EXECUTIVE SUMMARY

The first half of 2016 could be seen as an extension of what we saw through the end of 2014 and throughout all of 2015. Across most lines of coverage and in most industries, there continued to be a surplus of capacity and relatively benign loss experience. This combination has buoyed the competitive buyer's market through the first six months of the year, though at a slightly lessened pace, depending on the line and industry. While we saw double-digit rate decreases in 2014 and 2015, the averages through the first half of 2016 fell between flat and mid-single digits as a whole.

Cyber continues to be an omnipresent discussion topic in coverage strategy and is one of the few market segments that exhibited some northward pricing movement as insurers react to the growing exposure and consequential losses.

Brexit promises to remain on the front page for the next couple of years as the UK prepares its departure from the EU. British insurers, most notably Lloyd's, were quick to issue statements relaying what they could as the country and insurance industry, move into unprecedented territory. While in the greater context of the world economy, Brexit is certain to have a meaningful impact; from an insurance perspective, the ramifications are likely to be more subdued. Lloyd's, for example, counts its at-risk premium from the EEA territories as just 4% of its Gross Written Premium.

Though still continuing, the pace of mergers and acquisitions among insurance carriers slowed following last year's mega mergers. The ramifications of these mergers have not weighed heavily on pricing or coverage offerings overall thus far.

We hope you find this review of the first half of this year to be informative and useful and present it in the following sections:

- **Market Overview:** provides a high level summary of developments by market segment.
- **Industry Overview:** offers a macro look at the Property & Casualty marketplace through analysis provided by ALIRT Insurance Research, which specializes in the analysis of insurance company financial performance trends.
- **Detailed Market Overview:** includes deeper commentary and observations by specific market segments.

MARKETS OVERVIEW

Aviation

Despite a number of airline losses related potentially to war risk or terrorist activities, aviation remains one of the safest forms of travel with over 30,000 commercial aircraft flights daily in the U.S. and over 80,000 flights globally. The relative safety of the aviation industry, as well as an overabundance of capacity, continues to mitigate any pricing increases in the aviation insurance market overall. Capacity and competition for market share will continue to drive rates; rate reductions are prevalent and anticipated to continue throughout 2016.

Benefits

The average cost for healthcare for an American family of four enrolled in a PPO plan rose 4.7% over last year. The majority of the increase was due to prescription drug costs, with employees continuing to assume a large percentage of the increases. Consumer-directed health plans (CDHPs) are becoming more common among large employers, with 83% offering at least one option. Communication has become the number one challenge for employers in the middle market space. The pressure to hold upward trending health plan expenses in line with other corporate expense has placed tremendous pressure on already overburdened Human Resources departments.

Casualty

The overall market continues to soften, with flat to slight rate decreases for workers compensation, general liability and automobile liability, and decreases in the umbrella/excess liability lines. Capacity remained abundant, and rates are expected to continue to decrease for workers compensation throughout 2016.

Cyber Risks

Rates in the cyber market are trending upward (5% to 10%) on higher-risk industries due mainly to adverse claims experience. Primary capacity continued to be limited for healthcare, retail and data aggregators. As cyber incidents increase in frequency and severity, and evolve to keep pace with technological advances, the insurance industry will need to create new forms of cyber coverage to meet client needs.

Entertainment

The Entertainment Contingency insurance market in London wrote a broad range of coverages, primarily concentrated upon cancellation/ interruption coverage for music concerts and festivals, driven by an uptick in touring activity. Market rates showed minor increases and a slight hardening of applied policy terms and conditions. Rates are expected to increase in 2016 and capacity is expected to remain sufficient.

Energy

Rates in the Energy sector fell as a result of a supply and demand imbalance. The industry's improved safety and accident prevention record resulted in less frequent, but more costly, losses. Overall, the cost of insurance capital is at a historic low and new capacity continues to flow into the market. Some insureds sought options to lock in their policies on long-term arrangements while others sought coverage improvements. It is likely that both trends will continue in soft market conditions.

Healthcare

Premium rates were flat or experienced a slight decrease in 2016 for medical professional liability, managed care E&O and medical stop loss liability. There is an abundance of capacity in the marketplace with new market entrants, as well as the willingness of current markets to expand their capacity. The competitive market environment is expected to continue throughout 2016, driven primarily by surplus capacity.

Management Risk

Directors and Officers pricing remained competitive with prices declining or coming in flat across most industry segments. Capacity remained abundant, resulting in premium decreases. Security class action claims as well as EEOC activity were at elevated levels, while regulatory risk continued to be a high priority. M&A litigation nationwide may decline in response to a closer look by courts at disclosure only settlements.

Marine Cargo & Hull and Liability

Underwriting results continued to be favorable for marine cargo accounts without storage risks through 2015 with rates flat or slightly decreasing. Coverage terms were extremely broad with the majority of markets agreeing to broker manuscript 'all risks' policy forms. Capacity was abundant, and coverage conditions for marine hull and liability remained mostly unchanged. Competitive insurance terms and pricing should continue through 2016.

Professional Liability

Abundant capacity kept rates in check in 2015 and through the first half of 2016. Many firms sought to purchase higher limits of liability in the soft market. Favorable conditions will continue through 2016, as abundant capacity will make it very difficult for incumbents seeking rate increases to achieve their goals. While firms with high-risk practices or claims activity will struggle to avoid increases, solutions will be available.

Property

Premium rates were flat to a 15% decrease, with strong competition and growing capacity. Broader coverage options, including increased sublimits and improved deductibles, were offered in conjunction with lower pricing. Rate increases for policies in the National Flood Insurance Program increased 10% on average. Pricing for standalone terrorism is anticipated to remain flat or reduced in certain areas. We expect the property market to remain competitive for the second half of 2016.

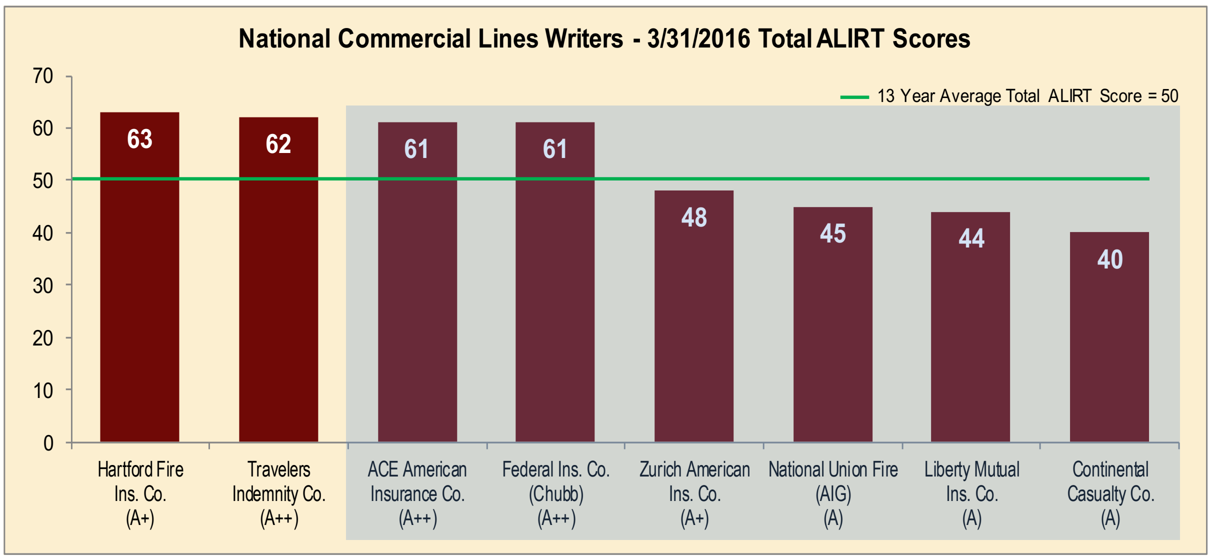
Transportation and Logistics

The transportation insurance marketplace remains highly competitive, which is keeping rates and premiums for Logistics Liability policies stable. Renewal premiums remained steady. With increased competition, insurance markets have expanded their product offerings. U.S. Customs Bonds rates remained flat, with an increased focus on underwriting and collateral requirements.

