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1. Executive Summary

Airmic conducted the on-line survey of its members in October 2012. Out of over 900 members invited to participate in the survey, 103 responded to the survey request.

The market commentary provided by AIG at the end of this report examines some of the issues raised by the survey and recommends risk managers reconsider the role of captive solutions.

The production and publication of this benchmarking report was sponsored by AIG.

The executive summary identifies the key findings of this survey. The commentary in each section of this report is aimed at helping you to decide whether the survey results are an indicator of good/leading practice or poor/questionable practice.

1.1. Key Findings

Casualty insurance and risk accountabilities

Airmic Member respondents demonstrate a clear understanding of the activities for which they are accountable, but reveal that:

- On average 25% of risk and insurance managers are not accountable for hazard identification, risk exposure analysis, loss scenario planning, risk communication, tax compliance of the casualty insurance programme and control and audit of overseas policies; these accountabilities rest with other group functions.

Activity support, performance and principal supporting organisations

Airmic Members rely on the valuable support and advice that is available to them from brokers, insurers and consultants as revealed in the following headline results:

- On average 64% of Respondent Organisations purchase support from brokers, insurance companies and consultants to deliver the risk and insurance activities identified, which leaves a substantial 36% who elect to use in-house resources or who simply do not do the activity (e.g. rehabilitation services)
- Brokers have penetrated most support service areas although Environmental Impact Assessment remains the stronghold of specialist consultants, whose service level scores highly
- Broker performance scores less well in non-traditional lines such as cyber and environment; insurance companies do not feature on the cyber risk assessment stage
- Brokers play a significant and valued role in product liability exposure analysis
- Sixty per cent of Organisations get support with product liability claims defence; insurance companies and consultants perform well in this area
- Eighty-four per cent of Respondent Organisations obtain external legal advice on liability exposures, with most going to consultants
- A huge majority of respondents obtain support with claims file analysis from brokers, insurance companies and consultants
- Sixty-four per cent of site surveys are carried out by insurance companies, outstripping brokers and consultants on this field
- Respondent Organisations’ broker networks take up pole position on claims handling for excess casualty policies
- Insurance companies deliver rehabilitation services to 19% of respondents, of which over a quarter report a mediocre level of service
- Some mediocre service level scores are awarded to brokers for legal liability exposure advice
Areas of concern
Members flag concern in a number of key areas including broker appointment, policy delivery and compliance with local insurance regulations and tax laws, including:

- A staggering 81% of respondents advise that the appointment of their excess casualty broker is highly problematic
- Less than a quarter of respondents report a problem-free broker appointment in respect of the motor placement which is normally considered to be the least problematic commercial placement
- Getting policies issued in a timely fashion is highly problematic or problematic to nearly half of respondents
- Maintaining compliance with local tax laws is problematic to more than 40% of respondents

Disclosure observations
Respondents’ views on disclosure are conflicted, for example:

- Some 60% of respondents believe underwriters’ disclosure requirements are either fair and reasonable or ‘undemanding’, while about 40% of respondents can foresee circumstances where they would be denied payment of a liability claim because of some dispute over disclosure

Respondent Organisations report ambiguity on disclosure requirements, for example:

- 41% of respondents do not believe underwriters are transparent in explaining which features of their organisation make it a good or bad risk
- 50% of respondents are unclear on what is material [to disclose] to the insurer when buying insurance

Basic disclosure measures that are fundamental to achieving ‘contract certainty’ and ‘outcome certainty’ in the event of a claim, such as recording and archiving what is provided to underwriters, are not standard practice across the board, for example:

- Nearly 50% of respondents do not archive disclosure records
- A quarter of respondents do not maintain a record of data provided to insurers
- Approximately a third of respondents do not keep signed and dated copies of proposal forms / insurance submissions
- Over 90% of respondents have an informal reactive process or no process of keeping up to date with legal and regulatory changes that could impact Casualty insurances

Insurance programme trends
Respondent Organisation’s diverse liability insurance needs are borne out by the range of responses to questions on the insurance programme, for example:

- Over 80% of respondents buy Excess General Liability / Casualty / Umbrella insurance, of which 84% buy a global policy
- Of the 84% of respondents that buy products liability insurance, 68% have a global policy, with a significant minority buying a US policy separately or some other combination
- Half of respondents buy Workers Compensation insurance, of which 48% buy it from the ground up (with no deductible)
- Nearly a third of respondents buy aircraft liability insurance; of which 75% buy a global policy with low self-insured retentions and 85% buy a limit of less than £1 billion
- Two thirds of respondents do not buy employment practices liability insurance
- Seventy-one per cent of respondents do not buy environmental impairment liability insurance
- Less than 10% of respondents buy product recall insurance
- About half of Organisations with a Captive are not using it for Casualty risks
Liability policy limits and deductibles are influenced by both scientific and emotional factors, including:

- Claims and loss experience; the biggest single influencing factor
- ‘Experience led instinct/gut feel’ of the risk manager, which astonishingly carries more influence than actuarial analysis

**Market overview**

Overall Respondent Organisations report stable cover terms and premiums, having little or no difficulty in obtaining good security, adequate capacity and flexible terms:

- At the last renewal, assuming all things being equal, 40% of respondents experienced no change in premium, while 26% saw an increase and 34% saw a decrease
- Top Casualty spenders include giant pharmaceuticals, food and drink companies, energy and defence inter alia
- Looking ahead respondents are less optimistic, 20% anticipate no change in premium, while 61% forecast a price hike and 17% expect a reduction
- In 10% of cases underwriters have tightened up on cover scope. While some respondents have experienced flexibility and extensions in Casualty cover the most common report is ‘no change’
- No shortage of Casualty insurance capacity is evident
- Nearly 90% of Respondent Organisations require AM Best A, A- (Excellent) or equivalent security from their Casualty insurers
- Half of Respondents are not being properly informed about the insurer’s value proposition
2. Introduction

2.1. About this survey
This is the third Casualty benchmarking survey Airmic has conducted. It follows surveys in 2010 and 2011. The 2012 survey focuses on activities of risk and insurance managers to deliver the optimum Casualty insurance programme. The findings of the 2012 survey enable risk managers to compare their Casualty insurance accountabilities, activities, programme and view of market developments against their peers. The survey results offer a more insightful list of topics than the previous surveys; responses have been analysed and included in this comprehensive report. Some of the questioning has been maintained from earlier surveys in order to identify change from one year the next, although this year the survey focuses on Airmic members' experience of delivering a Casualty programme to their Organisations.

The survey was distributed by email to some 450 Organisations. In total 103 Organisations partially completed the survey. Any incomplete responses have been omitted to give quality data for analysis. Overall the quality of responses was excellent.

2.2. Methodology
Airmic invited its Members through its insurance committee to specify Casualty areas of particular interest to them and define the requirement of the survey. Consultants, working with Airmic, developed the questionnaire with input from the sponsors AIG. Airmic converted the questionnaire into Survey Monkey, Airmic's online survey software and issued the survey to Airmic members by email in October 2012. The survey was open for three weeks with two reminders.

