

INDUSTRIALS

Industry Description

The Industrials sector is the goods-producing segment of the economy. It is made up of companies whose sales come from manufacturing materials into finished goods and services. Their products often include industrial parts used in other industries. Known as the secondary industry, the Industrial sector usually processes the output of the primary industry into forms or other distinct products that are either purchased by an end user or sent for further processing or fabrication.

The Industrials sector can be classified into two types: heavy industry and light industry. Most industries transform raw materials into finished products.

A \$10 trillion industry globally, the Industrials sector includes manufacturers and service providers. Broad segments such as aerospace and defense, building products, construction and engineering, electrical equipment, industrial conglomerates, machinery, trading companies, commercial services, air freight and logistics, airlines, marine transportation, road and rail and transportation infrastructure all form part of this sector. Some economists consider the Industrials industry as a "creator of wealth" compared to the service industry, since countries that export manufactured goods are usually the ones posting higher annual marginal GDP growth.

In the Industrials sector, large quantities of energy are consumed to run the process. Thus, manufacturing industries tend to generate pollution and can be a source of environmental problems. Since most countries today deal strictly with any matter pertaining to the environment, governments have responded with tighter policies and more stringent regulations. As a result, conglomerates have recently given attention to the development of "green" products and a few conglomerates have already developed a strong portfolio of such environment-friendly products.

This sector is particularly sensitive to economic cycles, experiencing a downturn when consumers tighten purse strings and businesses cut back on investments. No doubt that this industry took a heavy battering at the height of the 2007-2008 recession. But over the last five years, the industry slowly regained its footing around the world boosted by more productive and cost-efficient manufacturing techniques. The increased number of M&A activities also helped in the resurgence of this sector. Further recoveries are seen especially in robust industries including airlines, energy, automotive and building products.

The U.S. Industrials sector in particular showed significant improvement in the last five years. Revenue growth and net income margins showed an increase in the last three years with industrial growth capacity at 78.9 percent as of October 2014, marking five consecutive years of gains.

Cost of Risk

The Industrials sector ranked second in terms of average total cost of risk per \$1,000 of revenue (TCOR) among the 14 industries tracked by the RIMS Survey in 2015. After two consecutive increases, the average TCOR dropped in 2015. As with previous years, the largest components of TCOR were liability costs, workers compensation costs, and property costs.

Summary of Survey Results

After an increase of 7 percent in 2013 and 13 percent in 2014, the Industrials sector recorded a 7 percent decline in 2015. The downward movement is attributed to declines in liability and workers compensation costs, as well as lower total premiums and retained losses for companies with revenues of more than \$1 billion.

Highlights

- Average TCOR for Industrials was \$17.18, significantly higher than \$10.55 for all companies.
- Average TCOR fell 7 percent from \$18.53 in 2014 to \$17.18 in 2015.
- Industrials moved a notch lower in terms of TCOR ranking. From ranking 1st in 2015, it now ranks 2nd among 14 industries.
- Property, management liability, professional liability, and marine and aviation costs rose for both large and small companies.
- Liability costs dropped for large companies, but rose marginally for small firms.
- Workers compensation costs also fell for large firms, but increased for their smaller counterparts.
- Since this industry covers the aerospace and defense and airlines sectors, Industrials tends to purchase higher limits for aircraft liability and aircraft products liability. Higher limits are also sought for property and umbrella / excess.