INDUSTRY OVERVIEW

The "Big Picture"

The P&C industry* reported slightly better underwriting profitability in the first quarter of 2016 (1Q 2016) vs. year-end 2015, as accident year results improved slightly and reserve releases of prior year reserves were modest. Annualized operating earnings and returns in 1Q 2016 were flat relative to year-end 2015. Surplus showed modest growth and annualized premium growth rates diverged in 1Q 2016 (direct premium growth slowed notably, while net premium growth improved slightly). Total investment return improved in 1Q 2016 on solid net capital gains, while the net investment yield continued its decline.



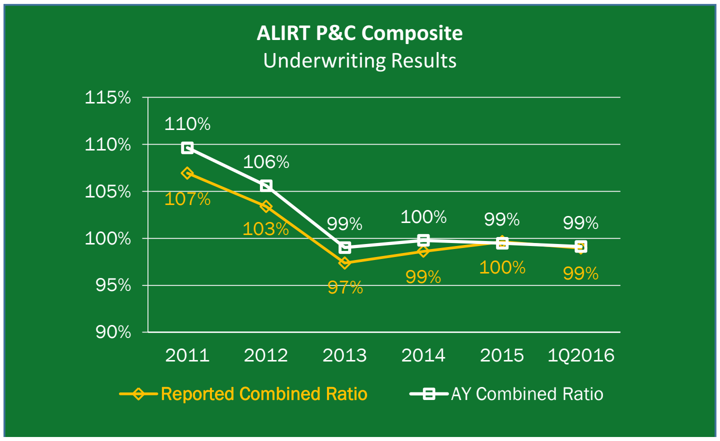
1. ALIRT's scoring range is zero to 100, with a higher score representing stronger relative financial strength/performance.

2. The blue shaded area in the chart to the left represents the average "solvent company" Score range (39 – 61) within ALIRT's Model.

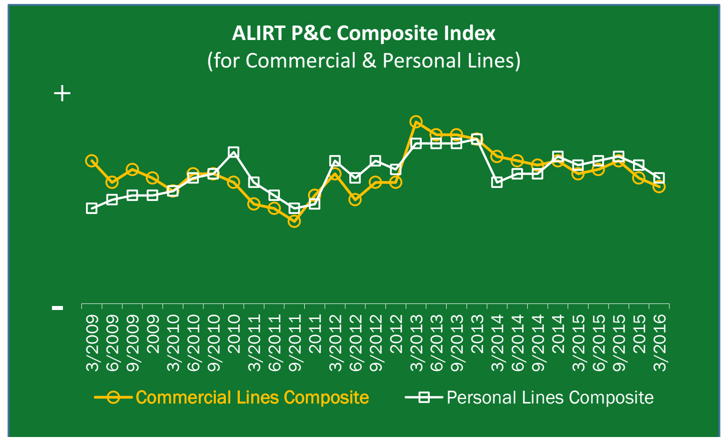
3. The historical average Score for ALIRT's P&C carrier universe is 50, represented by the green line on the chart to the left.

Positive Developments

- Surplus continues to grow, albeit slowly.
- Total investment return improved in 1Q 2016 on solid net capital gains.



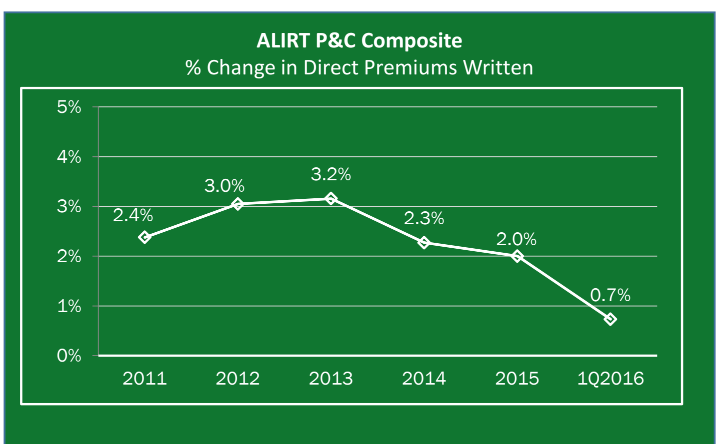
After substantial improvement in 2013, accident year U/W results deteriorated slightly in 2014 and 2015 (due to weather related losses) and leveled off in 1Q 2016. The reported combined ratio improved slightly through 1Q 2016, benefitting from (modest) reserve releases.



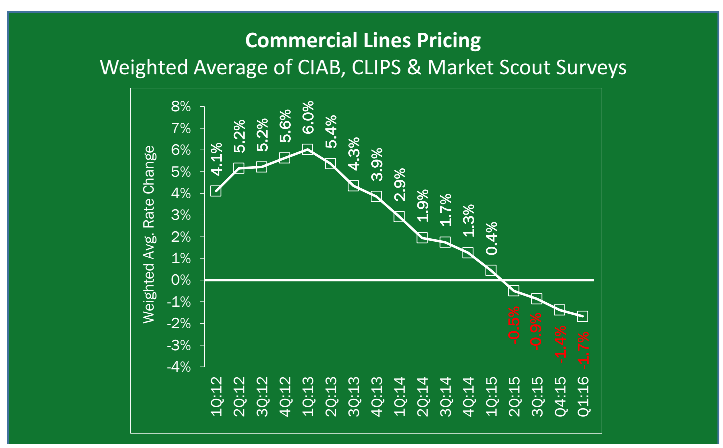
The ALIRT P&C Composite Index tracks industry financial performance for commercial & personal lines writers. Their performance continued to deteriorate in 1Q 2016, but these ALIRT P&C Composite Index Scores remain fairly robust and reflect the solid financial profile of the broad P&C industry.

Negative Developments

- 1Q 2016 underwriting profitability somewhat lower than in 1Q 2015.
- Commercial lines rates declined in each of the last four quarters.
- Direct premium growth, while positive, slowed notably in 1Q 2016.
- Overall reserve releases were modest in 1Q 2016 - distorted by a large one-time reserve addition at Allianz Global Risks US Insurance Company.
- The P&C industry continues to "suffer" from excess capacity. While this is a comfort to insureds, company management & investors in publicly-traded insurance holding companies seek to improve their sub-optimal returns on investment and equity.



Direct premium growth slowed in 2015, and slowed further in 1Q 2016. This likely reflected declining aggregate year-over-year rates in the period, which dampened the effect of somewhat stronger economic conditions in the domestic market.



Overall Commercial Lines rates declined slightly in 2Q 2015 and the decline has accelerated since that time. This likely marks the inception of a new softening rate environment going forward – one that already exists in the reinsurance market.