2.3. Confidentiality
Individual survey results are kept confidential. Aggregated results have been used to conceal the identity of individual Organisations.

2.4. How to get the best out of this survey
Through benchmarking, companies and Organisations can identify and adapt best industry practices from their peers. This benchmark information supports them in identifying areas for improvement. To this end this survey is considered a key deliverable by Airmic for its members in achieving best practice.

The aim of benchmarking is to establish 'best practice'. This is measured by reference to a desired outcome. The best practice 'gold standard' may include, for example, to obtain the best fit of coverage to exposure taking account of value for money, long term security, quality of service, data integrity, appropriate governance and management systems etc. In seeking to identify the top performers it is clear that common practice is not the benchmark for best practice: what risk and insurance managers will be seeking is to identify the best performers, and how that performance is achieved. Top performers will adopt common practice in many areas, but in some areas there will be differentiators that make for standout performance.

In the context of this survey it is not appropriate to make judgements about what is right for a particular company. Readers will therefore have to use their discretion as to how they relate their own practices to the performance of others: The questions Members may ask themselves are for example: is our practice at least as good as the most common practice of our peers; which practices most aligns with our idea of top quartile practice. Members will then be able to ensure that their own performance is at least as good as the majority of peers; and the survey will also assist them to reach even higher performance levels where they identify particular practices as areas for improvement.

1 Incomplete responses (28) are defined as ones with less than 70 records.
Airmic, with the support of its consultant, designed the layout of this report and provided non-judgemental commentary to assist Members in identifying both common and best practice

2.5. Benchmarking limitations

Benchmarking utopia could be defined as a set of profiles which would allow risk managers to compare their companies against others; but the small population size, variety of participants and breadth of technical questioning creates challenges in achieving meaningful ‘tailored’ benchmarks.

The survey emphasis has been shifted to benchmark Risk Managers’ activity in respect of Casualty insurance programme buying (e.g. level of sophistication, understanding of role, processes, procedures, data, disclosure etc.).

For example, in addition to recording policy limits (which is not a performance benchmark i.e. big companies buy big limits), a question has been introduced to find out how RM’s determine liability policy limits. It is envisaged the survey will also be educational and informative, making Airmic members think about their role, which in itself endorses Airmic’s aim of professional development. Questions have been retained from previous surveys where relevant to allow year on year comparison.

2.6. Respondent and Organisation profile

The respondent and Organisation profile is similar to prior years.

Main observations include:

- 94% of respondents are risk and insurance managers
- Only one respondent is a Chief Risk Officer
- A third of respondents report into the Head of Risk and Insurance or Chief Risk Officer, 27% report to Group Finance
- 58% of Organisations have 2-5 risk and insurance employees and 25% have more than five
- Respondents come from twenty different business activity types showing a very broad spread; Retail boasts the largest share at 16%
- About half of participating companies have an annual turnover of between £1bn and £10bn
- Approximately a third of the estimated £537 billion of revenue is derived from the UK
- Half of respondent Organisations operate in more than 10 countries; 28% operate in the UK alone

For more detailed information see Appendix 1: Understanding respondent demographics.
3. Benchmarking Casualty insurance and risk management activities

3.1. Casualty insurance and risk accountabilities

The cornerstone to delivering the optimum insurance programme, obtaining appropriate resource and budget, and being able to demonstrate value, is defining accountabilities. Accountability for the following activities naturally sits with the risk and insurance manager who should possess the relevant expertise and experience. If these activities are not executed properly, an organisation can only expect to achieve a sub-optimal insurance programme.

Who is accountable for the following Casualty activities?

<table>
<thead>
<tr>
<th>Accountable party</th>
<th>Risk and Insurance Manager</th>
<th>Group Legal</th>
<th>Company Secretary</th>
<th>Finance Director</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tracking upcoming legislation that could have an impact on your liability exposures</td>
<td>60%</td>
<td>26%</td>
<td>7%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Assessing the exposure of your Organisation to a risk event that could give rise to a third party claim</td>
<td>78%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>15%</td>
</tr>
<tr>
<td>Loss scenario planning and reporting estimated maximum losses</td>
<td>69%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
<td>25%</td>
</tr>
<tr>
<td>Designing and recommending an appropriate casualty insurance programme</td>
<td>92%</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Buying the insurance programme</td>
<td>89%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Disclosing material facts to insurers</td>
<td>95%</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Reporting to insurers any material changes to the risk during the course of the policy period</td>
<td>93%</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Providing your Board/Risk Committee and/or Operational Directors with a summary of insurance cover</td>
<td>90%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Communicating to your Organisation the risks associated with their activities</td>
<td>75%</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
<td>21%</td>
</tr>
<tr>
<td>Captive involvement in the insurance programme</td>
<td>82%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
<td>14%</td>
</tr>
<tr>
<td>Identification of new hazards and threats e.g. changing activities, acquisitions, new locations etc.</td>
<td>70%</td>
<td>7%</td>
<td>5%</td>
<td>1%</td>
<td>16%</td>
</tr>
<tr>
<td>Compliance of your casualty programme with regard to tax and / or non admitted restrictions etc.</td>
<td>77%</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td>Control and audit of (any) local policies issued in overseas territories</td>
<td>76%</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
<td>18%</td>
</tr>
<tr>
<td>Checking policy wordings, compliance with warranties and conditions</td>
<td>96%</td>
<td>3%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

The table lists some important Casualty insurance accountabilities. Although accountability cannot be delegated, an Activity can be delegated to a responsible party, for example, a risk manager may instruct a broker or other supplier to recommend an appropriate insurance programme; ultimate accountability rests with the accountable party.
On average 82% of respondents advise the accountable party for Casualty activities is the Chief Risk Officer or Risk and Insurance Manager. The balancing accountability can be explained by:

1) Another corporate function delivers the risk and insurance activities e.g. group legal, company secretary etc.
2) The Organisation does not undertake the activity e.g. loss scenario planning.
3) The activity is not applicable e.g. Captive activities, dealing with overseas tax issues etc.
4) No response provided

Documenting and understanding roles and responsibilities is required in order to define the scope of the insurance-risk management function. In absence of defined activities and deliverables, the function will struggle to measure its performance and demonstrate its value to the Organisation.
3.2. Activity support and performance of principal supporting organisations

This section of the survey looks at the support provided to RM departments both outsourced to external providers and support from other internal departments or functions for the following activities.

