



RISK MANAGEMENT 101 WEBCAST SERIES

BASICS OF CASUALTY INSURANCE

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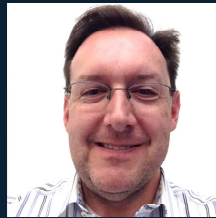
RISK
MANAGEMENT
series

BASICS OF CASUALTY INSURANCE

INTRODUCTIONS



STEVE KERR
Managing Director



ROBERT GARCIA
Senior Vice President



BRIAN COYLE
Senior Vice President



STEPHANIE GUAiumi
Senior Vice President

BASICS OF CASUALTY INSURANCE

AGENDA

- Basics of Casualty Insurance
- Commercial General Liability
- Contract Review and Contractual Liability
- Automobile
- Umbrella / Excess Liability
- Workers' Compensation
- Q&A

BASICS OF CASUALTY INSURANCE



BASICS OF CASUALTY INSURANCE

OVERVIEW

What is casualty insurance?

Insurance that is primarily concerned with the losses caused by injuries to persons and legal liability imposed on the insured for such injury or for damage to property of others.

(Source: IRMI)

Lines of coverage:

- General liability (GL).
- Automotive liability.
- Products liability.
- Umbrella liability.
- Excess liability.
- Workers' compensation.
- Professional liability (medical malpractice).
- Environmental products.

BASICS OF CASUALTY INSURANCE

OCCURRENCE VS. CLAIMS MADE — COVERAGE TRIGGER

- Occurrence coverage form:
 - The occurrence must be during the policy period.
 - Claims can be reported after expiration of the policy.
- Claims made coverage form:
 - Covers claims made during the policy period as long as the claims occurrence is after the policy “retroactive” date.
 - Retroactive date is key when considering claims made coverage.
 - Gaps in coverage may occur if:
 - Coverage non-renewed.
 - Retro date changes.
 - Coverage moves to occurrence form.

BASICS OF CASUALTY INSURANCE

ADDITIONAL INSURED

- Why used / needed?
- Many different forms/endorsements to choose from:

State Or Governmental Agency Or Subdivision Or Political Subdivision — Permits Or Authorizations Relating To Premises (CG 20 13 04 13)

State Or Governmental Agency Or Subdivision Or Political Subdivision — Permits Or Authorizations (CG 20 12 04 13)

Designated Person Or Organization (CG 20 26 04 13)

Owners Or Other Interest From Whom Land Has Been Leased (CG 20 24 04 13)

Mortgagee, Assignee Or Receiver (CG 20 18 04 13)

Executors, Administrators, Trustees Or Beneficiaries (CG 20 23 04 13)

Co-owner Of Insured Premises (CG 20 27 04 13)

Vendors

- Additional insured status only provides coverage for liability arising from another party's negligence (vicarious liability).
- When receiving evidence of additional insured status, always obtain copy of policy wording or endorsement.
- Primary/non-contributory wording.

BASICS OF CASUALTY INSURANCE

CONTROL VS. RISK ASSUMPTION



COMMERCIAL GENERAL LIABILITY



COMMERCIAL GENERAL LIABILITY

MAJOR COVERAGE COMPONENTS AND TRIGGERS

- Pays sums an insured becomes legally obligated to pay due to:
- Many different forms/endorsements to choose from.
 - Bodily Injury (BI).
 - Property damage (PD) (includes loss of use).
 - Personal injury (i.e., libel, slander, and defamation of character).
 - Advertising injury.
- Medical expenses, per person.
- Fire damage limit, per fire (does not replace property insurance).
- Each occurrence policy limits.
- Aggregate policy limits.
- Limitations and exclusions.
- Premium Basis: Revenue, Area (square footage of locations), Payroll., Other

COMMERCIAL GENERAL LIABILITY

COVERAGE TRIGGERS

- Person or entity named in the claim or suit must be an **insured**.
- Claim must arise from an **occurrence** that takes place in the **coverage territory**.
- “**Bodily injury,**” “**property damage,**” “**personal injury,**” or “**advertising injury**” must occur during the policy period (occurrence basis).
- Claim must be reported during the policy period and the occurrence has to take place on or after the retroactive date (claims-made).