We hope you find this quarterly report of industry observations useful and informative. More detailed commentary on market developments by segment follows.

DETAILED MARKETS OVERVIEW

AVIATION

Premium Overview*

Coverages	Rate change Q1 2016	Rate change Q2 2016
General Aviation	Flat to slight decrease	Flat to slight decrease
Products Liability	Reductions	Reductions
Airlines	Reductions	Reductions

*Based upon individual loss ratios and exposure base

Overview

Despite a number of airline losses related potentially to war risk or terrorist activities, aviation remains one of the safest forms of travel with over 30,000 commercial aircraft flights daily in the U.S. and over 80,000 flights globally. The safety standards developed and imposed by the FAA (and similar regulatory bodies outside the U.S.), as well those developed by industry groups such as IATA, have made air travel one of the safest types of transportation. This record of safety gives underwriters of aviation insurance a high degree of comfort regarding the risks vs. reward associated with insuring aviation operations.

Airlines are the highest profile type of aviation business, however, there are many other types of aerospace operations including many types of aircraft utilization, aircraft and parts manufacturing and even satellite and spacecraft risks. Most aviation insurance underwriters do not limit themselves to one narrow aspect of aviation risk and thus have a spread of risks in their portfolio.

Pricing & Capacity Overview

The relative safety of the aviation industry, as well as an overabundance of capacity, continues to mitigate any pricing increases in the aviation insurance market overall. The soft rating trend which has prevailed in the aviation insurance market for many years continues to date for several reasons:

- The losses that have taken place in the past few years have largely been related to war or terrorist risks. Insurance coverage for these risks is limited to a small sector of the market.
- Capacity remains plentiful with available capacity levels above 180% (depending on line of aviation coverage). Despite the consolidation of a handful of markets impacting aviation, capacity was not reduced and, in fact, some existing carriers have increased their capacity on certain lines.
- Carriers are hungry for new business and competition is driving down rates on most classes of aviation business.
- The reinsurance market continues to remain soft due to an influx of capital.

Forecast

Capacity and competition for market share will continue to drive rates; rate reductions are prevalent and anticipated to continue throughout 2016. Any expectation for a hardening of the market would be precipitated by a series of major aviation losses which might instigate consolidation of markets and a significant reduction in the available capacity.

BENEFITS

Health & Welfare Benefit Plan Consulting Services Encompassing the Following Areas of Practice Expertise:

- Benefit plan design and in depth financial performance monitoring and reporting services
- Employee population health improvement consulting services
- Highly focused expense management services
- Creation and distribution of custom plan participant communication and educational materials
- Management of the RFP process through vendor analysis, selection and implementation
- Value based health management and strategic wellness programs
- Industry specific benchmark analysis
- Healthcare Reform and compliance consulting
- Benefit plan and human resource technology administration consulting

Coverage

Employer-sponsored health insurance coverage is the most common type of health insurance. About 149 million non-elderly Americans receive their health benefits through an employer as compared to approximately 19 million people who purchase coverage on their own through the individual marketplace. Because individual health insurance is not subsidized by employers or through the tax code, each consumer must pay the entire cost of the premium. Lower income citizens who purchase individual coverage may qualify for premium subsidies through the federal government. The nature of the individual policy marketplace makes it difficult to predict costs.

Large Group

As defined by the insurance industry, large group typically covers more than 50 employees, although that number varies widely depending on state law, carrier, and other industry groups. We generally define large group as 1,000 or more employees. Many large employers choose to self-fund their health coverage whereby they bear the ultimate risk for claims cost. Self-funded programs do not require employers to pay the many extra fees and taxes associated with fully insured coverage. These self-funded arrangements may be administered by a third-party administrator (TPA) or a health insurance plan. We expect that the Affordable Care Act will serve as a change agent by encouraging more large groups to consider self-funding for their health insurance.

Small Group

The small group market is employer-sponsored health insurance that typically covers 2-50 individuals within a firm. Small businesses commonly rely on this market to provide a competitive benefits package to their employees. Coverage in the small group market is offered on a guarantee issued basis, which precludes a carrier from declining to insure an applicant with a pre-existing medical condition.

The Impact of the Affordable Care Act

Changes to health insurance coverage under the ACA will have the greatest impact on the individual and small group markets. While actual enrollment numbers in the Public Exchanges has been difficult to nail down due to state Medicaid expansion, an estimated 8-10 million previously uninsured citizens have received coverage under the ACA. Under the ACA, small businesses will be affected by a much larger degree than large employers given the minimum level of benefits that must be offered as well as changes in how employee premiums are determined.

Pricing/Expense

According the 2016 Milliman Medical Index ("MMI"), the average cost for healthcare for an American family of four enrolled in a PPO plan is $25,826. This represents a 4.7% total increase over last year of $24,671 and the lowest year over year increase since the MMI was published in 2001. Even at 4.7%, the trend is still well above the consumer price index of 2%. The majority of the increase was due to prescription drug costs, which grew 9.1% from last year. The cost of prescription drugs represents 17% of the total cost of healthcare and continues to increase at a higher rate than the cost of other healthcare components due mainly to the introduction of new specialty drugs and price increases in both brand and generic drugs.

From a cost sharing perspective, employees continue to assume a large percentage of cost increases. Of the 4.7% increase in 2016, employers' costs grew 4.2%, while employees' share grew by 5.3%.

Some employers with high cost plans have begun to scale back on their health plan offerings in anticipation of the Cadillac tax on high-cost plans beginning in 2018. Many industry experts have predicted that Congress would repeal this aspect of the ACA prior to it becoming effective. However, given the recent Supreme Court ruling on subsidies, it seems likely that the Cadillac tax will become a reality.

Forecast – Large Employer Groups

In general, consumer-directed health plans (CDHPs) are becoming more common among large employers, with 83% offering at least one CDHP as an option and about one-third of large employers offering CDHP on a full replacement basis. Given the complexities of navigating the health care system, more employers are providing employees with tools and resources than before. The most common ones offered are transparency pricing tools for treatment decision support and second opinion support services.

Because of the skyrocketing costs of specialty pharmacy, large employers will be taking steps to control as much of the costs as possible. The most common techniques for specialty pharmacy cost control include: the use of a freestanding or PBM's specialty pharmacy, prior authorization for drugs under the medical benefit, approval only for a limited initial supply, high-touch case management, and site of care management for infused and injectable specialty drugs.

Some large employer network strategies will include High Performance Networks, Centers of Excellence and promoting ACOs.

The public exchanges are not having any impact on large employers' decision to eliminate their health plan offering and send their employees to the public exchange as virtually no large employers have yet to do that. In 2016, only 3% of large employers surveyed by the National Business Group on Health indicated they are moving their employees to a private exchange and 24% of respondents said they were considering such a move, although this is down from the prior year when 35% said they were considering such a move. This is in large part due to respondents not being confident in the private exchange's ability to outperform employers' efforts to control costs, assist employees with issues, and support employees with engagement to make better health care decisions.

In terms of future focus, 58% of large employers reported that they are helping employees to become more engaged in health care decision making, which includes increasing physical activity; weight management; tobacco cessation; stress reduction; and improving financial wellness.