Summary of key activity support

Who is principally responsible for supporting your Organisation with the following activities?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product liability exposure analysis</td>
<td>45%</td>
<td>4%</td>
<td>3%</td>
<td>49%</td>
</tr>
<tr>
<td>Product liability claims defence</td>
<td>15%</td>
<td>22%</td>
<td>22%</td>
<td>40%</td>
</tr>
<tr>
<td>Rehabilitation services for employees</td>
<td>1%</td>
<td>19%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Cyber risk assessments</td>
<td>35%</td>
<td>0%</td>
<td>17%</td>
<td>48%</td>
</tr>
<tr>
<td>Legal advice on liability exposures</td>
<td>23%</td>
<td>8%</td>
<td>52%</td>
<td>16%</td>
</tr>
<tr>
<td>Environmental impact assessments</td>
<td>13%</td>
<td>3%</td>
<td>51%</td>
<td>34%</td>
</tr>
<tr>
<td>Risk awareness / Prevention online</td>
<td>15%</td>
<td>22%</td>
<td>22%</td>
<td>40%</td>
</tr>
<tr>
<td>Supply chain review</td>
<td>14%</td>
<td>23%</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Claims file analysis and review</td>
<td>14%</td>
<td>64%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Site surveys (i.e. risk engineering surveys)</td>
<td>14%</td>
<td>64%</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Summary of performance

Who is principally responsible for supporting your Organisation with Product Liability Exposure Analysis and how would you rate their performance?

<table>
<thead>
<tr>
<th>Product Liability Exposure Analysis</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>45%</td>
<td>4%</td>
<td>3%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Responsible Parties' level of service

<table>
<thead>
<tr>
<th>Level of Service</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good</td>
<td>18%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Good</td>
<td>58%</td>
<td>100%</td>
<td>100%</td>
<td>4%</td>
</tr>
<tr>
<td>Mediocre</td>
<td>24%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Poor, unacceptable</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>92%</td>
</tr>
</tbody>
</table>

Three-quarters of the 45% of respondents that use brokers to support them with product liability exposure analysis rate their service level as good or very good; the balancing quarter rate broker service as mediocre. About 7% of respondents use insurance companies and consultants/other for product liability exposure analysis support which leaves nearly 50% that do not obtain external support.
Who is principally responsible for supporting your Organisation with Product Liability Claims Defence and how would you rate their performance?

<table>
<thead>
<tr>
<th>Product Liability Claims Defence</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>15%</td>
<td>22%</td>
<td>22%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Responsible Parties’ level of service

<table>
<thead>
<tr>
<th></th>
<th>Very Good</th>
<th>Good</th>
<th>Mediocre</th>
<th>Poor, unacceptable</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance broker</td>
<td>9%</td>
<td>64%</td>
<td>18%</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>Insurance company</td>
<td>25%</td>
<td>75%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Consultant / Other</td>
<td>31%</td>
<td>63%</td>
<td>6%</td>
<td>0%</td>
<td>95%</td>
</tr>
<tr>
<td>No support / Not applicable</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Sixty per cent of Organisations get support with Product Liability Claims Defence; of which three quarters is provided by insurance companies and consultants who performed well.

Who is principally responsible for supporting your Organisation with Rehabilitation services and how would you rate their performance?

<table>
<thead>
<tr>
<th>Rehabilitation services</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>1%</td>
<td>19%</td>
<td>40%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Responsible Parties’ level of service

<table>
<thead>
<tr>
<th></th>
<th>Very Good</th>
<th>Good</th>
<th>Mediocre</th>
<th>Poor, unacceptable</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance broker</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Insurance company</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Consultant / Other</td>
<td>17%</td>
<td>59%</td>
<td>14%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>No support / Not applicable</td>
<td>0%</td>
<td>14%</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Nineteen per cent of Organisations buy rehabilitation services from their insurer; while 40% obtain this service from a consultant/other provider and 40% do not obtain support (or it is not applicable). Overall Insurance Companies and Consultants scored well in their provision of rehabilitation services; although 29% of Insurance Companies’ service level was described as mediocre.

Insurance companies deliver rehabilitation services to 19% of respondents, of which over a quarter reports a mediocre level of service.
Who is principally responsible for supporting your Organisation with Cyber Risk Assessment and how would you rate their performance?

<table>
<thead>
<tr>
<th>Cyber Risk Assessment</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>35%</td>
<td>0%</td>
<td>17%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Responsible Parties’ level of service

<table>
<thead>
<tr>
<th></th>
<th>Very Good</th>
<th>Good</th>
<th>Mediocre</th>
<th>Poor, unacceptable</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>8%</td>
<td>48%</td>
<td>36%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Not support / Not</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>83%</td>
</tr>
<tr>
<td>applicable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A relatively immature area of service, cyber risk assessment is being taken up by brokers and to a lesser extent consultants. Overall provider performance is patchy; a service level score of mediocre being four times more prevalent than very good. Perhaps surprisingly Insurance companies are absent in providing cyber risk assessments.

Who is principally responsible for supporting your Organisation with Legal Advice on Liability Exposures and how would you rate their performance?

<table>
<thead>
<tr>
<th>Legal Advice on Liability Exposures</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>23%</td>
<td>8%</td>
<td>52%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Responsible Parties’ level of service

<table>
<thead>
<tr>
<th></th>
<th>Very Good</th>
<th>Good</th>
<th>Mediocre</th>
<th>Poor, unacceptable</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>12%</td>
<td>65%</td>
<td>24%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Not support / Not</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>83%</td>
</tr>
<tr>
<td>applicable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Eighty-four per cent of Respondent Organisations obtain support and legal advice on liability exposures, with most going to consultants. A quarter of respondents use their broker for legal advice on liability exposures and further handful use the legal services of their insurer. With the exception of brokers, 100% of service level is reported as very good or good; brokers fell short of this with a substantial quarter reporting mediocre service.
Environmental Impact Assessments remain the stronghold of specialist consultants, while brokers retain a small presence and insurance companies barely register. Consultants’ performance is scored highly, while brokers score mostly very well (66% good or very good), however a third of respondents report a mediocre level of service.

Online training in risk awareness and loss prevention is done in-house or not supported or simply not done by 45% of respondents. Consultants provide the largest share of the online support market, while together brokers and insurers account for about 20%. The service level is variable.
**Who is principally responsible for supporting your Organisation with Supply Chain Management and how would you rate their performance?**

<table>
<thead>
<tr>
<th>Supply Chain Management</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>14%</td>
<td>3%</td>
<td>25%</td>
<td>58%</td>
</tr>
<tr>
<td>Responsible Parties’ level of service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Good</td>
<td>10%</td>
<td>0%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Good</td>
<td>70%</td>
<td>100%</td>
<td>71%</td>
<td>8%</td>
</tr>
<tr>
<td>Mediocre</td>
<td>20%</td>
<td>0%</td>
<td>18%</td>
<td>4%</td>
</tr>
<tr>
<td>Poor, unacceptable</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>85%</td>
</tr>
</tbody>
</table>

A majority of respondents do not buy supply chain management support. Of the ones that do, consultants are the first port of call, followed by brokers. On average service level is good, but some 20% report mediocre service.

