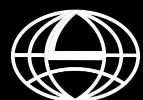
LOCKTON COMPANIES LLP

London Market Insurance Update

H1 2024



FOREWORD

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We are pleased to share the Lockton H1 2024 London Market Insurance Update,

intended to keep you abreast with underwriting and risk trends from a London Market perspective. This issue contains insights from 20 business segments across Lockton, along with a spotlight feature on our MENA operations and trends pertinent to that market. Our largest update to date, it is a testament to our continued growth as a business.

As ever, the direction of the economy has significant implications for insurers' strategies and, in turn, the wider market and impact for insurance buyers. Inflationary pressure has remained broadly stable in 2024, following decreases in the latter part of 2023, reflective of a slowly improving global outlook. This translates to positive news for insurers, many of whom will have been affected by inflation-driven increases in claims costs. At the same time, high interest rates ensure that insurers' investments continue to deliver a profitable return.

Many insurers have continued to report strong results as we close out the first quarter of 2024, with Lloyd's of London having had its best year in a decade. These improved results have supported a transition towards more benign market conditions, characterised by increased competition, capacity, and a more positive outlook for buyers.

Nevertheless, these notes of optimism come against a background of uncertainty. Anecdotal evidence exists of longer reporting tails on certain casualty lines than anticipated at the time of underwriting. This is impacting profitability for some insurers and has led to a more restrictive and disciplined approach to terms, conditions, and deployment of capital for those insurers operating within this environment.

Social inflation remains a challenge for many insurers with significant US casualty exposures. Many insurers are reporting adverse development in their historic accident years.

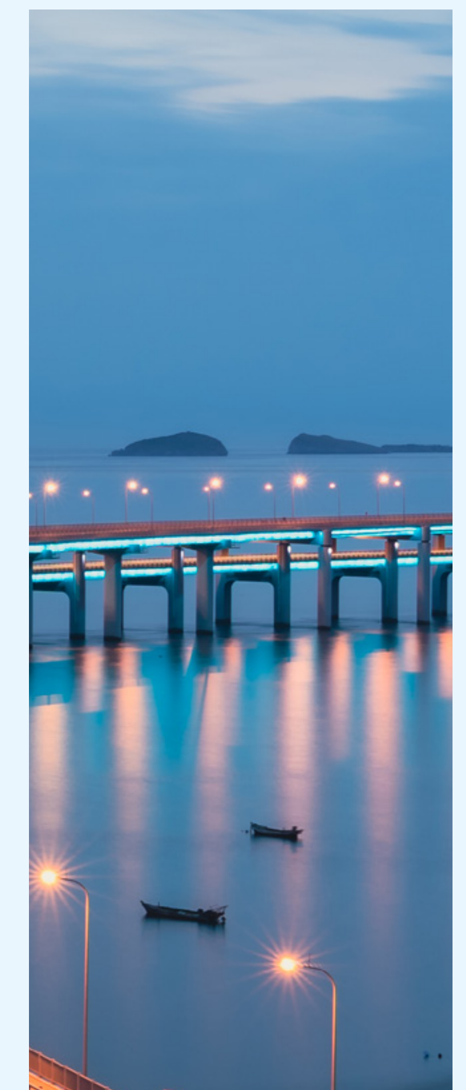
Global macro-economic uncertainty will still provide a cautious approach to the current rating cycle, with lack of new capital entrants, elevated levels of debt, worse than anticipated adverse loss development on casualty portfolios and economic and political uncertainty.

While geopolitical tensions in Europe and the Middle East threaten to renew disruption to global trade, any further deterioration in international relations is almost certain to introduce negative ripple effects for the wider economy, with consequences for a diverse set of sectors, from Fine Art to Marine Cargo. 2024 is also a year of elections, most notably in the US. Here too, it is hard to understate the implications.

Elsewhere, natural catastrophe risks continue to figure among insurers' key concerns and remain a major topic at renewals for property risks. Many of our specialists in insurance lines such as Directors' and Officers' Insurance, Professional Indemnity Insurance, and Cyber have also noted an increasingly tight regulatory environment, with areas under scrutiny including environmental, social, governance (ESG) disclosures and the use of artificial intelligence (AI). As awareness grows around these topics among both consumers and governments, there is an increasing likelihood of claims for businesses including financial institutions, solicitors, and other professional services.

Lockton is here to support the mitigation of businesses' risks to create a risk profile with strong underwriter appeal. Our Risk Control Services team can help identify weaknesses and create a tailored strategy that meets your risk management needs.

Starting the preparations for renewal early and gathering detailed information around the risks of most concern to insurers, remain key to achieving the best possible outcome at renewal.



EXECUTIVE SUMMARY

Despite economic uncertainty, optimism remains in the insurance market. A return to insurer profitability has seen many incumbents embrace new business, complemented by strong appetite from new entrants, and is exerting a downwards effect on pricing.

As ever, there are exceptions. Insurers remain cautious to industries with exposure to natural catastrophe and geopolitical losses, among others. Where insurers are willing to provide cover, it will most likely be on a limited basis.

