo exposures
- Competition – Healthy competition on large, medium and small accounts
- Market capacity – Estimated capacity exceeds \$600 million
- Coverage issues – Nothing new forthcoming, still working to get a handle on social engineering coverage

Calendar Year 2013		
Insurers	Direct Premium (\$M)	Loss Ratio (%)
Chubb	234.6	70.1
Travelers	194.4	42.1
AIG	123.7	33.1
Great Am.	85.6	30.4
CUNA	80.3	60.3
CNA	71.3	17.1
Zurich	64.6	59.9
Hartford	48.6	26.5
WR Berkley	28.2	30.8
ACE	24.1	29.7

Calendar Year 2014		
Insurers	Direct Premium (\$M)	Loss Ratio (%)
Chubb	236.9	75.4
Travelers	195.8	48.3
AIG	115.1	96.6
Great Am.	84.2	39.2
CUNA	78.7	21.9
CNA	71.8	-5.1
Zurich	66.7	98.3
Hartford	48.2	36.7
WR Berkley	27.0	22.6
ACE	25.3	66.6



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GALLAGHER'S 2016 MARKET FORECAST

Our forecast for renewals in 2016 follows:

- Premium trends: Given status quo premium rating factors, renewal premiums are likely to be:
 - » Large and medium commercial crime risks: renewal premiums should reflect low, single digit reductions. Excess carriers will follow the lead carrier's action, but the reduction boost generated from shrinking increased limit factors has pretty much played out.
 - » Small commercial crime risks: premiums flat to plus 3%.
 - » Additional premiums for social engineering will continue to go down.
- Competition: Profitability and capacity will continue to drive competition.
- Market Capacity: Market capacity is abundant.
- Coverage: No significant changes on the horizon. Carriers are still trying to come to grips with social engineering.

In conclusion, we see profitability and capacity continuing to drive competition. In turn, competition will produce some softening, albeit very modest in its intensity. Be sure to compare social engineering endorsements; they are not standardized and vary in quality. As you add social engineering coverage to your crime policy, do not neglect to address potential overlaps in coverage between crime insurance, computer crime insurance and cyber liability policies.

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Important Note: This paper is not intended to offer legal advice. Any descriptions of insurance provided herein are not intended as interpretations of coverage. An actual insurance policy must be consulted for full coverage details.