COMMERCIAL GENERAL LIABILITY

EXCLUSIONS, ENDORSEMENTS, AND EXTENSIONS

Standard policy exclusions (sampling):

Distribution of material in violation of statutes.

Product recalls.

Quality or performance of goods – failure to conform to statements.

Intentional injury.

Pollution (with exceptions).

War.

Care, custody, and control.

Copyright, patent, trademark, and trade secret infringement.

Material published with knowledge of falsity.

Automobile, watercraft, and aircraft.

Many exclusions are best covered by insurance designed for a specific risk.

COMMERCIAL GENERAL LIABILITY

MARKET CONDITIONS

- At the start of 2013, many industry experts had anticipated prices to increase.
- Instead, increases typically leveled off through the year.
- Likely to continue entering 2014.

SEGMENT	RATE CHANGE Q4 2013	RATE CHANGE Q4 2012
Guaranteed cost	5% decrease to 5% increase	5% decrease to 5% increase
Loss sensitive	5% decrease to 5% increase	5% decrease to 5% increase

CONTRACT REVIEW AND CONTRACTUAL LIABILITY



CONTRACT REVIEW / CONTRACTUAL LIABILITY

INDEMNITY AGREEMENTS

- The transfer of risk is completely independent of insurance coverage. The existence and scope of any insurance coverage does not usually govern the extent of liability transferred.
- The indemnity agreement does not relieve the indemnitee of liability to an injured third party. The indemnitee will be held liable to the third party whether or not the indemnitor responds to its obligations to indemnify. Insurance, while a good mechanism to finance a possible loss, is not always adequate and should the indemnitor be unable to respond, the indemnitee is responsible.
- Indemnity agreements are only as good as the existing case law at the time the agreement is interpreted or litigated. These interpretations are constantly changing.
- Do not assume that just because insurance is available that no exposure remains. Indemnity agreements are only as good as the ability of the indemnitors to respond.

CONTRACT REVIEW / CONTRACTUAL LIABILITY

WHAT IS AN “INSURED CONTRACT”?

- That part of any other contract or agreement pertaining to your business (including an indemnification of municipality in connection with work performed for a municipality) under which you assume tort liability of another party to pay for “bodily injury” or “property damage” to a third person or organization.
- Tort liability means a liability that would be imposed by law in the absence of any contract or agreement.

AUTOMOBILE



AUTOMOBILE

OVERVIEW

- Covers bodily injury (BI) and property damage (PD) to third parties that the insured becomes legally obligated to pay as a result of an accident.
- Can also include physical damage to a covered auto.

Major coverage components and triggers:

- Liability (BI/PD).
- Personal injury protection (and/or other no-fault coverage).
- Auto medical payments.
- Uninsured motorists and underinsured motorists.
- Comprehensive (or specified causes of loss).
- Collision.
- Ancillary coverages:
 - Loss of use/rental car.
 - Towing and labor.

AUTOMOBILE

MAJOR COVERAGE COMPONENTS AND TRIGGERS

Extent of coverage determined by symbols:

- Symbol 1 — any auto.
- Symbol 2 — owned autos only.
- Symbol 7 — specifically described autos.
- Symbol 8 — hired autos only.
- Symbol 9 — non-owned autos only.
- Other symbols may apply to businesses with garage operations or other specialized auto related operations.

AUTOMOBILE

KEY EXCLUSIONS (HIGHLIGHTS) AND PREMIUM BASIS

Key Exclusions:

- Expected or Intended Injury.
- Contractual Liability.
- Workers Compensation/Employers' Liability.
- "Fellow Employee".
- Care, Custody and Control.
- Operations involving mobile equipment.
- Pollution.