Ultimately, the focus for all buyers should be on delivering a quality presentation, to secure the optimum result. More than ever, insurers are willing to offer improved terms for well-managed risks.

The following is a high-level summary of the key findings from Lockton's H1 2024 London Market Insurance Update.

Key findings:

1. A gradual improvement of global economic environment has seen the insurance market return to profitability. As a result, many insurers are intensifying efforts to secure new business opportunities while also ensuring the retention of existing portfolios. In tandem, the emergence of new entrants is bringing an influx of capacity and competition. This is placing downwards pressure on rates, especially in well-performing industries. Unsurprisingly, this is welcome news for insurance buyers, who stand to gain from the softening environment.

2. Businesses are taking ownership of their risk management programmes. In practice, this includes the appointment of third parties to provide risk management and transfer solutions that are bespoke to businesses' specific needs. This is a positive development – insurance products should always be a last port of call, not a primary route of recovery. However, insurers will be wary of an increasing price-focus among buyers, with many businesses dispensing with historic insurer relationships in pursuit of cost savings.

3. Natural catastrophe (Nat Cat) risks remain a key concern. 2023 saw increases in both the frequency and claims figures of natural catastrophes, to which reinsurers responded by tightening terms and raising pricing. While this trend is expected to continue, they are not without change; the ongoing energy transition is prompting a recalibration of claims distribution to regions including the Middle East and Australia. Underwriters are focused on gaining a more accurate assessment of Nat Cat risks, demanding more detailed information from brokers and their clients.

4. Geopolitical uncertainty continues to affect various sectors. The London Market had around $8 billion of political violence exposure to Israel when the Israel-Palestine conflict reignited in October 2023. Despite recent improvements, there have been significant reductions in coverage, with many markets reviewing business on a case by-case basis. Likewise, insurers are softening their stance on risks in Ukraine, showing willingness to offer cover for the right risk profile, albeit at heightened premiums.

5. Risk selection remains a key focus for insurers, with markets continuing to push rates upwards in areas they perceive as high risk. That said, insurers are showing a positive attitude towards clients who are engaged. Buyers need to focus on providing insurers with quality, in-depth information to provide reassurance as to the extent of their risk profile. Clients who can evidence engagement with proactive mitigation of catastrophic claims in an increasingly challenged sector will improve appetite for their risk.

MACRO-ECONOMIC INSURANCE ENVIRONMENT

Christian Wuestner
Head of Content

Inflation slows but geopolitical conflicts dampen the outlook

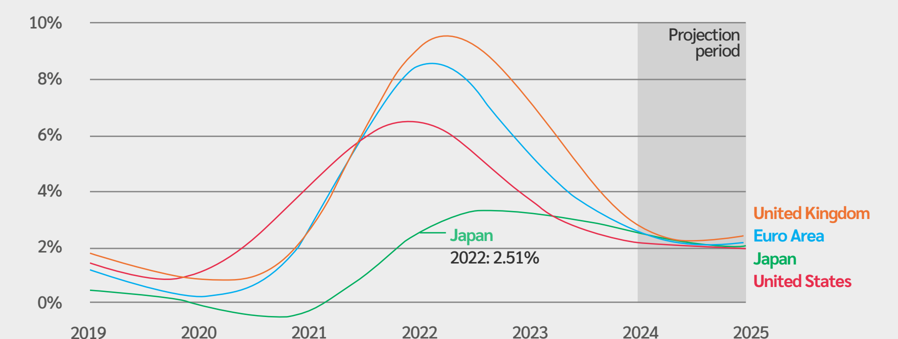
Inflation has fallen during 2023, but some of the factors driving this trend such as energy prices are now dissipating or reversing. Other factors influencing inflation are difficult to predict because they are vulnerable to extreme weather events, for example, or geopolitical conflicts. Inflation is currently a major factor driving interest rates, which in turn affects economic growth.

Geopolitical developments such as the Israel-Gaza war are set to play a dominant role in driving the economic outlook, adding new downside risks that could potentially create energy price shocks. An adverse scenario in which the conflict expands to include major regional oil producers could add 2.4 percentage points to the global inflation forecast, according to Swiss Re.