HEALTH & WELFARE BENEFIT PLANS – MIDDLE MARKET

Communication has become the number one challenge for employers in the middle market space. The pressure to hold upward trending health plan expenses in line with other corporate expense has placed tremendous pressure on already overburdened Human Resources departments. The focus to accomplish this strategic goal requires introducing more and more change to health benefit plan design structure. This change must be communicated both effectively and in a timely manner to an increasingly decentralized employee population and their eligible dependents. The topics being communicated range in their levels of complexity, such as:

I. Effectively navigating a complex Pharmacy Benefit Management (PBM) delivery structure.

II. Electing coverage under a High Deductible Health Plan versus a lower deductible, more Traditional Health Plan with corresponding larger employee and dependent contribution requirements.

III. Why deferring into a Health Savings Account (HSA) can help to save money right now as well as possibly becoming even more important during an employee's retirement years.

IV. Why "Employee Well-Being" is more important for an employee population than "Employee Wellness." Branding, delivering and measuring Well-Being.

Being able to deliver this level of service is critical to Plan Sponsors in this mid-market space as they operate in an increasingly complex market.

Employers in this market space have been hit hard by the reality of complying with the reporting requirements associated with the Affordable Care Act. The 2015 Benefit Plan Year was the first year Employers were required to provide a report of coverage for employees and dependents to the IRS. Those Employers/Plan Sponsors who took this requirement seriously early on looked to partner closely with high quality third party vendors. These Plan Sponsors found themselves engaged in up-front planning for reporting and beginning to load necessary information. Employers choosing not to focus on this process had to invest large amounts of time on the back end during the first and second quarters of 2016 trying to correct problems and issues related to initial reporting requirements. The review process should be completed and ready to move forward again in the fourth quarter.

CASUALTY

Premium Overview

Coverages	Rate Change First Half 2016	Rate change Q4 2015*
Workers Compensation	Flat to slight decrease	Flat to slight increase
General Liability	Flat to slight decrease	Flat to slight decrease
Automobile Liability	Flat to slight decrease	Flat to slight decrease
Umbrella/Excess Liability	Flat to slight decrease/ Flat to 10% decrease	Flat to slight decrease

*Based upon renewal with incumbent market. Greater rate decreases/broader coverage terms may have been achieved with a marketing effort.

Overview

The overall market continues to soften which is reflected in the typical renewal resulting in flat to slight rate decreases for workers compensation, general liability and automobile liability while rate decreases are evident in the umbrella/excess liability lines. Capacity remains robust in the marketplace and carriers continue to have aggressive premium targets. Global capacity remained in excess of $1 billion. The 2015 workers compensation estimated combined ratio of 96% is having a steadying impact on workers compensation rates in the context of a challenging invest income environment.

Market Overview

Workers Compensation, General Liability and Automobile Liability

Generally, if a primary casualty program was put out to competitive bid, rate decreases were obtained on one if not all lines of coverage. For loss sensitive programs, underwriters continued their efforts to push for optimal retentions / deductibles. Collateral continues to be conservatively underwritten.

Umbrella and Excess Liability

During the first two quarters of 2016, there were moderate rate decreases for all but the more historically catastrophic classes of business. For those accounts in the softer categories, competition resulted in rate decreases and enhanced coverage terms.

Capacity Overview

There was a slight uptick in market capacity with some new entrants in the Bermuda and London markets. Global capacity remained in excess of $1 billion. Underwriters continued to look to ventilate their capacity throughout the excess tower.

Forecast

During the fourth quarter of 2015, the Workers Compensation combined ratio was 96 percent, marking only the second time in 20 years it was below 100 percent. As this trend continues in a competitive market in 2016, expectations are that rates will continue to decrease.

Developing topics to watch include:

- Carriers continue to conservatively underwrite hired and non-owned auto exposures.
- Carriers less willing to underwrite standalone lines of business.
- Greater acceptance of surety bonds in lieu of letters of credit.
- Workplace violence: clients are taking more precaution by investigating additional security services, e.g. armed guards.
- Unmanned aircraft: concerns surrounding invasion of privacy exposures for commercial use of unmanned aircraft; some casualty insurers are adding exclusions for this exposure (BI/PDP).
- Chubb/ACE integration post-merger has resulted in minimal shift in underwriting philosophy in casualty lines Cyber/privacy coverage. Casualty carriers have been keen to restrict any cyber/privacy related coverage added within the Commercial General Liability coverage form by adding restrictions to the Personal Injury coverage part. This has been in process for the past few years with almost all carriers now adopting endorsements that amend ISO wording.

CONTINGENCY – ENTERTAINMENT

Market Overview

The music industry has witnessed in the last five years, a steep increase in touring activity as the development of free media and low cost music purchases to the public have driven down artist revenues from record sales. The music festival market has seen even greater growth within this period. There are now more than 600 music festivals in the UK annually and the North American market has expanded in similar fashion. Major festivals are now attracting attendances in excess of 50,000 patrons per day and generating significant revenues for organizers.

There has been some significant market losses within the contingency area in recent years although insurers' profitability was up in 2015 from what it had been during the previous three years. Artist illness and accident claims were widely reported in the media and weather related losses in North America for both 2015 and 2016 have been considerable in comparison to previous years.

Pricing and Capacity Overview

Recent years have witnessed deteriorating loss ratios for Insurers due to reduced rating and excess capacity in the market. There have been a number of new entrants into the market and their desire to establish an account has not only driven pricing downwards but has led to broader coverage being offered and an easement of normal policy terms and conditions.

Market rates for 2015 demonstrated some minor increases towards the end of the year and a slight hardening of applied policy terms and conditions. The first quarter of 2016 continued the trend although not to the extent that had been previously anticipated. The second quarter of 2016 remained constant.

Forecast

There are some tangible signs that the market is again going to look to increase rates for 2016. It should be anticipated that not only will rates increase but there will be more onerous policy terms and conditions applied by insurers. Capacity has remained stable, with some isolated increases for the better performing syndicates and will remain largely sufficient for purpose.

CYBER RISKS

Overview

If not already on the enterprise risk radar screen, cyber risks are quickly becoming a central issue for the C-suite and board members in a variety of industries. The scale and impact of breach incidents, coupled with the vulnerability of various organizations to such attacks, threaten businesses across all sectors. As a result, the cyber insurance market is in a constant state of fluidity. Carriers have altered their policies to include loss prevention and risk mitigation tools from breach response teams to risk analytics.

Pricing & Capacity

The Cyber market remains *relatively competitive* with ample capacity. Rates are trending upward (5% to 10%) on higher-risk industries (e.g., health care, financial institutions and retail) due in large part to adverse claims experience. Primary capacity continues to be limited for healthcare, retail and data aggregators. The healthcare industry has a unique set of Cyber exposures:

1) Digitization of medical records, clinical systems and medical imaging.
2) Extortion using Ransomware; unauthorized access to patient information; inability to access information; and impaired integrity of information.
3) Increased penalty assessments from raised regulatory activity at the federal and state levels.

Forecast

As cyber incidents increase in frequency and severity, and evolve to keep pace with technological advances, the insurance industry will need to create new forms of cyber coverage to meet the needs of their clients.

ENERGY

Premium Overview

Coverages	Rate Change – Q1-Q2 2016
Upstream (Exploration & Production)	-10% to -15%
Downstream (Refineries; Petrochemicals; Utilities)	-5% to -20%

Pricing and Capacity Overview

Overall Property and Casualty rates in the Energy sector have fallen as a result of a supply and demand imbalance.