Premium Basis:

- Number/type of vehicles.
- Vehicle class.
- Radius of travel.
- Vehicle use.
- Employee driving records.
- Hired/non-owned exposures.
- Loss experience.
- Driver training.

AUTOMOBILE

KEY PROGRAM CONSIDERATIONS

- Employees driving their own cars on company business:
 - Non-owned auto coverage is typically excess of employee’s own vehicle insurance: “insurance follows the car.”
 - Endorsement CA 99 33: “employees as insureds.”
 - Hired auto coverage may not extend to employees renting the vehicle, even if for business use.
 - Endorsement CA 20 54: specifically covers employees renting a car for business use in their own name, with permission of insured.
- Other considerations:
 - Composite rate.
 - Uninsured/underinsured motorists coverage.
 - Hired and non-owned coverage (underwriting focus).
 - “Drive other car” coverage.

AUTOMOBILE

MARKET CONDITIONS

- Continued effects of large loss inflation.
- Most impact felt through increased attachment points for umbrella placements and buffer layer pricing.
- Underwriters continue to scrutinize non-owned and hired vehicle exposures; focusing on safety plans and safety records.

SEGMENT	RATE CHANGE Q4 2013	RATE CHANGE Q4 2012
Guaranteed cost	5% decrease to 10% increase	5% decrease to 5% increase
Loss sensitive	5% decrease to 10% increase	5% decrease to 10% increase

UMBRELLA / EXCESS LIABILITY



UMBRELLA / EXCESS LIABILITY

OVERVIEW

- Provides additional limits over primary programs.
- May provide coverage when there is no coverage in underlying programs.
- Standard coverage includes:
 - General liability.
 - Auto liability.
 - Employer's liability.
- Additional coverage available — e.g., international, aviation (not products).

UMBRELLA / EXCESS LIABILITY

MAJOR COVERAGE COMPONENTS AND TRIGGERS/PREMIUM BASIS

Major Coverage Components

- Can replace exhausted primary aggregates, “drop down.”
- Can provide broader coverage than primary (i.e., pollution coverage).
- Coverage can be on “occurrence” or “claims made” basis.
- Difficult to obtain true “follow form” for excess liability.

Premium Basis

- Exposures: sales, square footage, autos, etc.
- Underlying premiums.
- Underlying policy limits / attachment points.
- Insurer minimums per million.
- Loss experience.
- Flat (usually) or auditable premium.

UMBRELLA / EXCESS LIABILITY

HOW MUCH TO BUY?

- No correct answer:
 - There is normally a capacity to provide coverage limits at any level desired.
 - Given the current legal climate, it is impossible to say what liability limits are sufficient to protect in all cases.
- Limit considerations:
 - Catastrophe (CAT) exposure.
 - Automobile exposure.
 - Products liability exposure.
 - Peer benchmarking.
 - Contractual requirements.
 - Cost.

UMBRELLA / EXCESS LIABILITY

MARKET CONDITIONS

Umbrella

- Overall capacity increased in 2013.
- Rates generally stabilized throughout the year, with insurers looking for more increases earlier in 2013 than at end of year
- Stable market expected to continue into 2014.

Excess

- New market entrants from the US and London should help to keep 2014 excess casualty rates relatively stable.
- Exceptions may exist in some industries:
 - Energy.
 - Chemical.
 - Life sciences.
 - Construction.

SEGMENT	RATE CHANGE Q4 2013	RATE CHANGE Q4 2012
Lead	Flat to 5% increase	Flat to 10% increase
Excess layers	Flat to 5% increase	Flat to 10% increase

WORKERS' COMPENSATION

WORK INJURY CLAIM FORM

1 WORKER'S PERSONAL DETAILS

Title _____ Family Name _____
Given names _____
Other known or previous legal names eg Maiden name _____
Date of birth _____ Gender Male Female
_____ street address _____
Suburb _____ Postcode _____
State _____
_____ correspondence _____
_____ contact phone number _____

What is the street address where the incident occurred?