2015 Other Cost Metrics

		First Quartile	Median	Third Quartile	Average
Premiums and Retained	<=1B	\$1,402	\$2,948	\$5,213	\$4,650
Loss Costs Per Employee	>1B	\$410	\$1,457	\$2,277	\$2,042
	Total	\$1,012	\$1,879	\$4,648	\$3,497
Workers Compensation	<=1B	\$361	\$607	\$1,755	\$1,266
Costs Per Employee	>1B	\$189	\$377	\$674	\$523
	Total	\$288	\$601	\$1,094	\$829
Workers Compensation	<=1B	0.58%	0.95%	2.01%	1.31%
Costs as a % of Payroll	>1B	0.29%	0.69%	0.99%	0.89%
	Total	0.44%	0.86%	2.15%	1.15%
Auto Liability	<=1B	\$614	\$1,437	\$3,316	\$2,322
Costs Per Vehicle	>1B	\$326	\$962	\$2,293	\$2,843
	Total	\$433	\$1,078	\$2,108	\$2,155
Property Costs	<=1B	\$0.13	\$0.22	\$0.33	\$0.52
per \$100 TIV	>1B	\$0.05	\$0.09	\$0.21	\$0.17
	Total	\$0.08	\$0.18	\$0.32	\$0.41

Major SIC Codes

Code	Title
3480s; 3720s	Aerospace & Defense
3080s; 3400s	Building Products
0700s; 7300s	Diversified Commercial Services
4950s; 7340s	Environmental Services
4400s	Marine
4010s; 4100s	Road & Rail
4300s; 4700s	Air Freight & Logistics
1500-1799	Construction & Engineering
3600s	Electrical Equipment
3900s; 9900s	Industrial Conglomerates
9900 - 9999	NEC
5050s; 5190s	Trading Companies & Distributors
4500s	Airlines
3700s	Construction & Farm Machinery & Heavy Trucks
7360s; 8330s	Employment Services
3500s	Industrial Machinery
2520s; 2530s	Office Services & Supplies
4500s	Transportation Infrastructure

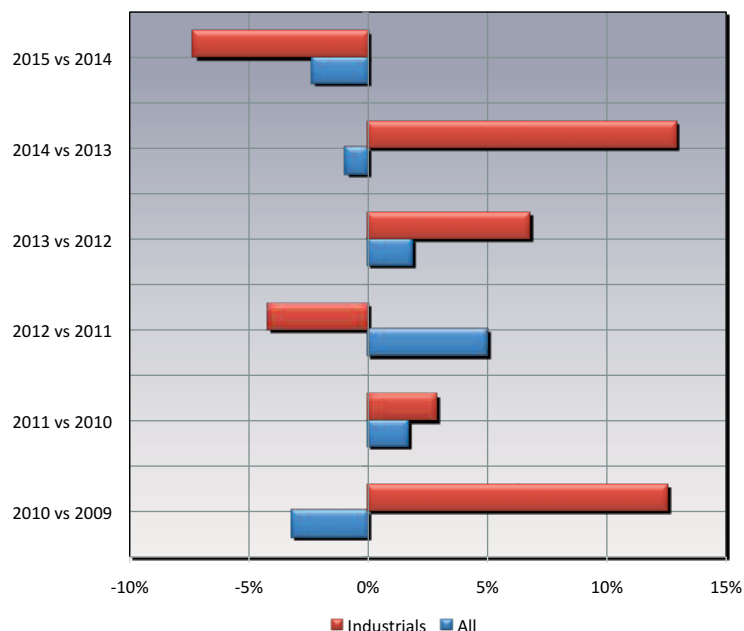
2015 Cost of Risk per \$1,000 of Revenue