On the supply side, capacity has increased in both upstream and downstream markets for the tenth year in a row, driven by the availability of competitively priced reinsurance. Upstream underwriting capacity now stands at around $7.5 billion, up from $2.5 billion in 2005.

On the demand side, the collapse of oil prices last year (the price of oil in 2015 dropped from $110 for a barrel of the benchmark West Texas Intermediate (WTI) crude oil to $30 by the end of 2015) hit the oil & gas sector hard. Fewer new exploration projects have taken place this year and overall, drilling operations have been scaled back. This has translated into reduced risk management budgets and program limits and increased self-insured retentions. Upstream premium fell to $2.3 billion, which was significantly less than 2014.

The only sub-sector seeing any resistance to premium cuts is in the Gulf of Mexico Windstorm sector.

Insured Losses

The energy industry continues to improve in safety and accident prevention. The oil and gas industry has fewer incidents of injury and illness for workers than the private sector overall. The oil refining and pipeline transportation businesses have less injury and illness among workers than the manufacturing and transportation sectors, respectively, overall. This has resulted in less frequent losses – but those claims have also become more costly. Claims cost inflation has been particularly evident in primary auto liability losses.

Insured property losses in the energy sector so far this year include an offshore equipment loss off the Nova Scotia coast, a potential claim of $225 million, and the Mexican state-owned oil company, Pemex, who reported a fire loss that is likely to exceed $1.3 billion. A large liability claim by Sempra Energy arising out of the Porter Ranch, California gas leak has been filed on at least four policies with combined limits in excess of $1 billion – but these losses are not historically unusual and are unlikely to reduce capacity or influence rates in the short-term.

Forecast

Focusing again on the basis of supply and demand, the cost of insurance capital is at an historic low and new capacity continues to flow into the market – but there have been some recent changes in the market. Zurich has withdrawn from writing new downstream energy property although they continue to write liability business; and AIG has been ‘reunderwriting’ their energy book. These are both long-term players in this sector and these actions may influence capacity over the longer term but in the short-term rates are likely to continue to fall the rest of 2016.

The price of oil increased in the first half of this this year (from $31/barrel to $48 at the mid-year point for Insured property losses) and we are seeing some growth in the building out of infrastructure in pipelines, gas plants and storage; on the other hand, some industry analysts predict more bankruptcies and consolidation in oil exploration and production companies.

While most insured companies are happy to simply reduce their current costs of insurance, some are looking at options to lock in their policies on long-term agreements and others are seeking coverage improvements, both trends likely to continue in soft market conditions.

HEALTHCARE

Marketplace Overview

The Medical Professional liability coverage line has been commonly regarded as one of the most profitable in the property/casualty marketplace for several years, but there is concern about weakening financial performance, continued soft market pricing, diminishing reserve redundancies, low interest rates and other challenges, according to an A.M. Best report issued in May 2016. Claims inflation; the effect of batch claims; challenges to tort reform; increasing coordination by plaintiff attorneys in a shrinking client market; oversupply of insurance capacity; and a reduction in the availability of reserve releases are factors leading to increased discomfort by underwriters.

In 2015, medical professional liability industry continued to face declining profitability stemming from diminishing reserve releases, lower rate levels, increased expense ratios, and weakening investments. The expectation is that this declining profitability will continue throughout 2016.

Rates continue to fall for many underwriters as evidenced by declining premium volume in the industry as a whole. In many cases, some carriers are compelled to lower their rates to maintain market share as competitors are writing business at rates that they perceive to be at inadequate levels.

At the same time, the industry's pattern from the past few years of declining claim frequency seems to have come to an end with the stabilizing of reporting of claim counts. Severity trends remain manageable, although there is a slight uptick in defenses costs in the range of 5% to 8% per annum according to Inside Medical Liability (2016 Second Quarter edition).

Medical professional liability insurers continue to face declining market share because of the ongoing acquisition of physicians and physician practices by hospitals and Health Systems. In addition, many newly trained physicians are opting to join the larger Health Systems rather than enter into independent practice. According to Inside Medical Liability, "we expect that the long predicted decline in the availability of healthcare professionals will become accelerated, due to the increased demand in services from a more fully insured population (2016 Second Quarter edition) stemming from the Affordable Care Act (ACA).

With cyber-attacks making recent headlines across all sectors, the healthcare industry has been significantly impacted from a customer privacy perspective. In 2016, we have seen a marked increase in extortion incidents in which malicious code (i.e., ransomware) is introduced into a healthcare institution's computer system. When this occurs, quick access to drug histories, surgery directives and other information is halted, resulting in delays that increase the likelihood of negative patient outcomes.

Managed Care E&O

Managed Care Organization E&O is a growing area of exposure. New exposures are developing within healthcare systems and large physician groups as they grow in complexity. These structures are forming Accountable Care Organizations and their own insurance companies to write health benefits, and are participating in contracts with insurance companies in which providers assume expanded responsibility for disease management, enrollee tracking and management, and advisory services to outside practices.

Although the creation of smaller MCOs by hospital health plans has allowed insurers to diversify their books to include a portfolio of smaller accounts, underwriters are concerned about the increasing complexity of healthcare organizations. The complexity makes it difficult to identify and quantify the potential risks.

Underwriters are concerned about current or future claims alleging:

- Anti-trust
- Design and/or administration of cost control systems (incentives, quotas, etc.)
- Down coding (insufficient revenue to providers) and allegations of deliberate slow reimbursement
- Civil rights actions from patients denied care
- Allegations of miscalculation of medical expense ratios

Capacity from insurers that typically specialize in MCO E&O continues largely unchanged from 2015. The rates have remained fairly static unless: (1) the insured has a problematic claims history; (2) there is a material change in exposure; or (3) there is a major marketing effort. Baring the foregoing, premiums are following the increase and/or decrease in exposures.

Medical Stop Loss: Health Reinsurance, Employer Risk & Provider Risk

In 2016, the medical stop loss and reinsurance market has been driven by data quality. The high standard and detailed data often returns a competitive, but disciplined market while poor data results in a tough market. Additionally, the ripple effects from the Affordable Care Act are still evident, as the industry places an ongoing emphasis on value based care. It should also be noted that applications for health plan/insurance licensure by providers are at record levels across the country.

These type of market conditions present the insurance and reinsurance industry with both challenges and opportunities for innovation. A major challenge is adapting to the ever-changing healthcare landscape and finding underwriters who have adapted with it, especially for provider risk. A few ongoing trends and updates to note in regards to the Medical market in general and the Provider Stop Loss and Employer Stop Loss markets are:

Exchange Lives:

- As of March 2016, there are 11.1 million consumers in the United States with effectuated (paid premiums and an active policy) coverage.
- A number of major markets have had extremely poor experience with the newly insureds, which has resulted in higher rates and large losses.
- With data of the newly insured population becoming more readily available, there is a push to better understand how best to serve this market segment.

Medicaid Accountable Care Organizations

- Many states have taken interest and to date, nine states have implemented Medicaid Accountable Care Organizations (ACOs) to align provider and payer incentives with the goal of managing costs and delivering quality care to beneficiaries.
- These ACOs, similar to their Medicare counterparts, will focus on value-based payment structures, measuring quality improvement and analyzing data.

- Medicaid ACOs will also be required to provide financial guarantees, such as a letter of credit or surety bond. Integro has had success in achieving consistent savings through surety bonds over letter of credit pricing for Medicare ACOs and would expect to see similar results for Medicaid ACOs as they continue to emerge across the US.