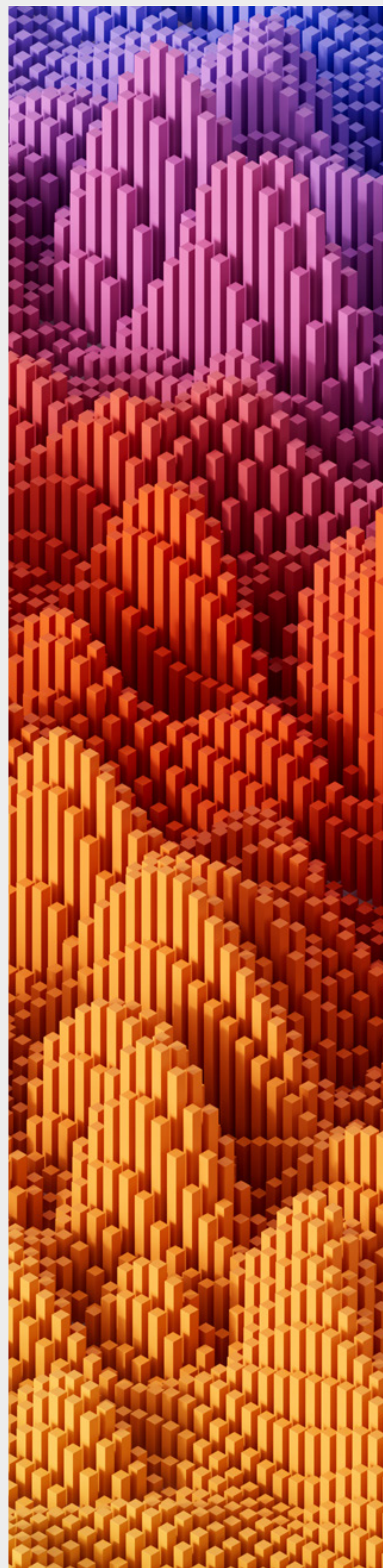
Further, several governments have introduced more assertive industrial policies that are likely to have long-term implications. Some of these initiatives aim to galvanise sectors from semiconductors to clean energy for example. If implemented, these could add structurally to inflation, fiscal deficits and interest rates.

It is, therefore, unclear where global inflation is heading. Currently it is still above target, and unit labour cost growth generally remains above levels compatible with medium-term inflation objectives.

HEADLINE INFLATION (% YEAR-ON YEAR)



Source: OECD

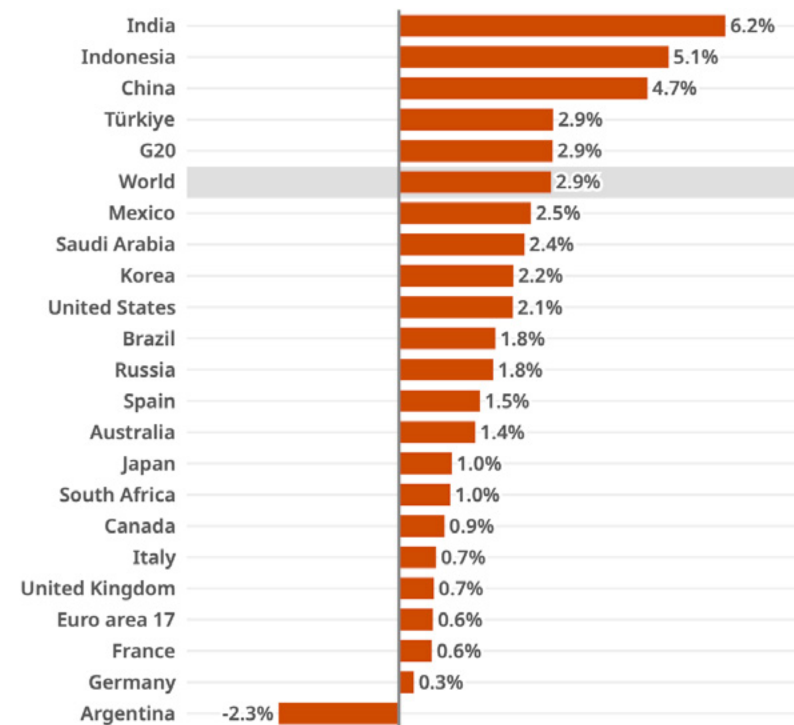


ECONOMIC GROWTH

Global growth is projected to slow to 2.9% in 2024 from an estimated 3.1% in 2023, according to the Organization for Economic Cooperation and Development (OECD).

While there are clear signs of strong near-term momentum in India or Indonesia, growth in Europe remains relatively weak. In most other major economies the expectation is mostly of mild near-term growth.