Less than or equal to \$1B	First Quartile	Median	Third Quartile	Average	Market Basket
Domestic Property Premiums	0.59	1.65	4.60	6.09	5.22
Foreign Property Premiums	0.02	0.45	0.72	0.59	0.68
Total Property Premiums	0.68	1.85	5.53	6.15	4.37
Property Retained Losses	0.00	0.09	0.47	0.48	0.44
Total Property Costs	0.89	2.30	5.61	5.36	4.81
General & Products Liability Premiums	0.33	1.05	2.17	2.31	1.92
Automobile Liability Premiums	0.21	0.42	1.18	2.21	0.92
International/Foreign Liability Premiums	0.01	0.05	0.18	0.27	0.15
Pollution/Environmental Liability Premiums	0.04	0.33	0.59	1.75	0.14
Umbrella/Excess Premiums	0.56	1.19	2.63	2.41	1.89
Total Liability Premiums	1.15	2.60	5.46	5.65	5.43
Liability Retained Losses	0.10	0.35	0.55	0.77	0.65
Total Liability Costs	1.25	2.65	5.75	5.96	6.08
Directors & Officers Liability Premiums	0.18	0.36	0.72	0.59	0.32
Employment Practices Liability Premiums	0.15	0.30	0.42	0.62	0.15
Fiduciary Liability Premiums	0.04	0.06	0.09	0.07	0.02
Total Management Liability Costs	0.26	0.55	1.20	1.47	0.65
Excess Workers Compensation Premiums	0.32	0.78	1.09	1.76	0.45
Primary Workers Compensation Premiums	0.90	2.36	4.84	4.77	3.68
Total Workers Compensation Premiums	0.93	2.92	4.29	4.45	3.70
Workers Compensation Retained Losses	0.26	1.24	2.18	1.77	1.71
Total Workers Compensation Costs	1.50	2.82	5.61	5.65	5.41
Total Professional Liability Costs	0.11	0.75	1.65	2.74	1.31
Cyber Premiums	0.07	0.19	0.47	0.69	0.23
Total Cyber Costs	0.07	0.26	0.46	0.65	0.23
Total Medical Malpractice Costs	0.51	0.96	1.01	0.74	0.06
Crime Premiums	0.03	0.05	0.14	0.12	0.07
Total Fidelity, Surety & Crime Costs	0.03	0.05	0.16	0.14	0.09
Ocean Marine - Cargo Premiums	0.03	0.04	0.18	0.09	0.01
Total Marine & Aviation Costs	0.12	0.31	1.64	1.93	0.77
Kidnap, Ransom & Extortion Premiums	0.01	0.02	0.03	0.03	0.01
Total Financial & Political Risk Costs	0.01	0.02	0.03	0.03	0.01
Total Premiums + Retained Losses	6.66	10.61	20.18	19.42	19.42
Costs for Outside Services	0.34	0.69	1.50	1.39	0.93
Risk Management Department Costs	0.63	1.34	2.75	1.95	1.20
Total Administrative Costs	0.49	0.99	2.68	2.27	2.13
Total Cost of Risk	7.54	11.81	21.65	21.55	21.55