**Who is principally responsible for supporting your Organisation with Claims File Analysis and how would you rate their performance?**

<table>
<thead>
<tr>
<th>Claims File Analysis</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>38%</td>
<td>23%</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Responsible Parties’ level of service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Good</td>
<td>14%</td>
<td>6%</td>
<td>43%</td>
<td>22%</td>
</tr>
<tr>
<td>Good</td>
<td>71%</td>
<td>53%</td>
<td>57%</td>
<td>0%</td>
</tr>
<tr>
<td>Mediocre</td>
<td>11%</td>
<td>35%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Poor, unacceptable</td>
<td>4%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>0%</td>
<td>6%</td>
<td>0%</td>
<td>78%</td>
</tr>
</tbody>
</table>

A huge majority (81%) of respondents obtain support with claims file analysis, of which brokers (38%), Insurance Companies (23%) and Consultants (20%) provided on average a good service. A minority of respondents reported poor/unacceptable service from their brokers.
Who is principally responsible for supporting your Organisation with Site Surveys and how would you rate their performance?

<table>
<thead>
<tr>
<th>Site Surveys</th>
<th>Insurance broker</th>
<th>Insurance company</th>
<th>Consultant / Other</th>
<th>No support / Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible party</td>
<td>14%</td>
<td>64%</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Responsible Parties' level of service

<table>
<thead>
<tr>
<th></th>
<th>Very Good</th>
<th>Good</th>
<th>Mediocre</th>
<th>Poor, unacceptable</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Good</td>
<td>30%</td>
<td>33%</td>
<td>9%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>60%</td>
<td>54%</td>
<td>29%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Mediocre</td>
<td>10%</td>
<td>9%</td>
<td>29%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Poor, unacceptable</td>
<td>0%</td>
<td>4%</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Not Applicable</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

A whopping 64% of site surveys are carried out by insurance companies, who on balance provide a good service. However a significant minority of respondents report mediocre or poor/unacceptable service levels. Consultants do not score very well in this activity; while brokers score slightly better.
**Activities that cause concern**

*What activities concern you?*

<table>
<thead>
<tr>
<th>Activity</th>
<th>No Problems to Report</th>
<th>Quite Problematic</th>
<th>Highly Problematic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employing competent local claims expertise</td>
<td>72%</td>
<td>-9%</td>
<td>-18%</td>
</tr>
<tr>
<td>Getting policies issued in a timely fashion</td>
<td>53%</td>
<td>-18%</td>
<td>-30%</td>
</tr>
<tr>
<td>Allocating premiums equitably (e.g. according to exposure) across the organisation</td>
<td>70%</td>
<td>-8%</td>
<td>-23%</td>
</tr>
<tr>
<td>Buying insurance within the assigned budget</td>
<td>71%</td>
<td>-3%</td>
<td>-26%</td>
</tr>
<tr>
<td>Obtaining coverage terms that ensure cover in the event of loss</td>
<td>70%</td>
<td>-7%</td>
<td>-23%</td>
</tr>
<tr>
<td>Buying limits of cover that will be sufficient in the event of a major loss</td>
<td>67%</td>
<td>-9%</td>
<td>-23%</td>
</tr>
<tr>
<td>Maintaining legal and regulatory compliance with local insurance requirements</td>
<td>61%</td>
<td>-11%</td>
<td>-28%</td>
</tr>
<tr>
<td>Maintaining compliance with local tax laws</td>
<td>57%</td>
<td>-8%</td>
<td>-35%</td>
</tr>
</tbody>
</table>

A number of activities were identified by Airmic as regularly concerning its members. After adjusting the results to account for those members to whom the activities were not applicable (for example, compliance with local tax laws is not relevant to 20% of respondents), the results confirm that all of the items identified remain problematic to some greater or lesser degree. Getting policies issued in a timely fashion is problematic to nearly half of respondents.

Seventy per cent or more of respondents report no problem in relation to ‘obtaining coverage terms that ensure cover in the event of loss’, ‘buying insurance within the assigned budget’, ‘allocating premiums equitably’ and ‘employing competent local claims expertise’.
3.3. Claims administration

Who is responsible for supporting your organisation with claims administration for each policy?

Excess casualty claims are handled differently to the primary casualty or motor policies, with 45% of respondents delegating this responsibility to their broker network.
3.4. Broker Appointment

Which best describes your organisation’s appointment of insurance brokers for each policy?

<table>
<thead>
<tr>
<th>Insurance class</th>
<th>A) Highly problematic</th>
<th>B) quite Problematic</th>
<th>C) No problems to Report</th>
<th>D) Not Applicable</th>
<th>No Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Casualty</td>
<td>71%</td>
<td>3%</td>
<td>9%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>Excess Casualty</td>
<td>81%</td>
<td>3%</td>
<td>5%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Motor</td>
<td>52%</td>
<td>5%</td>
<td>23%</td>
<td>16%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Insureds rely on their brokers for a range of important services and advice. Many brokers are providing their clients with services that go well beyond the insurance transaction, for example, they are engaged to do risk exposure analysis, risk surveys, claims management etc. Insureds may elect to tender broker services from time to time to validate that they are obtaining the best available service at a fair and reasonable price. Specialist consultants provide support and advice to insureds with the complex area of broker performance and broker tenders, including the development of a request for proposal and service level agreement.

A staggering 81% of respondents advise that the appointment of their excess casualty broker is highly problematic. Similar concerns are reported for both primary casualty and motor. Less than 10% of primary and excess casualty insureds have no problem to report, while only 23% of motor insureds have no problem with their broker appointment.
3.5. Disclosure

Underwriter transparency

*Are underwriters transparent in explaining what features of your organisation make it a good/bad risk?*

![Pie chart showing 41% of respondents believe underwriters are transparent, 59% believe they are not.]

When preparing the submission and negotiating a liability insurance contract it is helpful to understand what an underwriter is looking for; how a risk is being underwritten. However 41% of respondents do not believe underwriters are transparent in explaining which features of their organisation that it a good or bad risk.

Materiality

*Are you clear on what is material to the insurer in accepting your risks?*

![Pie chart showing 49% of respondents are clear on what is material, 39% are not clear, 7% are not sure, and 5% are other.]

Half of respondents are clear on what is material to the insurer in accepting risks and half are unclear or not sure.
Disclosure disputes

Can you foresee circumstances where you are denied payment of a liability claim because of some dispute over disclosure?

Forty per cent of respondents can foresee circumstances where they would be denied payment of a liability claims because of some dispute over disclosure.

Disclosure requirements

Which statement best describes your view of underwriters’ disclosure requirements?