Medicare Access and CHIP Reauthorization Act of 2015 (MACRA)

- Creates the new Quality Payment Program to reward physicians for providing higher quality care to Medicare beneficiaries by implementing two payment tracks: Merit-Based Incentive Payment Systems (MIPS) where providers are evaluated on their performance in 4 categories and Advance Alternative Payment Models (AMPs), which are designed for providers who have experience in coordinating care. Risks and rewards are accepted by the provider with the promise of meeting quality measures. These two tracks will begin in 2019.
- Providers are starting to prepare for the impact of this new legislation as performance measuring will begin in 2017.

Specialty Pharmacy

- Costs related to pharmaceuticals continue to increase year over year and cause financial challenges for health systems.
- Not only high-cost orphan drugs are driving costs. Drugs that are developed to treat conditions such as Hepatitis C are in high demand and are utilized at a high frequency, which can cause serious financial concerns.

Direct to Employer Contracting

- In order to contain costs and increase the quality of care employees receive, there has been substantial interest in and implementation of direct contracts between providers and employers.
- Those focused on narrow networks with providers that have created successful methods of cost savings and favorable clinical outcomes will be most prepared for the risk associated with these types of contracts.

Self-Funding

- Since the Affordable Care Act (ACA) passed, there has been significant interest in self-funding. We continue to see many fully insured plans contemplate and successfully transition to self-funded plans. Benefits of self-funding include more control over the plan document, less regulation, and flexibility to choose providers and networks that best fit the plan. Additionally, the ACA implemented the removal of limits, making Medical Stop Loss insurance a tailored solution for protecting those plans that elect to self-fund.

Regulatory/Billing E&O Coverage for Large Healthcare Organizations

Healthcare fraud costs the United States tens of billions of dollars each year. In a continued effort to curb fraud and waste in the healthcare system, the government has substantially increased its enforcement activity. Federal scrutiny of medical billing is intensifying. Commercial payers are also expected to increase vigilance as they enter into alternative fee arrangements with providers. Large and sophisticated healthcare entities are in need of more robust risk management and risk transfer services to meet this growing exposure.

Premium Overview – Rate Change

Coverages	Q1 2016	Q2 2016
Medical Professional Liability	Flat to slight decrease	Flat to slight decrease
Managed Care E&O Liability	Flat to slight decrease	Flat to slight decrease
Medical Stop Loss Liability	Flat to slight decrease	Flat to slight decrease

New Products for Healthcare Organizations

Healthcare Self Insured Liability Policy

- This new product was developed by Integro with Lloyd's capacity, to address increasing concerns about the liabilities faced by a healthcare institution in how it handles claims with and on behalf of physicians (both employed and non-employed). This product would also respond to claims arising from breach of state regulations on allegations that a client's internal claims management team mishandled the disposition of a physician claim.

Forecast

The persistent softness of the market continues to present challenges to medical professional liability insurers despite record profits and low loss ratios. In order to remain competitive, markets have been forced to decrease rates and premiums. This accommodation, driven by external forces, may prove to be short sighted if loss development escalates in future years. There is an abundance of capacity in the marketplace with new market entrants, as well as the willingness of current markets to expand their capacity.

The outlook for 2016 continues to look uncertain for underwriters. Clients recognize the importance of their long term relationships with their incumbent underwriters and this is a key factor in their renewal decisions. While competitive markets may offer terms and conditions at reduced pricing, clients do not always elect to bind with the lowest option, but consider other factors, such as historic premium they have paid to incumbent underwriters to pay claims in the future, risk management services or dollars the underwriters can offer to support the client's initiatives, and the incumbent underwriter's willingness to work with the client in designing a program structure that can evolve with the changing healthcare landscape.

The movement of physicians from private practice to hospitals and other large institutions, most of whom self-insure their liability exposures, is expected throughout 2016.

The record high reinsurance capital and stable to weak growth in reinsurance demand has driven, and will continue to drive, softening in the global reinsurance market for medical professional liability. The competitive market environment is expected to continue throughout 2016, driven primarily by surplus capacity, with pricing stable to slightly decreased in most venues.

MANAGEMENT RISK

- Directors & Officers Liability
- Employment Practices Liability
- Fiduciary Liability
- Crime/Fidelity
- Network Security & Privacy

Directors & Officers Liability

Premium/Capacity Overview

The D&O marketplace remains competitive through the first half of 2016 with renewal pricing declining or coming in flat across most industry segments. Despite a few industry consolidations, there is still an abundance of capacity, which is resulting in premium decreases. Excess layer pricing and rates continue to fall due to increased competition reaching levels that we have not before seen in excess layers, with carriers willing to come in well below what used to be the typical excess rate of 65%-70% of underlying. Primary carriers, which are fewer in number, still try to maintain rates where possible, particularly for companies with financial issues, large growth in exposure and high merger and acquisition activity; however, competition is making it difficult. Retentions (SIRs) have been stable with exception to companies who have experienced significant growth in market cap or have been highly acquisitive.

Primary program pricing is flat to 5% down with larger programs with multiple layers seeing decreases up to 10-15% overall.

D&O Trends and Litigation Trends

Security class action claims are at an elevated level for the first half of 2016 at 119. This is a sizable jump above the historical average of 94 suits for this same semi-annual period. Though there does not appear to be any one particular reason for the uptick in securities claims, it is noteworthy that a concentration of suits were filed against life science companies and recent IPOs. As we look toward the potential for litigation concerns, we keep a watchful eye on the regulatory environment and follow-on civil suits as well as aggressive investigations by the DOJ and FTC when it comes to mergers and acquisitions.

Regulatory risk continues to be a high priority. Dodd-Frank whistle-blower tips continue to rise. The recent $10 million bounty awarded by the CFTC to a whistleblower may indicate it intends to follow the SEC’s lead, with regard to a focus on incentivizing future whistleblowers, to meet Dodd-Frank’s goal of accountability and transparency in the financial system. Regulators continue to focus on compliance regimes and there is heightened pressure by regulators to maintain adequate corporate oversight.

Disclosure only settlements may no longer be rubberstamped by courts, as indicated by the decision in the In re Trulia, Inc. Stockholder Litigation. The effect of this may be a decline in M&A litigation nationwide.

Employment Practices Liability

Premium/Capacity Overview

Employment Practices Liability (EPL) capacity continues to be abundant and pricing remains relatively flat as we move in to the second half of 2016, barring increases in exposure or claim experience. Market response to exposure in California continues, as that state leads the country in number of employment claims filed. Accordingly, despite the competitive marketplace, most California insureds are experiencing increases in both price and retentions

EPL Trends

EEOC activity remains high. Plaintiff's counsel continues to look for new subjects to exploit in employment class action litigation. Two of the more recent examples include violation of state statutes regarding background check requirements and credit checks.

Wage and Hour litigation continues to be a primary concern and will continue to be a major issue for many corporations. There continues to be minimal coverage available for this exposure with some carriers offering low sub-limits for defense costs and a limited marketplace including AIG, Bermuda and London.

Fiduciary Liability

Premium Overview

The Fiduciary Liability market also remains stable as we head in to the second half of 2015. Premiums are relatively flat with some decreases achieved with competitive options. Fiduciary capacity continues to be plentiful as well. Carriers continue to address exposures with tag-along risk (plans that invest in company stock), ESOPs, third party fees and funding issues.