2015 Cost of Risk per \$1,000 of Revenue

Greater than \$1B	First Quartile	Median	Third Quartile	Average	Market Basket
Domestic Property Premiums	0.21	0.38	0.59	0.49	0.26
Foreign Property Premiums	0.04	0.07	0.21	0.15	0.01
Total Property Premiums	0.18	0.43	0.71	0.66	0.49
Property Retained Losses	0.01	0.05	0.47	0.38	0.29
Total Property Costs	0.30	0.52	1.09	0.91	0.78
General & Products Liability Premiums	0.02	0.05	0.16	0.14	0.14
Automobile Liability Premiums	0.02	0.05	0.09	0.12	0.10
International/Foreign Liability Premiums	0.02	0.03	0.09	0.05	0.03
Pollution/Environmental Liability Premiums	0.01	0.05	0.10	0.07	0.02
Umbrella/Excess Premiums	0.15	0.26	0.63	0.51	0.51
Total Liability Premiums	0.27	0.57	1.08	0.75	0.81
Liability Retained Losses	0.06	0.46	1.66	1.35	1.27
Total Liability Costs	0.45	1.24	2.46	2.09	2.08
Directors & Officers Liability Premiums	0.11	0.18	0.28	0.23	0.18
Employment Practices Liability Premiums	0.03	0.04	0.05	0.08	0.04
Fiduciary Liability Premiums	0.01	0.03	0.05	0.03	0.03
Total Management Liability Costs	0.18	0.27	0.43	0.41	0.25
Excess Workers Compensation Premiums	0.02	0.05	0.10	0.12	0.05
Primary Workers Compensation Premiums	0.11	0.21	0.46	0.62	0.44
Total Workers Compensation Premiums	0.14	0.22	0.65	0.84	0.78
Workers Compensation Retained Losses	0.42	1.17	2.30	3.10	2.25
Total Workers Compensation Costs	0.58	1.14	2.80	3.35	3.03
Total Professional Liability Costs	0.01	0.04	0.13	0.38	0.20
Cyber Premiums	0.03	0.08	0.17	0.12	0.03
Total Cyber Costs	0.02	0.05	0.20	0.12	0.04
Total Medical Malpractice Costs	0.05	0.13	0.30	1.48	0.01
Crime Premiums	0.01	0.02	0.03	0.02	0.02
Total Fidelity, Surety & Crime Costs	0.01	0.02	0.03	0.02	0.02
Ocean Marine - Cargo Premiums	0.02	0.04	0.10	0.10	0.04
Total Marine & Aviation Costs	0.02	0.05	0.11	0.48	0.19
Total Financial & Political Risk Costs	0.00	0.00	0.02	0.01	0.00
Total Premiums + Retained Losses	1.83	4.77	6.22	6.60	6.60
Costs for Outside Services	0.05	0.14	0.30	0.21	0.15
Risk Management Department Costs	0.07	0.12	0.24	0.28	0.22
Total Administrative Costs	0.05	0.12	0.25	0.42	0.37
Total Cost of Risk	1.91	4.98	6.31	6.97	6.97