Nearly half of respondents believe underwriters’ disclosure requirements are fair and reasonable, while 12% go as far as to say that disclosure requirements are ‘undemanding’.
Disclosure audit

*How does your department keep a disclosure audit track?*

<table>
<thead>
<tr>
<th>Task</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Archive disclosure records in an orderly format so they can be called upon in the future</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>Maintain a record of data provided to insurers</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>Keep signed and dated copies of proposal forms / insurance submissions</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Keep minutes of insurance meetings, including meeting attendance</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>Maintain accurate records of the source, time, date and content of each data item supplied</td>
<td>47%</td>
<td>53%</td>
</tr>
</tbody>
</table>

In this age of ‘contract certainty’ and the emphasis being placed on ‘outcome certainty’, it will no doubt be surprising to discover that the basic steps to maintaining a disclosure audit track are not followed by a very substantial number of respondent Organisations, basic steps that threaten to jeopardise both contract certainty and outcome certainty, for example:

- Over 50% of respondents do not maintain accurate records of the source, time, date and content of each data item supplied. In the event of a liability loss that may happen sometime down the road, it is important to be able to track the source of data supplied at the time, particularly when supplied by subsidiary entities.
- Nearly 50% of respondents do not archive disclosure records in an orderly format so they can be called upon in the future. Almost certain to put any insured on the back foot when making a claim is to be without the facts.
- A quarter of respondents do not maintain a record of data provided to insurers. Relying on underwriters’ records alone to defend your claim is unlikely to serve an insured’s best advantage.
- Approximately a third do not keep signed and dated copies of proposal forms / insurance submissions. The submission forms de facto part of the insurance contract. To be unclear on what is being presented and then not keeping it as evidence is opening the door to a dispute in the event of a claim.
- More than a third do not keep minutes of insurance meetings. At insurance meetings, matters of clarification and intent are discussed, which, if left unrecorded will get lost in the passage of time.

Nearly 50% of respondents do not archive disclosure records

A quarter of respondents do not maintain a record of data provided to insurers

Approximately a third do not keep signed and dated copies of proposal forms / insurance submissions
Legal and regulatory environment

Which statement best describes your process of keeping up to date with legal and regulatory changes that could impact your Casualty insurances?

- 63% No established process
- 29% Informal process responding to liability issues arising
- 8% Proactive formal process to identify, measure and review potential liabilities

Two-thirds of respondents do not have an established process of keeping up to date with legal and regulatory changes that could impact their Casualty insurances. Less than 10% of respondents possess a proactive formal process to identify, measure and review potential liabilities.

Over 90% of respondents either have no established process or an informal reactive process of keeping up to date with legal and regulatory changes that could impact Casualty insurances.
4. Insurance programme

4.1. Aircraft Liability

Nearly a third of respondents buy Aircraft Liability insurance; of these, respondents were asked:

*Do you buy global or local Aviation policies?*

![Pie chart showing the distribution of responses to the question about global or local Aviation policies.](chart)

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global policy</td>
<td>74%</td>
</tr>
<tr>
<td>Split between US and non-US Local policies</td>
<td>11%</td>
</tr>
<tr>
<td>Other combination</td>
<td>10%</td>
</tr>
<tr>
<td>Not applicable</td>
<td>5%</td>
</tr>
</tbody>
</table>

As would be expected in an international class of business, most respondents that require aircraft liability insurance buy a global policy.

*What are your Aviation policy self-insured retentions?*

![Pie chart showing the distribution of self-insured retentions.](chart)

<table>
<thead>
<tr>
<th>Retention Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>£0 (guaranteed cost)</td>
<td>13%</td>
</tr>
<tr>
<td>£1 - £50k</td>
<td>7%</td>
</tr>
<tr>
<td>£50k - £100k</td>
<td>7%</td>
</tr>
<tr>
<td>£100k - £250k</td>
<td>7%</td>
</tr>
<tr>
<td>£250k - £500k</td>
<td>20%</td>
</tr>
<tr>
<td>£500k - £1m</td>
<td>0%</td>
</tr>
<tr>
<td>£1m - £5m</td>
<td>0%</td>
</tr>
<tr>
<td>£5m - £10m</td>
<td>0%</td>
</tr>
</tbody>
</table>

Given that aviation liability claims tend to be infrequent but potentially expensive most respondents report low self-insured retentions. The premium savings for self-insuring losses is not gained in this class. No retentions exceed £10m. Aviation and defence companies have the highest retentions.
What Aviation Policy limit do you buy?

Only the very largest aviation and defence companies or airport operators buy aircraft liability limits of more than £1 billion.
4.2. Employers’ Liability
All respondents buy Employers’ Liability insurance.

What are the self-insured retentions for Employers’ Liability?

Some 59% of Respondent Organisations retain no risk with a zero deductible/guaranteed cost programme. The organisations retaining high levels of risk all had revenues exceeding £1 billion and were engaged in Construction, Oil & Gas, Power, Retail, Industrial and Manufacturing and Transportation.

What limit do you buy for Employers’ Liability?

No respondents buy more than £500 million of employers’ liability limit; 90% buy less than £100 million.
4.3. Employment Practices Liability (EPL)

Employment Practices Liability is an area of United States law that deals with wrongful termination, sexual harassment, discrimination, invasion of privacy, false imprisonment, breach of contract, emotional distress, and wage and hour law violations.

A growing product on the insurance markets is employment practices liability insurance (EPL), a type of policy that business owners can buy to protect their organisations against employee suits for rights protected under the above acts. More recently, with the expansion of privacy law(s), employee privacy concerns have come to the fore as private employee data is stored electronically. This is not always covered under an EPL policy, but the insurance industry has responded by offering cyber liability and network security policies.

Just over a third of respondents buy EPL insurance. Those mainly have a footprint in the USA. However, a few respondents buy EPL who operate only in the UK and receive 100% of their revenue in the UK.

UK Employment law has changed. Capped damages have been removed for many offences and the burden of proof lies on employers to show their innocence to tribunals - or face hefty losses.

Claims experience from one of the UK’s leading insurers suggests that these statistics are just the tip of the iceberg, as the majority of claims are settled prior to going to tribunal. Claims brought by highly-paid employees can be expensive, but even an average tribunal award for a sexual discrimination case exceeds £10,000 – which of course doesn’t include defence costs.

**Do you buy global or local EPL policies?**

- Global policy: 61%
- Split between US and non-US Local policies: 13%
- Other combination: 13%
- Not applicable: 13%

Of the third of respondents that buy Employment Practices Liability, 61% buy a global policy and 13% buy a US policy and non-US local policies.
What are the EPL self-insured retentions?

Fifty per cent of respondents retain £50 thousand or less.

What limit do you buy for EPL?

Fifty-seven per cent of those respondents that buy Employers Practices Liability have a limit of less than £10 million.
4.4. Environmental Impairment Liability (EIL)

The Environmental Liability Directive became law in England on 1st March 2009. This represents a major regulatory development in environmental law and introduces new risks and liabilities for businesses in this country.

The new law comprises two complementary liability schemes, firstly for strict liability for specified environmentally hazardous activities and secondly for fault-based liability for all other business activities.

The new liabilities are generally not covered under a standard UK liability insurance policy which could result in gaps in your cover. Environmental Impairment Liability (EIL) insurance can offer a comprehensive policy to ensure protection.

Generally EIL insurance is designed to cover unforeseen environmental damage discovered in the policy period for all business activities of the insured and may include:

- Liability arising out of products supplied and work carried out away from the premises
- Unexpected and unforeseen gradual pollution from normal operations
- A broad definition of environmental law to include all local, national and EU law including liability for biodiversity and ecological damage
- Provision to ensure the directive’s concepts of “compensatory and complementary” remediation is covered.