Suburb _____
State _____
Name of employer responsible for this workplace _____

Which of the following incident circumstances apply?
 While working at your usual workplace
 While working away from your usual workplace
 During a meal-break or authorised recess at work
 While away from work during a recess
 Travelling to or from work*
_____ accident while you were working*
_____ result of driving or using a motor vehicle
_____, please provide the following details:
_____ accident was reported to _____
_____ involved vehicles _____ State _____
_____ condition was caused or _____ manufacturer or _____

WORKERS' COMPENSATION

OVERVIEW

- Workers' compensation insurance provides benefits (medical expenses and wage replacement) for certain conditions an employee may sustain in the course of employment including:
 - Injury.
 - Disability.
 - Death.
- Exclusive remedy doctrine.
- Employer's liability insurance covers employers against common law liability involving employee injuries *not covered* by workers' compensation laws.
- Financial responsibility can be obtained through:
 - Commercial insurance.
 - Assigned risk pools.
 - State fund.
 - Self-insurance.

WORKERS' COMPENSATION

MAJOR COVERAGE COMPONENTS AND TRIGGERS

- Part One: Workers' compensation:
 - Limits - statutory
- Part Two: Employer's liability:
 - BI by accident: \$1 million each accident.
 - BI by disease: \$1 million policy limit.
 - BI by disease: \$1 million each employee.
(Employer's liability limits vary by policy).

WORKERS' COMPENSATION

PREMIUM BASIS

- State specific rates.
- Payroll per \$100.
- Coded job classifications.
- Experience modification.
- Loss history.
- Taxes and surcharges.
- Terrorism surcharges.

WORKERS' COMPENSATION

MARKET CONDITIONS

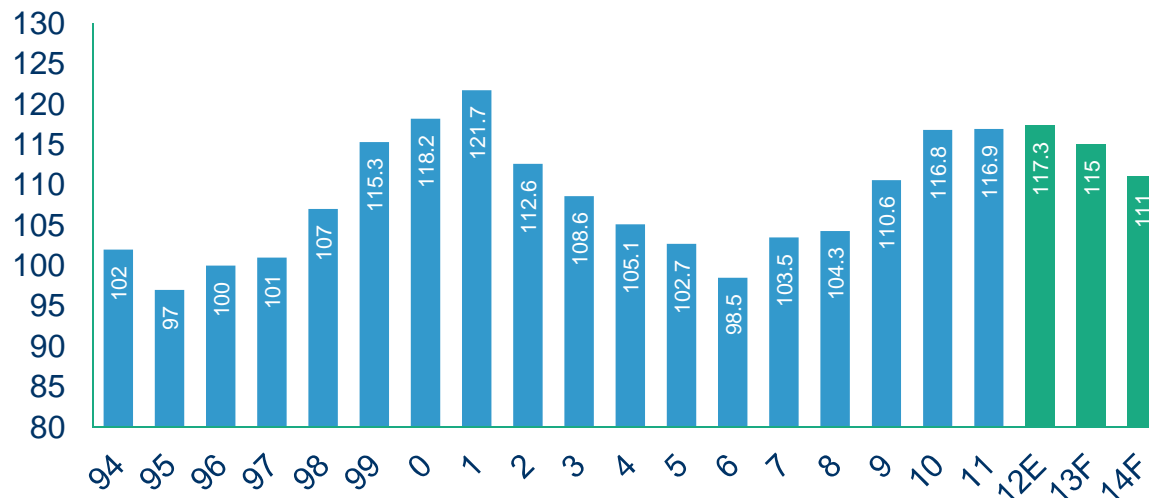
- Most rate increases driven by the rise in medical costs, the low interest-rate environment for insurers, and/or the general unprofitability for them of the line of business over multiple years.
- Insureds' specific exposures and loss experience will have a greater influence on program pricing and retention levels.
- Legislative/regulatory concerns:
 - Affordable Care Act.
 - TRIPRA expiration.
 - State reforms (California, Oklahoma, Texas, Wyoming).