GDP PROJECTED GROWTH RATES FOR 2024



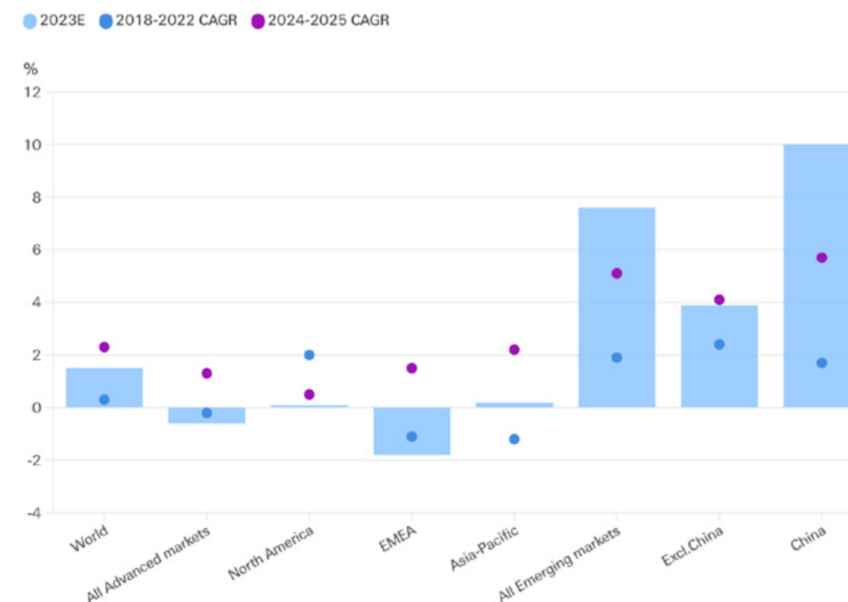
Source: OECD

GLOBAL INSURANCE TRENDS

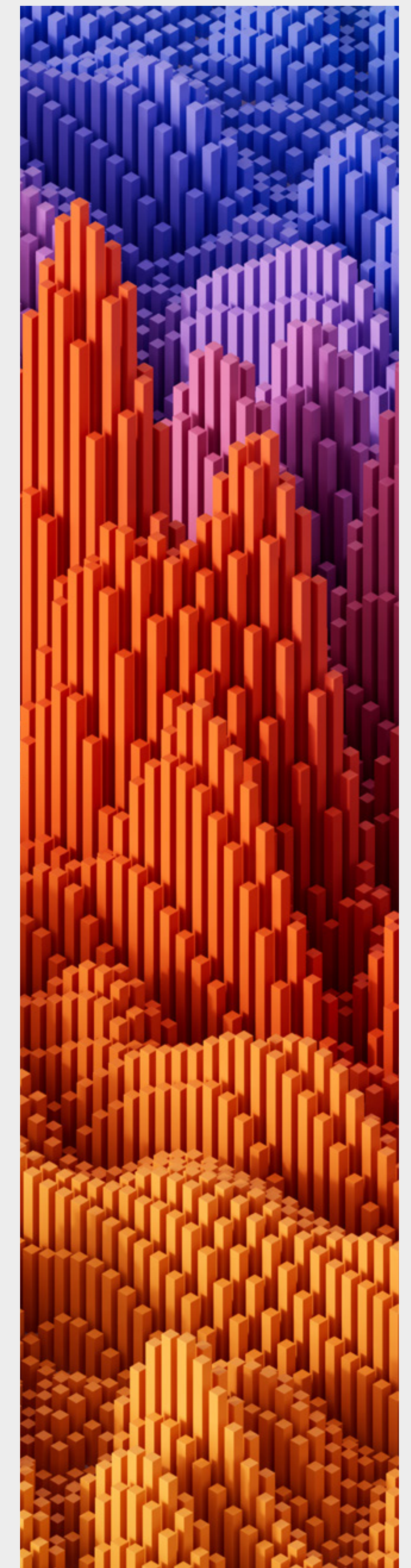
The insurance industry usually grows in tandem with the economy. The slowing economic growth and elevated geopolitical uncertainty is therefore not only affecting the outlook for the global economy but also for the insurance industry. Swiss Re is forecasting total global real premium growth at 2.2% annually on average for 2024 and 2025. This is below the pre-pandemic trend (2018–2019: 2.8%) but higher than the average of the past five years (2018–2022: 1.6%).

However, insurers are key partners to some of the large government initiatives to boost the economy and selected industries. These projects could potentially fuel growth in commercial lines of business from liability to property, engineering, trade credit and surety as these initiatives take shape.