AIG, the sponsor of this survey, offers online environmental training to clarify some of the issues, so insurance professionals can have meaningful discussions with clients about possible areas of exposure and the relevant insurance solutions.

Twenty nine per cent of respondents buy EIL insurance, of which advised the following details.

**Do you buy global or local EIL policies?**

```
<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global policy</td>
<td>33%</td>
</tr>
<tr>
<td>Split between US and non-US Local policies</td>
<td>22%</td>
</tr>
<tr>
<td>Other combination</td>
<td>39%</td>
</tr>
<tr>
<td>Not applicable</td>
<td>6%</td>
</tr>
</tbody>
</table>
```

Respondents buy a mixture of global and local EIL policies.
What are the EIL self-insured retentions?

- £0 (guaranteed cost)
- £1 - £50k
- £50k - £100k
- £100k - £250k
- £250k - £500k
- Not Applicable

Generally self-insured retentions reflect the size of the business.

What are the EIL policy limits?

- £10 million or less
- £10 million to £25 million
- £25 million to £50 million

Only 6% buy a policy limit of more than £25 million; 47% buy a limit of £10 million to £25 million and the balance buy a limit of £10 million or less.
4.5. Excess General Liability (GL)
Over 80% of respondents buy Excess General Liability / Casualty / Umbrella insurance, of which 84% (up from 75% in 2011) buy a global policy.

*Do you buy global or local Excess GL policies?*

- **84%** Global policy
- **4%** Not applicable
- **4%** Other combination
- **8%** Split between US and non-US Local policies

*What Excess GL limit do you buy?*

- **39%** £10 million to £25 million
- **33%** £25 million to £50 million
- **18%** £50 million to £100 million
- **4%** £100 million to £500 million
- **4%** £500 million to £1 billion
- **2%** £1 billion to £10 billion

The highest GL limits were bought by the following sectors:

- Aerospace and defence
- Airport Operator
- Construction
- Food & Drink
- Oil & Gas
- Power
- Property
- Transportation
- Water Utilities Group

**Over 80% of respondents buy Excess General Liability / Casualty / Umbrella insurance, of which 84% buy a global policy**
4.6. Motor Liability

97% of respondents buy Motor Liability insurance.

**Do you buy global or local Motor Liability policies?**

- **Global policy**: 15%
- **Split between US and non-US Local policies**: 23%
- **Other combination**: 44%
- **Not applicable**: 18%

**What are the Motor Liability self-insured retentions?**

- **£0 (guaranteed cost)**: 35%
- **£1 - £50k**: 12%
- **£50k - £100k**: 9%
- **£100k - £250k**: 3%
- **£250k - £500k**: 3%
- **£500k - £1m**: 3%
- **£1m - £5m**: 2%
- **£5m - £10m**: 12%
- **Not Applicable**: 3%

Two-thirds of respondents self-insure less than £50 thousand each and every loss for motor liability.

No changes to report on Motor Liability limits and retentions
What Motor Liability limit do you buy?

Sixty per cent of respondents buy up to £25 million of motor liability insurance.
4.7. Product Recall

Only 9% of respondents buy Product Recall insurance, this coverage being bought by the following sectors: Food & Drink, Construction, Industrial and Manufacturing.

**Do you buy global or local Product Recall cover?**

- Global policy: 83%
- Other combination: 17%

**What are your Product Recall self-insured retentions?**

- £1 - £50k: 33%
- £50k - £100k: 16%
- £100k - £250k: 17%
- £250k - £500k: 17%
- £500k - £1m: 17%
- £1m - £5m: 0%
- £5m - £10m: 0%
- Not Applicable: 0%

Self-insured retentions are variable depending on the unique circumstances of each insured.
What Product Recall limit do you buy?

Limits purchased reflect the unique profile of each insured. As the number that buy products recall cover is so few, more in depth analysis could compromise anonymity.
4.8. Product’s Liability

Eighty-four per cent of respondents buy Products Liability insurance.

*Do you buy global or local Product’s Liability insurance policies?*

- **Global policy**: 68%
- **Split between US and non-US Local policies**: 15%
- **Other combination**: 9%
- **Not applicable**: 8%

Most respondents opt for a global policy with a nonetheless significant minority buying a US policy separately or some other combination.

*What are your self-insured retentions for Product’s Liability insurance?*

- **£0 (guaranteed cost)**: 2%
- **£1 - £50k**: 9%
- **£50k - £100k**: 7%
- **£100k - £250k**: 2%
- **£250k - £500k**: 6%
- **£500k - £1m**: 2%
- **£1m - £5m**: 2%
- **£5m - £10m**: 19%
- **£10m plus**: 38%
- **Not Applicable**: 7%

About 20% of respondents retain more than £500 million.
What Product Liability limit do you buy?

Just short of a third of respondents buy less than £50 million or between £50 million and £100 million and a similar number buy more than £100 million. Organisations with more than £100 million of products liability insurance include:

- Aerospace and defence
- Airport Operator
- Facilities management
- Financial Institutions
- Food & Drink
- Hospitality
- Industrial and Manufacturing
- Legal and Business Support
- Mining
- Power
- Property
- Transportation
- Water Utilities Group
4.9. Public Liability

Nearly 100% of respondents buy Public Liability insurance. The only two that do not buy public liability insurance are from the oil and gas and chemicals and pharmaceuticals sectors.

**Do you buy global or local policies?**

![Pie chart showing the distribution of global and local policies]

Two-thirds of respondents buy a global policy, while the remaining third buy US and non-US policies or some other combination. The 10% of respondents who advise that the question is not applicable are mainly UK-based.

**What are your Public Liability self-insured retentions?**

![Pie chart showing the distribution of self-insured retentions]

Public liability self-insured retentions are variable and representative of the size of the organisation and its risk appetite.
What Public Liability limit do you buy?

Just short of a third of respondents buy less than £50 million, a third buy between £50 million and £100 million and another third by more than £100 million. This almost mirrors buying patterns for Products Liability Insurance.
4.10. Workers’ Compensation (WC)

Half of respondents buy Workers Compensation insurance.

What are your WC self-insured retentions?

Fifty per cent of respondents buy workers’ compensation insurance from the ground up. For 14% of respondents the question was not applicable.

Half of respondents buy Workers Compensation insurance, of which 48% buy it from the ground up (with no deductible)

What WC limit do you buy?

Three-quarters of workers compensation buyers take a limit of less than £25 million.
4.11. Casualty Premium Expenditure

*What is your total casualty premium expenditure?*

The top tier Casualty spenders are a mix of companies; ones with massive products liability exposures such as chemicals and pharmaceuticals and the food and drink industry; companies with enormous potential to pollute such as the oil and gas sector; organisations with huge duties of care, such as hospitals and medics; companies that transport vast numbers of the public and companies that can cause catastrophic disasters, such as chemicals, aerospace and defence businesses.

Top Casualty spenders include giant pharmaceuticals, food and drink companies, energy and defence inter alia.
4.12. Limit and deductible selection

How do you determine limits and deductibles?