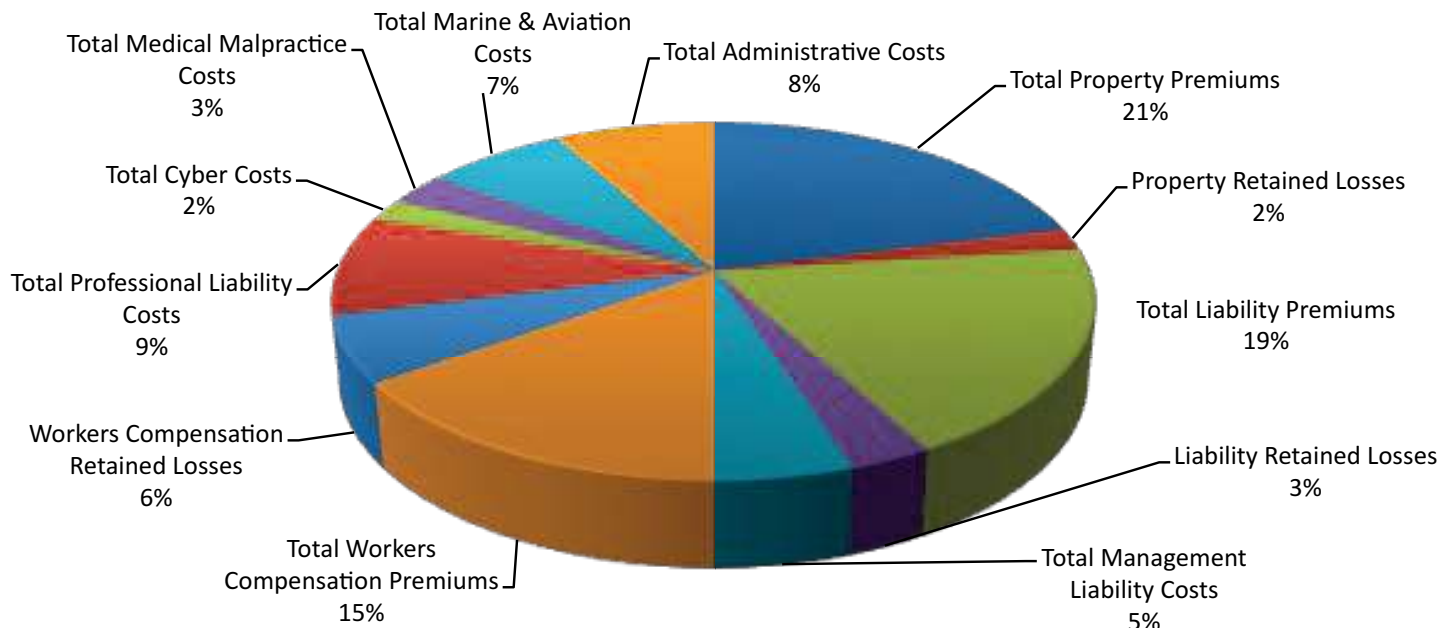
Change in Total Cost of Risk



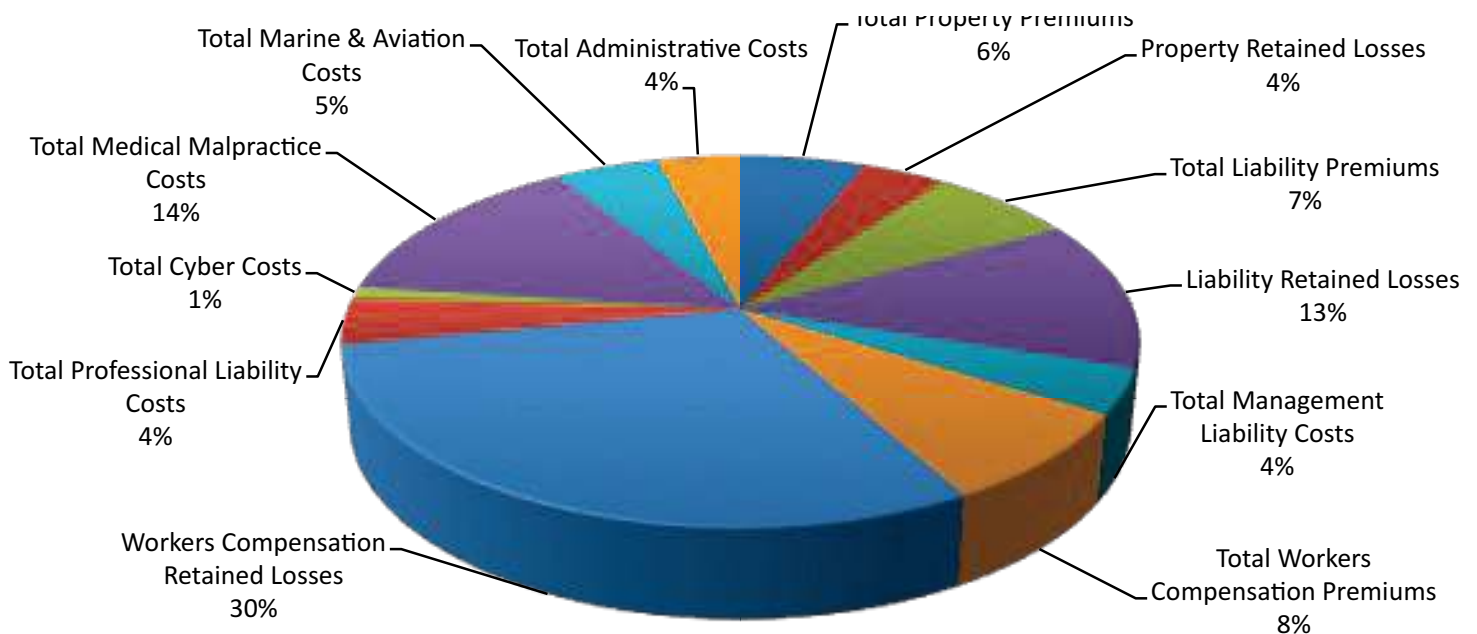
2015 Demographics of Respondents

		First Quartile	Median	Third Quartile	Average
Revenue Size (\$ in millions)	<= B	\$54	\$177	\$447	\$283
Revenue Size (\$ in millions)	> B	\$1,747	\$2,969	\$6,098	\$7,433
Revenue Size (\$ in millions)	Total	\$130	\$564	\$2,473	\$3,155
Total Assets (\$ in millions)	<= B	\$171	\$400	\$1,291	\$1,240
Total Assets (\$ in millions)	> B	\$1,939	\$3,874	\$8,734	\$11,321
Total Assets (\$ in millions)	Total	\$450	\$1,903	\$5,837	\$6,772
Payroll Size (\$ in millions)	<= B	\$15	\$48	\$108	\$100
Payroll Size (\$ in millions)	> B	\$241	\$450	\$966	\$1,048
Payroll Size (\$ in millions)	Total	\$31	\$113	\$381	\$481
Insured Property Values (\$ in millions)	<= B	\$29	\$192	\$617	\$675
Insured Property Values (\$ in millions)	> B	\$684	\$2,100	\$4,979	\$5,493
Insured Property Values (\$ in millions)	Total	\$68	\$465	\$2,186	\$2,610
Number of Employees	<= B	269	785	1,800	1,334
Number of Employees	> B	5,830	10,000	24,100	33,402
Number of Employees	Total	566	1,924	7,407	14,214
Number of Vehicles	<= B	20	74	215	544
Number of Vehicles	> B	186	547	2,108	2,059