GLOBAL TOTAL INSURANCE PREMIUM REAL GROWTH RATES BY REGION



Source: Swiss Re Institute

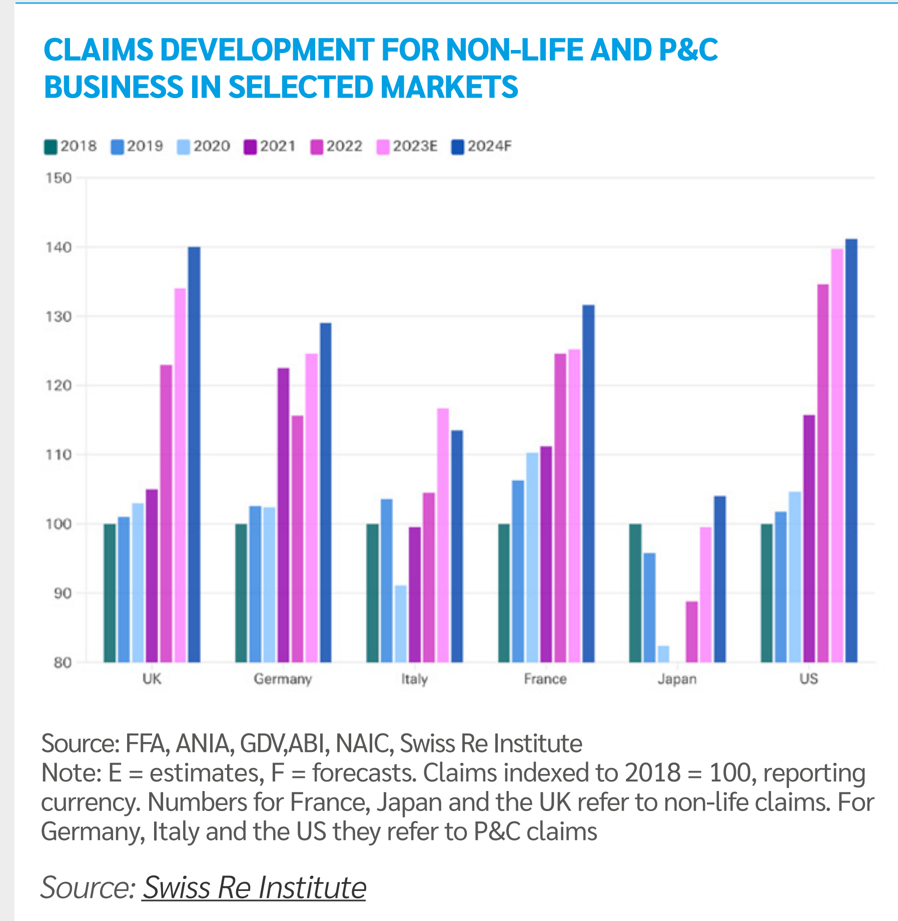


Profitability in the insurance industry is recovering and underwriting gaps are closing. Investment returns are rising due to high interest rates. Nevertheless, Swiss Re does not expect the insurance industry to earn its cost of capital in 2024 or 2025 in major markets. The reinsurer noted that an escalation of the conflict in the Middle East may hurt insurers' capital positions through channels such as inflation and market volatility.

CLAIMS

The property and casualty (P&C) insurance market is facing challenging claims dynamics, with rising frequency and severity of claims despite declines in economic inflation.

CLAIMS DEVELOPMENT FOR NON-LIFE AND P&C BUSINESS IN SELECTED MARKETS



Source: FFA, ANIA, GDV,ABI, NAIC, Swiss Re Institute
Note: E = estimates, F = forecasts. Claims indexed to 2018 = 100, reporting currency. Numbers for France, Japan and the UK refer to non-life claims. For Germany, Italy and the US they refer to P&C claims

Source: Swiss Re Institute

Swiss Re estimates that natural catastrophe insured losses are on track to reach USD 100 billion in 2023, for a fourth consecutive year, and the sixth year since 2017 (inflation-adjusted). The reinsurer also anticipates further hard market conditions for property risks in 2024 at least. For P&C, the estimate is for 3.4% real premium growth globally in 2023, reflecting a significant repricing of risk, especially in claims-impacted lines. The pace of claims growth in the liability line of business is also testing the insurability of those risks.

CONTENTS

1.

PROPERTY

UK

Chesandra Wright

Improving conditions for buyers

The prospect for UK property insurance buyers in 2024 is a far cry from that of 2021 and 2022. During those years, the global inflationary environment was met with increased cost of materials, higher property valuations and, in turn, higher rate increases and increased size of claims. The impact of Covid-19 and the energy crisis on supply chain networks raised questions regarding true business interruption exposure and the threat to business continuity.

Since then, the landscape of the property market has shifted significantly. The gradual improvement of the global economic environment has coincided with increased accuracy of property valuations and reduced estimated timelines for reinstatement and building repairs. Throughout Q3 and Q4 of 2023, average rate increases fell to around 3% in the UK and we expect this declining trend to continue in 2024. So far in Q1 2024, we have noticed an increase in offers for long-term agreements while renewal rate increases seem to hover between flat and 2.5%. New business placements that are well managed are often oversubscribed and feature very competitive pricing as insurers look to expand their risk portfolios.

RISK MANAGEMENT TRENDS

Clients have begun to capitalise on this departure from the hardened market by taking ownership of their risk management programmes. Property insurance buyers are increasingly moving away from the industry standard of having insurers conduct their risk engineering surveys. Instead, they have started to utilise unbundled risk engineering services – appointing third party companies to provide bespoke risk management and transfer solutions, based on the needs of their businesses.

This greater ownership of risk management has driven clients to consider greater self-insured retentions, reflecting the improved risk quality of their businesses. In some cases, major risk clients are exploring the benefits of increased captive retentions to reduce risk transfer costs. Such activity has led insurers to build and expand their alternative risk transfer propositions to support clients seeking to restructure their risk transfer programmes.

NAT CAT RISKS

Natural catastrophe (Nat Cat) risks remain a key area of concern for insurers, who continue to request increased deductibles and higher rate increases in areas that have higher levels of Nat Cat exposure. In 2023, increases in both natural catastrophe claims figures and claims frequency, made facultative and treaty reinsurers more stringent in their terms and placed upward pressure on pricing. As a result, cedant insurers had to retain more of the capacity offered for these perils, which resulted in higher premiums for buyers. While the January 2024 treaty reinsurance renewals were more stable, we expect that the high rates afforded from these perils will still make critical hazard Nat Cat appealing for some opportunistic insurers.

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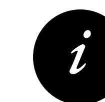

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PROPERTY

NORTH AMERICA

George Moss

A transitioning market

As we head into the busy renewal period of H1 2024 we are starting to see signs of an easing in the rating environment. This is a welcome relief for clients after many years of continual rate increases.