Claims and loss experience are the single biggest influence in determining limits and deductibles, followed by legal and contractual obligations. Loss scenario modelling and broker advice also play a significant part in the decision. Historical precedent scores mainly as a modest influence, neither attracting a particularly big nor minute influence. On the other hand consultants have no influence on nearly 50% of the group and, surprisingly, actuarial analysis is also of miserable influence.
4.13. Insurer Security

What is the minimum security rating you require of your liability insurers?

<table>
<thead>
<tr>
<th>AM Best ratings</th>
<th>S&amp;P ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>A++</td>
<td>A+</td>
</tr>
<tr>
<td>B++</td>
<td>B+</td>
</tr>
<tr>
<td>C++</td>
<td>C+</td>
</tr>
</tbody>
</table>

Nearly 90% of Respondent Organisations require AM Best A, A- (Excellent) or equivalent security from their Casualty insurers. Following a feedback comment, Airmic notes that S&P is more commonly used to measure insurer security in the London Market. The following table enables a quick look up.

There seems to be no pattern to organisations that demand the highest levels of security, which included the following sectors:

- Property
- Education
- Water Utilities Group
- Food & Drink
### 4.14. Insurer Selection

**Which statement best describes your assessment of prospective insurers, their product and service offering at renewal?**

<table>
<thead>
<tr>
<th>Statement describing Respondent’s assessment of prospective insurers and their product and service offering</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Given that the price, limits, terms and conditions are competitive and insurer security meets the required rating, I will seek to differentiate insurance quotes by reviewing their service quality, reputation and support services (e.g. rehabilitation, claims defensibility etc.)</td>
<td>45%</td>
</tr>
<tr>
<td>I take a great interest in insurer service quality, reputation and support services (e.g. rehabilitation, claims defensibility etc.) and may even be prepared to pay more for insurance from the preferred insurer.</td>
<td>42%</td>
</tr>
<tr>
<td>Providing the insurer’s security rating meets our requirement, their reputation and supporting services (e.g. rehabilitation, claims defensibility etc.) do not particularly influence insurer selection; my assessment is primarily based on price, limits, terms and conditions</td>
<td>14%</td>
</tr>
</tbody>
</table>

**What information about prospective insurers do you receive from the broker at renewal?**

<table>
<thead>
<tr>
<th>Information about prospective insurers received from the broker at renewal?</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline information e.g. price, limits, capacity, cover etc., information about their product, risk management and service offerings (e.g. rehabilitation, claims defensibility etc.) PLUS a clear explanation of their value proposition</td>
<td>49%</td>
</tr>
<tr>
<td>Headline information e.g. price, limits, cover etc. PLUS information about their product, risk management and service offerings (e.g. rehabilitation, claims defensibility etc.)</td>
<td>22%</td>
</tr>
<tr>
<td>Headline information only e.g. price, limits, cover etc.</td>
<td>29%</td>
</tr>
</tbody>
</table>

Half of Respondents are not being properly informed about the insurer’s value proposition.
4.15. Captive participation

Does your captive participate in the Casualty programme?

Thirty-eight per cent of respondents use a captive for casualty insurance, while 32% do not have a captive and a further 30% simply do not use their captive.

About half of Organisations with a Captive are not using it for casualty risks.
5. Market Developments

5.1. Premium history

Assuming no change (i.e. no increases in limits, no significant changes in exposure and no significant losses), what was the market impact on your Casualty Insurance premium at the last renewal?

At the last renewal, assuming no change (i.e. no increases in limits, no significant changes in exposure and no significant losses), 40% of respondents experienced no change, while 26% saw an increase and 34% saw a decrease in premium.

5.2. Premium forecast

What do you think is going to happen to Casualty insurance rates over the next 2 years?

Looking ahead respondents are less optimistic, 20% anticipate no change in premium, while 61% forecast a price hike and 17% expect a reduction.
5.3. Scope of cover and market capacity

*Which statement best describes your experience of market attitudes to Casualty policy scope of cover at the last renewal?*

- 68% Underwriters offered the same/similar terms and conditions as before
- 22% Underwriters were flexible and open to extending the scope of cover, terms and conditions
- 10% Underwriters were tightening up on terms and conditions making wordings more restrictive

Sixty-eight per cent of respondents were offered the same/similar terms and conditions as before. While 10% of respondents reported the tightening up of terms and conditions and making wordings more restrictive, 22% said underwriters were flexible and open to extending the scope of cover, terms and conditions.

*Which statement best describes your experience of obtaining capacity for your Casualty limits at last renewal?*

- 58% Adequate capacity; selective provision of high limits
- 37% Surplus capacity; competitive provision of high limits
- 5% Scarce /limited capacity available; obtaining limits was challenging

In 10% of cases underwriters have tightened up on cover scope. While some respondents have experienced flexibility and extensions in Casualty cover the most common report is ‘no change’

No shortage of Casualty insurance capacity is evident

Scarce and/or limited availability of capacity, making it a challenge to obtain the required limits was only reported by 5% of the group. An overwhelming majority have experienced no shortage of capacity in the Casualty market.
6. Market Commentary by AIG

Market Commentary by AIG

What's the alternative?
AIG – a long-established and committed underwriter of casualty business – is delighted to sponsor this report and add its voice to the debate around trends in risk management and risk transfer.

The trend is your friend?
A number of questions within the survey suggest that there are some shifts in the market that should cause buyers of insurance to consider their options. This market commentary examines a number of issues raised by the survey which suggest that risk managers should give serious consideration to alternatives to conventional insurance.

Pricing – 26% of respondents experienced a like-for-like premium increase last year, and 61% believe rates will increase over the next two years. In these times of economic austerity businesses will be looking for savings and considering the impact of any incremental costs on their cash flow.

Clarity – 39% of respondents are not clear about what is material to the insurer in accepting a particular risk and 40% of those asked foresee circumstances where the payment of a liability claim could be denied because of a dispute over disclosure.

This absence of clarity around what makes for a good risk and what might be an issue in the event of a loss means that buyers are potentially spending money on a policy that may not respond.

Understanding what you are buying – 29% of respondents only receive headline information from their brokers at renewal – price, limits, capacity etc. – but nothing about insurers’ product, risk management and service offerings or value proposition. This limits their ability to make an informed choice between insurers.

Uninsurable risks – many businesses are facing exposures to risks that they cannot buy cover for in the conventional market or where the price does not reflect their risk mitigation efforts.

Historically companies tend not to use their captives for casualty risk. Indeed, half of the organisations who responded to the survey – who have a captive – are not using it for this purpose. Since the costs of establishment and running the structure are already accounted for, it seems surprising that captives are not more widely used. However, there are some compelling reasons why it might be time to reconsider this position.

Captives and casualty
Much casualty business is typified by high frequency, low severity losses and – as the research illustrates – the expectation is that ‘frequency’ premiums are increasing. Even if these rises can be moderated through proactive risk management, it is worth asking whether or not it may be more efficient to put these risks into a captive.