Number of Vehicles	Total	50	167	602	1,152

How the Risk Dollar is Spent (Under 1B)



How the Risk Dollar is Spent (Over 1B)



Swett & Crawford's **Construction, Manufacturing and Transportation** industry practice groups can help your retail broker get you the best deal. Ask your broker to call their **Swett broker** who will involve **industry specialists** as appropriate or contact us at info@swett.com

2015 Limits (\$ Millions)

All	0 to 1	2 to 5	6 to 10	11 to 20	21 to 30	31 to 40	41 to 75	76 to 100	101 to 150	151 to 250	251 to 500	501 and above
Aircraft Liability	18%	7%	10%	1%	7%	7%	6%	8%	4%	10%	17%	6%
Aircraft Products Liability	0	0	0	0	15	5	6	21	0	15	15	20
Automobile Liability	80	15	1	3	0	0	0	0	0	0	0	0
Crime	27	19	9	5	7	12	3	6	6	5	0	0
Cyber	29	19	4	16	13	7	6	5	1	0	0	0
Directors & Officers Liability	11	13	7	6	10	12	18	10	4	5	4	0
Employment Practices	24	15	4	4	15	3	5	5	12	8	5	4
Fiduciary Liability	21	18	6	6	17	2	8	2	5	8	11	0
General Liability	85	12	3	0	0	0	0	0	0	0	0	0
International/Foreign Liability	83	14	3	1	0	0	0	0	0	0	0	0
Pollution/Environ. Liability	25	29	13	7	2	3	12	0	0	0	5	4
Property - Domestic	7	5	8	4	5	7	14	8	11	10	8	14
Umbrella/Excess	0	0	0	0	12	0	37	63	28	37	37	3