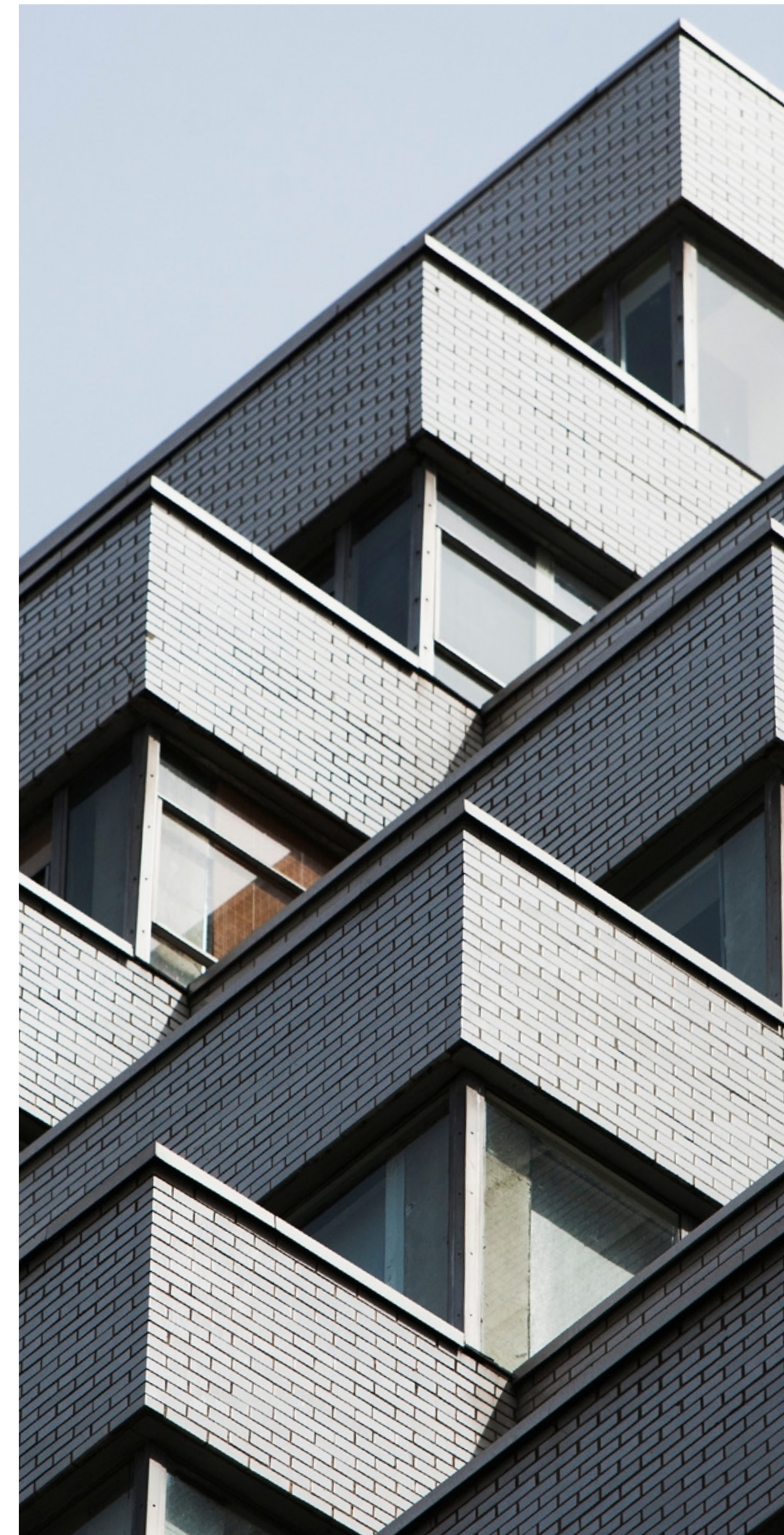
A much more orderly and stable catastrophe (CAT) reinsurance renewal has led to more certainty on available capacity and retentions for carriers. Robust pricing strength and strong 2023 returns have attracted more capital and new entrants to the market, while simultaneously incumbent carriers are looking for ambitious growth targets, which further increases competition.

Although underlying underwriting discipline is still holding strong, marginal overall programme cost reductions are now becoming achievable on some CAT heavy programmes. Clients that saw an influx of opportunistically priced capacity onto their programme in last year's hard market conditions may now be able to replace it. Opportunities are opening as longer-term markets are keen to increase their market share and new markets are taking a fresh look with less restraint on deploying new aggregate.

"SECONDARY" PERILS

Despite the tailwinds, underwriters are still facing a number of challenges. Perils which have historically been labelled as "secondary" have come to the forefront in recent years.

Insured losses from severe convective storms (SCS) have exceeded USD50bn in 2023 for the first time, according to Swiss Re. These losses were largely retained below reinsurance recoveries. As a result, the focus on adequate retentions is holding strong, particularly on newer prominent perils such as winter freeze losses which continue to affect various clients across a number of sectors.