WORKERS' COMPENSATION

MARKET CONDITIONS

- What are these issues?
 - Medical inflation.
 - Aging workforce.
 - Comorbidity.
 - Accumulation of employees at individual locations.
 - Return to work/light duty programs.
 - Changes in experience rating formulas (NCCI and California).
 - Jurisdictional nuances and issues.

COMBINED RATIO = INSURER'S MEASURE OF PROFITABILITY: LOSSES + EXPENSES/PREMIUM



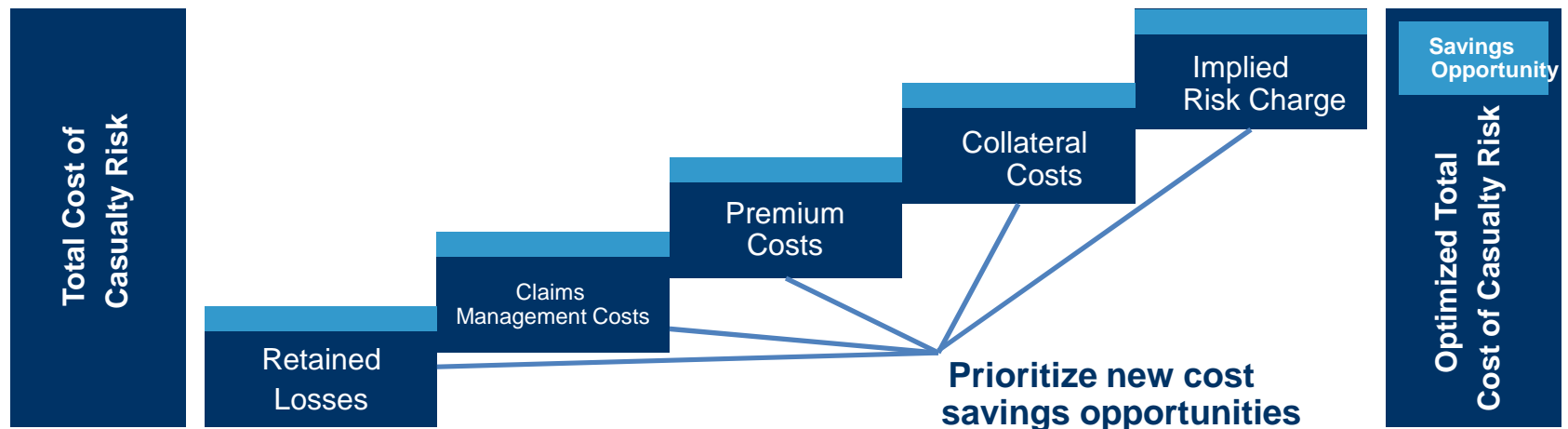
Source: Insurance Information Institute P/C Insurance Industry Overview & Outlook for 2013 and Beyond
 Sources: A.M. Best (1994-2013F); Insurance Information Institute (2014F).

WORKERS' COMPENSATION

ANALYTICS

Understand your total cost of risk:

- Identify cost drivers and their intersection with your business and risk management strategies.
- Quantify opportunities to drive sustainable savings.
- Determine key outcomes and return on investment (ROI).
- Prioritize cost savings opportunities.
- Establish action plans to develop options for further consideration.



ADDITIONAL RESOURCES

- 2014 Insurance Market Report
 - <http://imr.marsh.com/>
- Marsh's Casualty Practice
 - <http://usa.marsh.com/ProductsServices/Casualty.aspx>

BASICS OF CASUALTY INSURANCE

QUESTIONS?

STEVE KERR

Managing Director

+1 312 627 6828

steven.h.kerr@marsh.com

BRIAN COYLE

Senior Vice President

+1 215 246 1033

brian.coyle@marsh.com

ROBERT GARCIA

Senior Vice President

+1 312 627 6077

robert.garcia@marsh.com

STEPHANIE GUAIUMI

Senior Vice President

+1 415 743 7698

stephanie.guaiumi@marsh.com



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