2015 Retention (\$ Thousands)

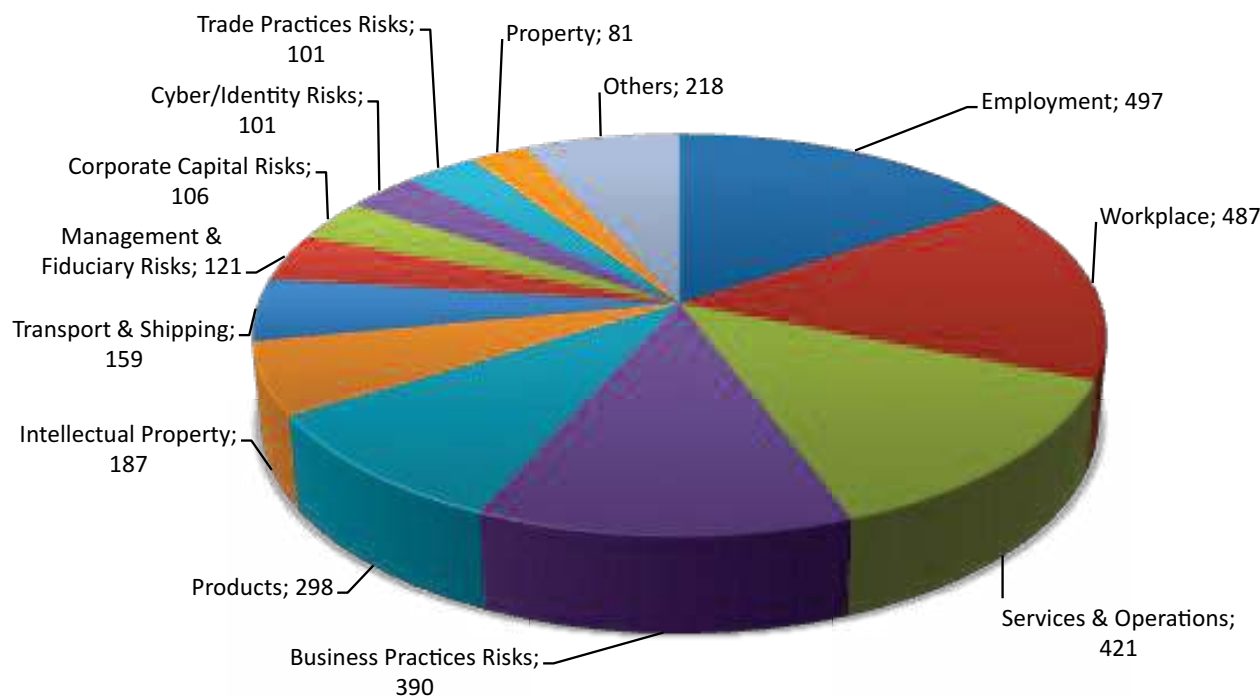
All	Guaranteed Cost	1 to 5	6 to 10	11 to 25	26 to 50	51 to 100	101 to 250	251 to 500	501 to 1000	1,001 to 2,500	2,501 to 5,000	5,001 to 10,000	10,001 and above
Aircraft Liability	83%	3%	1%	1%	1%	4%	1%	1%	2%	0%	2%	0%	0%
Aircraft Products Liability	90	0	0	0	0	0	0	0	3	0	0	0	7
Automobile Liability	63	2	0	4	0	3	8	9	5	4	1	0	1
Crime	4	1	11	16	15	11	25	8	5	1	1	0	0
Cyber	14	4	3	16	9	16	25	12	0	0	0	0	0
Directors & Officers Liability	1	0	3	6	14	15	21	12	10	6	10	0	3
Employment Practices	5	0	7	8	4	14	21	7	15	6	10	3	0
Fiduciary Liability	31	7	2	15	9	15	7	5	9	0	0	0	0
General Liability	43	2	2	4	5	4	9	13	7	3	5	1	0
International/Foreign Liability	86	0	0	7	0	3	2	3	0	0	0	0	0
Pollution/Environ. Liability	16	4	7	24	10	25	11	2	0	0	0	0	0
Property - Domestic	0	13	5	15	11	20	16	7	5	2	3	1	1
Workers Compensation	42	3	0	2	0	1	20	20	7	3	1	0	0