ELECTIONS

Furthermore, on the topic of terms and conditions, US elections in the latter part of 2024 are also focusing underwriter's minds on potential strike, riot and civil commotion (SRCC) incidents, particularly on retail business. Some treaty renewals continued to introduce restrictions specifically around this coverage and a few markets are looking to exclude these perils as a result. There is a strong political violence market in London where the coverage can be bought on a standalone basis if required by the client. We are working collaboratively with our Crisis Management team to make this a seamless process.

INFLATION

Replacement cost valuations remain a hot topic for underwriters with continued scrutiny of methodologies used by clients to arrive at their declared values. Despite US inflation rates slowing throughout the last 6 months, persistent challenges with undervaluation during 2023 have maintained underwriters' focus in this area. As a result, underwriters are expanding the variety of tools they use to ascertain the validity of clients' valuations. Many underwriters are, for example, creating their own internal tools/metrics to help verify the data presented by clients. Further, continued uptrends in some wider industry publications continue to put pressure on this aspect of the property insurance market.

A BIFURCATED MARKET

Overall, challenged occupancies and heavy critical catastrophe exposed accounts remain difficult to place. A bifurcated market is still evident; competition for preferred risks is increasing and underwriters' willingness to allow volatility to rise remains low. These dynamics continue to push programmes towards a "shared & layered" approach to leverage the global marketplace and ensure programmes are filled out at the most competitive available terms.

The impact of RMS Version 23 and the impending increase in many modelled loss scenarios has not been fully adopted and embedded across the market at this point. This will potentially temper the deployable capacity that new capital will unlock as well as moderate any potential softening of rates.

We have seen many clients increase participation on their programmes in the last 24 months. Market conditions have driven increased retentions, alternative risk transfer strategies and wider captive involvements. We expect this to continue, particularly as clients have become more comfortable in taking risk onto their balance sheets.

RECOMMENDATIONS

Insurance buyers need to focus on providing quality information well in advance of the renewal date of their programme. The methodology used to declare renewal values remains vital to provide comfort to underwriters and to ensure they put the best foot forward from the offset, as well as avoiding restrictive valuation clauses on policies. Business interruption worksheets are also being scrutinised more by underwriters and property insurance buyers are expected to keep up to date with engineering recommendations.

Insurers have generally shown a positive attitude towards clients who are engaged and who view their property insurance programme as a partnership. Providing renewal information with as much lead time as possible is crucial to achieve the best renewal outcome. This will allow placement teams to find creative solutions and to leverage the increased market appetite.

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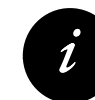

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PROPERTY
INTERNATIONAL

Roland Haiser

Improving conditions for buyers

As the market gets back to profitability, insurers' appetite for property risks is returning. This is creating a better environment for insurance buyers.

2023 LOSS TRENDS

Despite the absence of major insured earthquakes, floods or windstorms, 2023 was yet another high loss year for insurers. Insured global losses reached USD 95bn in the last year, according to Munich Re. This was close to the five-year average (US$ 105bn) and above the ten-year average (US$ 90bn). The year was dominated by severe convective storms (SCS) such as hail and thunderstorms, accounting for USD 58bn. This does reflect scientists' expectations as they predict that climate change favours the occurrence of SCS storms, and 2023 was the hottest year on record.

2024 REINSURANCE TRENDS

January 2024 Treaty Renewals were relatively calmer and orderly compared to 2023. Treaty reinsurers largely succeeded in holding firm on elevated attachment points and retentions remain high to offset exposures. Limits have also been imposed around SCS to control market aggregation. This is feeding down to primary markets.

Nevertheless, profitability has returned to the London & International Market following 6 years of rate adjustments, supported by a low critical primary catastrophe loss environment. There are signs of a swing in the supply/ demand equation emerging.

MARKET CAPACITY

Capital generally remains constant with limited signs of significant new capacity entering the market. Early supply/ demand dynamics are starting to ease with clients securing

sufficient limits to complete programmes and replace opportunistic capacity. Increased underwriting appetite and budgets are leading to improved competition.

Unlike the tail end of previous hard market cycles, insurers are maintaining underwriting discipline due largely to the lack of 'new entrants' in this space and minimal startup activity. Incumbent carriers, however, are setting aggressive growth targets.

Nevertheless, markets continue to focus on key critical catastrophe exposures and management of aggregate limits. Risk selection remains a key focus. Occupancies such as metals, mining and power are particularly challenging. For these risks, underwriters are insisting on applying capacity restrictions and applying key sublimits (e.g. tailing storage facilities).

TERMS AND CONDITIONS

- Pressure on value updates is relenting as inflationary pressures ease and clients have responded to past information requests
- Reinsurers continue to hold firm on both wordings and general terms and conditions with exclusions around communicable diseases, cyber and strikes, riots and civil commotion (SRCC)
- Pressure on underlying deductibles is now starting to ease as attritional losses decline

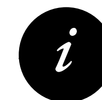
PRICING

As market profitability returns and buyer fatigue is acknowledged, price increases in the International Direct & Facultative Property Market are starting to slow from single digit to low single digit rate increases and, in some cases, flat renewals for clean accounts.