Fiduciary Trends

The new Department of Labor fiduciary ruling, which expanded the definition of fiduciary and had been cause for concern by the marketplace, has not had the expansive reach that was initially feared.

Plaintiffs' bars continue to gain traction in excess fee cases. Breach of fiduciary duty, improper use of revenue sharing agreements, retiree benefits reductions, and company stock investments all continue to be the focus of plaintiff allegations.

Crime/Fidelity

The Commercial Crime market remains stable with pricing remaining relatively flat on renewals with incumbent carriers. Where accounts are being actively marketed and if clients are willing to switch carriers, premium decreases are often obtained.

Social Engineering/Fraud continues to be a hot topic in the Crime marketplace providing coverage for loss resulting from a situation where someone represents themselves as a vendor / client / executive and fraudulently convinces an employee to forward payment of some kind. This coverage is offered with sub-limits only and most often requires a separate application. An additional premium is often being imposed, particularly if limits are in excess of $100,000. We continue to seek higher sub-limits with broad language that does not restrict coverage.

MARINE

- Marine Cargo & Stock Throughput
- Marine Hull & Liability

Premium Overview

Coverages	Rate change Q4 2015	Rate change Q2 2016*
Marine Cargo	Flat to slight increase	Flat to slight decrease
Marine Hull & Liability	Flat to slight decrease	Flat to slight decrease

* Based upon renewal with incumbent market. Greater rate decreases/broader coverage terms can be achieved with a marketing effort.

Marine Cargo & Stock Throughput

Pricing Overview

Underwriting results continued to be favorable for marine cargo accounts without storage risks. Rate reductions were the norm for accounts with 3-year loss ratios under 60%. Even accounts with unfavorable loss experience were able to leverage market competitiveness to maintain flat rate renewals with incumbent markets at renewal.

The results and rating methodology for stock throughput accounts varied by underwriter. While the marine cargo market continued to handle many global storage risks, especially those with catastrophe exposures, property insurers continue to offer competitive pricing for static risks in 2016. This competition between marine and property markets resulted in savings of 5-25% for insureds.

Capacity Overview

The marine cargo marketplace remained soft driven by profitable combined ratios. New players seeking to gain market share are offering competitive pricing and insuring conditions. Brit Ltd. is the latest new retail entrant to add to the list of new markets opening offices in the U.S. including, but not limited to, Munich Re, Swiss Re and Berkshire Hathaway.

Insurers can build upwards of $100MM / $500MM in capacity for a single insured’s transit and storage exposures, respectively. Most domestic U.S. insurers will provide at least $20MM in transit capacity and $10MM in CAT storage capacity. To accommodate higher limits, quota share and layered structures with multiple insurers is commonplace in the U.S. and London. It should be noted that the London market can offer higher CAT towers, which results in split placements often being the best combination to meet clients’ needs.

Coverage Overview

Coverage terms were extremely broad thus far in 2016 with most if not all markets agreeing to broker manuscript “all risks” policy forms.

Profit sharing was available for most accounts when marketed, generally with a maximum of 25-30% of annual premium eligible to be returned dependent upon loss experience.

Forecast

With an abundance of capacity across the entire Property and Casualty marketplace, we fully expect the soft market trend to continue for the near future, barring excessive CAT losses, which could lead to rate increases for accounts with storage risk.

Marine Hull & Liability

Pricing Overview

The U.S. and overseas Marine Hull and Liability insurance market(s) continue to enjoy a wealth of capital and the ability to provide an impressive amount of limit capacity during 2016.

This is primarily attributable to a relatively major claims-free experience for underwriters; a stabilization of low interest rates; and various international underwriters establishing presence in the U.S. and Asian market(s) leading to expanded limit capacity and competition for locally-based underwriters.

Traditionally, accounts with good claims records that can demonstrate conscientious procedures for safety and maintenance are the beneficiary(ies) of competitive rating and terms. Extra market capacity leads to increased competition between underwriters to maintain or win this type of business. Even accounts with fair to poor claims records are being courted by markets eager to increase market share.

Hull markets, particularly overseas, can be very competitive, while worldwide liability markets strenuously compete to retain or win new business. There has been considerable consolidation of blue water fleets, particularly for container-carrying vessels. There have been contractual "mergers" of many well-known shipping companies in both Europe and Asia to address the over capacity of trading vessels.

Although the price of oil is still comparatively competitive, it has shown an increase in per barrel cost from a year ago. However, the price per barrel is still relatively low. Consequently, the shipment of oil is still depressed and many oilrigs remain dormant or are only temporarily used in the U.S. / Mexican Gulf, the North Sea and in the Middle East.

Competitive insurance terms and pricing should continue through 2016.

Capacity Overview

As with the primary insurance markets, the reinsurance market(s) have an overcapacity of limit. Consequently, underwriters can obtain substantial capacity limit(s) and competitive pricing. The reinsurance market(s) are a cause and reflection of the primary market situation.

Coverage Overview

With the exception of Cyber, which is being addressed on a daily basis, terms and conditions are negotiable. Underwriters do their best to accommodate an Assured's needs. If an Assured truly requires certain coverage, ordinarily there is an underwriting market somewhere in the world willing to accommodate.

Forecast

Our forecast for the near future is a continued soft market with rate reductions continuing on loss-free accounts. Accounts with losses will see nominal rate increases, but such rate increases will be tempered by the oversupply of capacity. Coverage conditions will be adapted to the needs or requirements of an Assured.

PROFESSIONAL LIABILITY

MARKET OVERVIEW

Abundant capacity kept rates in check in 2015 and through the first half of 2016. A few long time market participants exhibited resolve of losing business if rates on select firms did not increase or at least remain flat. In general, however, there is abundant capacity in the professional liability space to keep it a buyer's market. Many firms are taking advantage of the soft pricing by purchasing higher limits of liability. In the Lawyers Professional Liability (LPL) sub-class, an increase in the frequency of quickly developing severe claims has a number of key LPL insurers seeking more significant rate increases than have been seen in the past several years. While abundant capacity will continue to keep LPL rates low, market dislocation will make leveraging capacity to one's advantage difficult and will require knowledge of the market and experience structuring coverage. The Accountants Professional Liability (APL) sub-class exhibited a spike in severe losses in the years following the financial crisis but more recent accident years have seen a declining number of severe losses. This has led most underwriters to remain engaged at competitive rates.

CAPACITY OVERVIEW

Capacity in the professional liability market is at historically high levels. For example, in the LPL market upwards of $600M to $700M is available to cover large firms. However, underwriters' recent limit management strategies require accessing more insurers to meet a firm's coverage demands that exceed $5M. For larger firms, quota share structures on large primary layers are becoming more prevalent as underwriters seek to stretch out their limits to manage exposure. Additionally, capacity available to mid-size firms depends on the individual firm and its risk profile.

FORECAST

Favorable conditions will persist through 2016, as abundant capacity will make it very difficult for incumbents seeking rate increases to achieve their goals. While firms with high risk practices or claims activity will struggle to avoid increases, solutions will be available. While abundant capacity will serve to keep rates in check, taking advantage of market conditions will require planning and inside knowledge of the market. Buyers need to determine how to present their firm in the best possible way to achieve access to the available limits and broad coverage at a competitive price.