At AIG’s recent Multinational Forum, Hugh O’Neill – SVP, Insurance & Risk Management, Deutsche Post DHL (DPDHL) described their approach. DPDHL retains high frequency, low cost risks such as motor, medical, transportation etc. at a group level through captive insurers and large single jurisdiction ‘self-insured’ business units. For high severity exposures, such as catastrophe or aviation liability etc. risk is transferred by buying insurance. For businesses that adopt this approach, one of the key advantages is
that the corporation can reap the benefits of their investment in risk management and any reduction in claims and premium that ensue, rather than the insurer.

A total of 32% of survey respondents report that they do not have a captive, possibly reflecting their size, risk profile, risk financing maturity and the cost of setting up and financing a wholly-owned captive insurance subsidiary. However, there are alternatives to consider such as rent-a-captive or protected cell captives. Both of these facilities – provided by an independent third party – offer a legal separation of assets and liabilities as well as a potential cost saving.

*Looking for new solutions*

A number of respondents advise they are likely to consider non-conventional insurance markets in the next 12 months for new and developing risks such as reputational risk (31%), cyber (29%) and supply chain (24%). In the case of cyber risk, there are a number of reasons why the conventional insurance market can be uncomfortable with cyber liability but the primary one is that – as an emerging risk - there is a lack of claims and empirical data from which to actuarially model and price the risk. In the case of supply chain risk, events such as the Japanese tsunami have demonstrated the complexity and interconnectivity of modern business, and particularly the problem for businesses operating a Just-in Time inventory system.

With capacity being scarce for some of these risks (especially reputation and supply chain) and/or the insurance market only providing part of the risk financing solution, a captive may provide the answer. The questions that a risk manager needs to consider are not dissimilar to those for any other risk for which they are considering self-insurance: is this the best use of capital, do they understand the risk exposure and can they offer the required capacity?

Companies may want to consider using a captive solution as an “incubator” – to take on some of the risk, and to use the experience to build data and knowledge to gain insight into the risk profile. Placing these risks in a captive may provide a short or long-term solution depending on the risk appetite and risk tolerance of the parent organisation, and the availability of solutions in the general insurance market.

In a world where effective use of capital and cash flow are of paramount importance, risk managers need to be aligning their risk management programmes to the company’s long term strategies by maximising the use of existing captives, either by expanding the range of risks they put into them or considering low cost entry points into the alternative risk transfer market.

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AIG are liability market specialists in UK, international and multinational markets, and complex and alternative deal structures. Our dedicated team covers underwriting, loss control, rehabilitation and claims management. AIG is a leading primary insurer for clients with high quality, sustainable risk profiles. We are also one of the leading worldwide excess liability markets, with a broad appetite and expertise in terms of risk, size, location, capacity and structure.
Appendix 1: Understanding respondent demographics

A. Respondent profile
In analysing the responses it is helpful to understand the profile of the respondents.

Job title and reporting

*What is your job title?*

Most of the respondents (92%) are risk and insurance managers with varying degrees of remit, authority and responsibility. There remains a range of job titles to cover the diverse roles including descriptive titles such as Head of Insurance and Business Continuity and Senior Risk Analyst which have been grouped into the 'Assistant' category for analysis.

Only one respondent is Chief Risk Officers (or equivalent) responsible for Enterprise Risk Management.

The ‘others’ category includes a claims handler and an insurance advisor.

92% of respondents are risk and insurance managers

Only one respondent is a Chief Risk Officer
Who do you report to?

A third of respondents report into the Head of Risk and Insurance or Chief Risk Officer; 27% report to Group Finance, and the remaining circa third report into Tax and Treasury, Company Secretary or Other. The ‘other’ category included the Board, Chief Admin Officer, Commercial Director, Director of Business Support, Director of Shared Services and to the divisions, Group Operations Director, Head of Economic Regulation, Head of Infrastructure, Health & Safety Manager, Managing Director and Services Manager. Insurance and Risk Management remains a support function that can be hosted by any of the corporate enabling functions.

How many (full time equivalent) employees are in the risk and insurance department?

Only 17% of respondent Organisations have one or less full time equivalent person in the risk and insurance department; 58% have 2-5 risk and insurance employees and 25% have more than five.
B. Profile of participating Organisations

Principal activity

What is your principal company activity?

<table>
<thead>
<tr>
<th>Activity</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailers</td>
<td>16%</td>
</tr>
<tr>
<td>Energy</td>
<td>9%</td>
</tr>
<tr>
<td>Industrial and Manufacturing</td>
<td>9%</td>
</tr>
<tr>
<td>Water Utilities Group</td>
<td>7%</td>
</tr>
<tr>
<td>Aerospace and defence</td>
<td>7%</td>
</tr>
<tr>
<td>Food &amp; Drink</td>
<td>7%</td>
</tr>
<tr>
<td>Legal and Business Support</td>
<td>7%</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>5%</td>
</tr>
<tr>
<td>Transportation</td>
<td>5%</td>
</tr>
<tr>
<td>Construction</td>
<td>5%</td>
</tr>
<tr>
<td>Chemicals &amp; Pharmaceuticals</td>
<td>4%</td>
</tr>
<tr>
<td>Property</td>
<td>4%</td>
</tr>
<tr>
<td>Charities</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>Education</td>
<td>3%</td>
</tr>
<tr>
<td>Travel</td>
<td>1%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>1%</td>
</tr>
<tr>
<td>Mining</td>
<td>1%</td>
</tr>
<tr>
<td>Media, IT and Telecoms</td>
<td>1%</td>
</tr>
<tr>
<td>Logistics/Supply Chain</td>
<td>1%</td>
</tr>
</tbody>
</table>

Airmic member survey participation in 2012 comes from a wide spread of industry groups. Really no sector dominates. The largest sectors represented are Retailers (16%), Energy (9%), Industrial and Manufacturing (9%), Water Utilities (7%), Aerospace and defence (7%), Food & Drink (7%) and Legal and Business Support (7%). This profile continues to vary although retail has remained the largest sector represented.

Size

What is your annual turnover?

Approximately 20% (down from 26% in 2011) of respondent Organisations have an annual turnover of over £10 billion. About half of participating companies have an annual turnover of between £1 billion and £10 billion, which is very similar to prior years.
Geographic spread

What is the geographical spread of your activities by revenue?

- UK: 32%
- North America: 18%
- Rest of Europe: 11%
- Asia: 9%
- Africa: 8%
- Australasia: 6%
- South America: 5%
- Middle East: 4%
- Others: 3%

Of the estimated £537 billion of revenue\(^2\), approximately a third is derived from the UK, 20% from the Rest of Europe and 18% from North America.

In how many countries do you operate?

- 1: 28%
- 2 to 5: 11%
- 6 to 10: 12%
- 11 to 20: 9%
- 21 to 30: 12%
- More than 31: 28%

Most respondents come from highly geographically diversified Organisations. Half of respondent Organisations operate in more than 10 countries; 28% operate in the UK alone.

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\(^2\) Revenue estimated on the mid-point of each band and £25 billion for organisations over £10 billion.