Three Large Loss Settlements

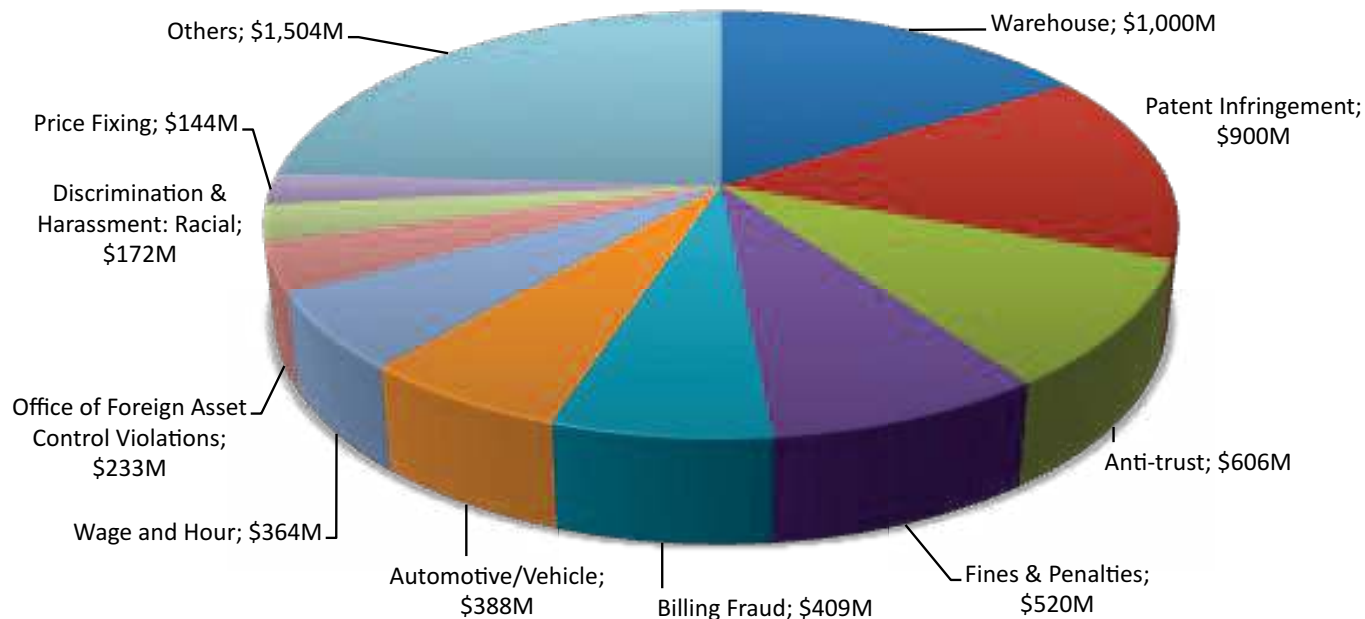
ID	Organization Name	Category	Type	Filing or Accident Date	Status	Total Amount (in U.S.\$)
684577	W.L. Gore and Associates	Intellectual Property	Patent Infringement	3/28/2003	Settled	857,424,976
854231	Guardian Industries	Environment	Fines and Penalties	1/1/2015	Settled	71,062,000
852736	Aerojet Rocketdyne	General Litigation	Contract Disputes	9/21/2015	Settled	50,000,000

Source: Advisen's Loss Database

Total # of Listed Cases for 2015



Total \$ Amount for Listed Cases 2015



Total Listed Cases and Amount of Listed Cases

There were 3,179 events and cases filed in the Industrials sector in 2015, according to Advisen's Loss Database. Of the cases tracked by Advisen, employment (497), workplace (487), services & operations (421), and business practices risks (390) registered the most number.

The total amount of paid for the settled cases was \$6.2 billion, almost a fifth of which went to property damage to warehouses. Another fifth was used to settle intellectual property cases involving patent infringement. Settlements for anti-trust cases and fines and penalties were also substantial. The Others category, which was pegged at \$1.5 billion, included capital regulatory actions, workplace accident/injury, ERISA violations, privacy violations, building, and product usage, among other case types.