PROPERTY

Premium Overview

Coverages	Rate change Q1 2016	Rate Change Q2 2016
All Risk Property	Flat to 15% decrease	Flat to 12.5% decrease

Continuing the trend of 2015, it is still a buyers' market as we head into the third quarter of 2016. The impact to insurers of several property loss events since the beginning of the year—Kumamoto earthquakes; Fort McMurray wildfires; Storm Elvira in Northern Europe; flooding in Houston, Paris and West Virginia—is still being tallied but there is little talk of these collective losses putting a damper on decreasing rates. In general, accounts with very low loss ratios and favorable engineering continue to achieve mid-single digit to low-double digit rate decreases. Greater discounts have been seen on small single carrier placements for particular classes such as real estate and softer occupancies, as well as shared and layered programs with large total insured value increases year over year.

Results from June 1 treaty reinsurance renewals indicate that while pricing continued to soften, there are signs the rate of descent is slowing compared to 2015. We expect reinsurers will attempt to hold the line despite continued high levels of competing capital supply and muted demand from primary insurers. Whether this actually results in a trickle-down effect to insureds remains to be seen.

Coverage Overview

Broader coverage options by way of increased sublimits and improved deductibles are currently being offered in conjunction with lower pricing. In some cases, insureds are foregoing premium savings in exchange for enhancements to policy terms and conditions. Markets have been receptive to this approach as they look to meet budget and retain as much premium as possible. Carriers continue to offer multi-year deals to retain or attract new business, some extending out three to four years. Incumbent insurers are trying to get ahead of the renewal process and offer early incentives to insureds with the hope of avoiding marketing.

Lower percentage deductibles are achievable, in some cases reducing a 5% deductible to 2% or 3%. Insureds have been successful securing maximum caps on percentage deductibles. Reductions in deductibles are still dependent upon the specific risk exposures associated with an account.

Rate increases for policies in the National Flood Insurance Program (NFIP) took effect on April 1. Rates increased 10% on average, with some areas rising 25% as lawmakers attempt to put the federal flood insurance program on sounder financial footing and rating more in line with the risk. Competition from the private marketplace may be on the way. The House Financial Services Committee recently approved a proposal that supporters say will encourage more private insurers to write flood insurance to complement the NFIP.

Pricing for standalone terrorism is anticipated to remain flat in high hazard areas with reductions available in lesser exposed areas. Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) take up rates continue to be low where not required by lenders.

Capacity Overview

There continues to be an abundance of property capacity through the first half of 2016. Line sizes have been increasing on shared and layered programs as underwriters struggle to meet budgets and maintain premium dollars.

In insurer news:

- FM Global introduced an enhanced policy form on April 1 with fewer sublimits and new coverage for Off Premises Data Services and Communicable Disease, among others. The renewal term that runs from June 30, 2016 to June 29, 2017 will mark the 4th consecutive year FM has offered a membership credit to policyholders.
- It is business as usual at the new Chubb post-merger with ACE. They have continued to offer at least their expiring combined capacity on renewals where both companies were incumbents.
- XL Catlin has introduced specialized Active Assailant coverage within their terrorism offering to respond to a more broad range of events.
- Endurance has created verticals for target classes, the first three of which are Real Estate & Hospitality; Financial Institutions & Professional Services; and Hospitality. They are targeting single carrier placements as well as shared and layered programs and will offer limits up to $300 million/$25 million CAT.

The effect of UK's vote to leave the European Union ("Brexit") will take time to realize, but for at least the mid-term, the London insurance markets will continue to operate as before. Lloyd's has publicly stated: "For the next two years our business is unchanged. Lloyd's has a well prepared contingency plan in place and Lloyd's will be fully equipped to operate in the new environment."

Forecast

Barring multiple catastrophe losses and a change in the current low interest rate environment, we expect the property market to remain competitive for the second half of 2016. Many experts predict it will take several large losses equivalent to Hurricane Katrina to have any long lasting effect on property insurance rates. As a caveat, we expect some slowing of reductions particularly for insureds that have witnessed meaningful decreases for the past several years.

TRANSPORTATION & LOGISTICS

- U.S. Customs Bonds/Miscellaneous Surety Bonds
- Logistics Liability (Errors & Omissions, Third Party Liability, Contingent Cargo or Cargo Liability) for domestic and international freight intermediaries

Pricing Overview

We expect rates for Customs Surety a to remain flat for the duration of 2016, although uncertainty around the handling of liquidated damages for late and inaccurate ISF filings as well as the increased number of Anti-Dumping cases across the US presents some additional risk.

Coverage Overview

U.S. Customs / Miscellaneous Surety Bonds

Significant factors affecting these product lines include:

- **ISF Bonds** – For shipments that are on the water on or after June 30, 2016, CBP ports will no longer be required to send requests for liquidated damages (LD) claims to Headquarters for review, and the "three-strikes" approach to LD claims against importers' bonds will also end. There is no change to cargo holds for ISF non-compliance; ports may hold cargo instead of (or in addition to) initiating LD claims.

  The message above from CBP presents some underwriting uncertainty as they continue to increase enforcement to ensure that ISF filings are transmitted timely and accurately. It would appear that the decentralization of LD claims related to ISF to the port level will increase the number of files that are reviewed for timeliness and accuracy. Some ports will continue to focus on cargo holds for late ISF's rather than issuing LD claims, and others may not. CBP has instructed ports to continue to focus on "significantly" late ISF shipments which also vary from port to port.

- **Change in Bond Guidelines** – CBP is drafting new bond guidelines as eBond becomes more prevalent and the bond liability determination gets centralized away from the ports of entry. Priority Trade Issues (PTIs) represent high-risk areas that can cause harm the U.S. economy. We believe the new bond guidelines will place greater emphasis on importers of textiles and apparel require larger bonds form importers of good which CBP believes to be within the scope of a priority trade issue (www.cbp.gov/trade/priority-issues).
- **SOLAS (VGM)** – The new SOLAS Verified Gross Mass (VGM) requirement went into effect on July 1, 2016. All IMO member countries have adopted a mandatory container weight verification requirement, for shippers of containerized cargo, before the container can be placed aboard a vessel. It is important to ensure that you are using the most up to date Terms & Conditions on your transportation documents.

Premium and Capacity Overview

For Freight Forwarders and Non-Vessel Operating Common Carriers (NVOCC), Logistics Liability policies are generally underwritten based on the number of Twenty-Foot Equivalent Units (TEUs) shipped or by a client's Gross Revenue. The nation's major container ports handled an increase in the number of TEUs in 2015 over the previous year.

During the year as a whole, and especially in the final quarter, the transportation insurance marketplace remained highly competitive, which kept rates and premiums for Logistics Liability policies relatively stable. Renewal premiums also remained steady during the same period. With increased competition, insurance markets have looked for new ways to separate themselves from their competitors. Markets have expanded their product offerings and capacity increased throughout much of 2015, but began to level off in the end of the year.

New Products

We have seen a growing demand for cyber liability insurance. Clients often act as freight intermediaries, accepting funds on behalf of their clients to pay duties and freight charges. There is a significant risk associated with these activities and Integro has addressed the industry's need with a comprehensive cyber liability program.

Forecast

U.S. Customs Bonds rates should remain flat throughout the beginning of 2016, with an increased focus on underwriting and collateral requirements.

Lower insurance premiums for Logistics Liability policies, the availability of broad coverage options, and increased capacity continued for the end of 2015 and will continue for the beginning of 2016. In this relatively soft marketplace, strong competition will force insurers to keep rates and premiums stable for Q1 2016.