Pricing is more stable around high catastrophe exposed accounts. Loss hit accounts are still seeing more significant increases. Where possible, opportunistic capacity is now being replaced by more competitive carriers leading to a more positive pricing environment. Despite a heightened loss activity, and assuming no significant market events, the pricing outlook remains stable with further downward pressure expected later in the year.

RECOMMENDATIONS

- Start the renewal process early as this is vital to obtain the most competitive terms
- Professional, concise submissions are increasingly important to differentiate your risk
- Engage actively with re/insurers
- Place more emphasis on modelling, including post/zip codes and longitude/latitude data, as well as full construction details
- Review current structure and potential advantages of redesigning programmes
- Focus on information and proactivity around environmental, social and governance (ESG) issues



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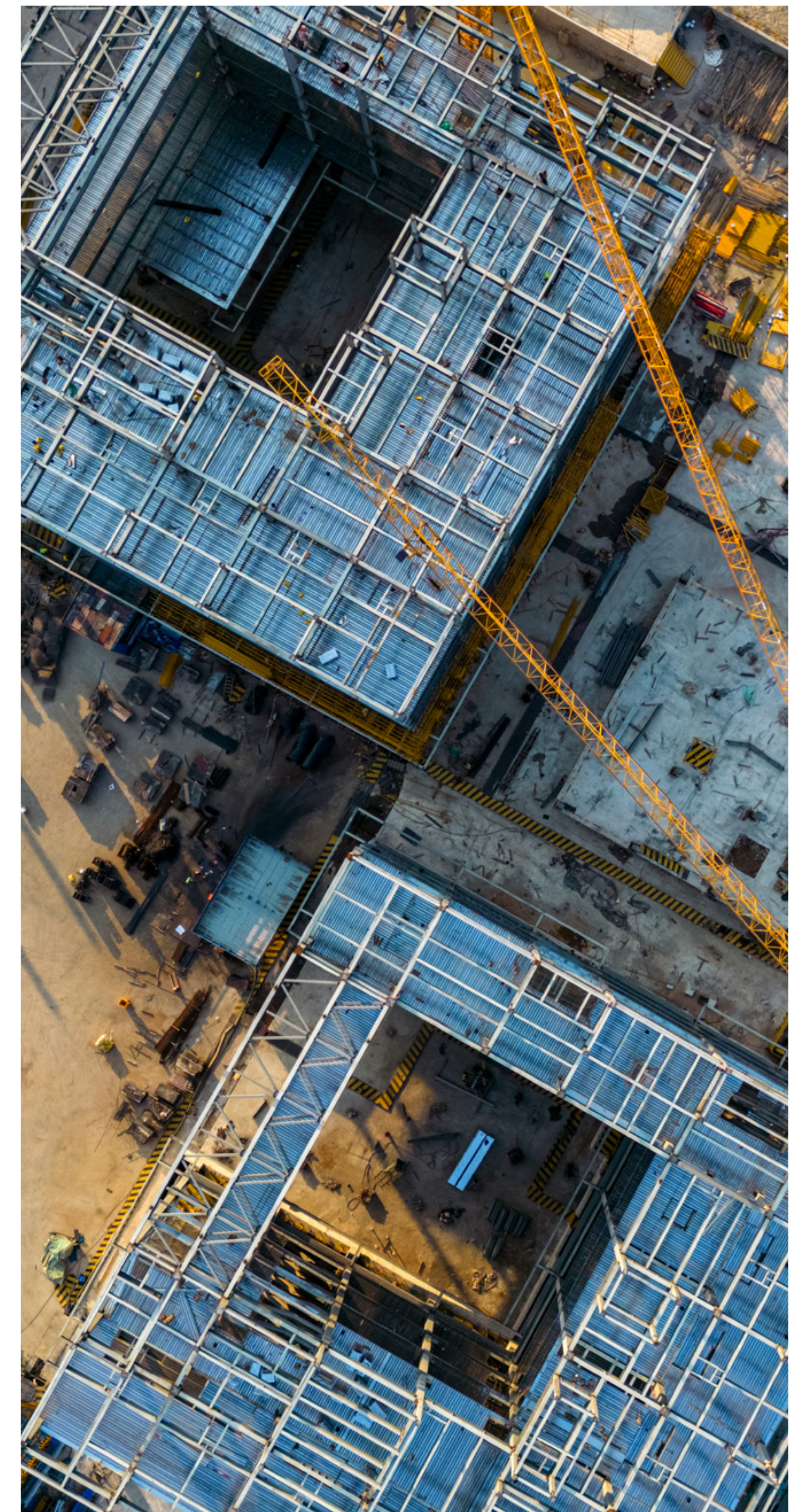


2. CASUALTY

UK

Kate Underwood

Aemilia Guest

A competitive marketplace, but cover narrows to counteract generous rates

A competitive casualty market is keeping positive rate change at bay in the first quarter of 2024. As year-on-year rate variance remains favourable for buyers, fresh capacity combined with ambitious market growth targets is putting clients with well managed risks and strong loss experiences at the heart of competition.

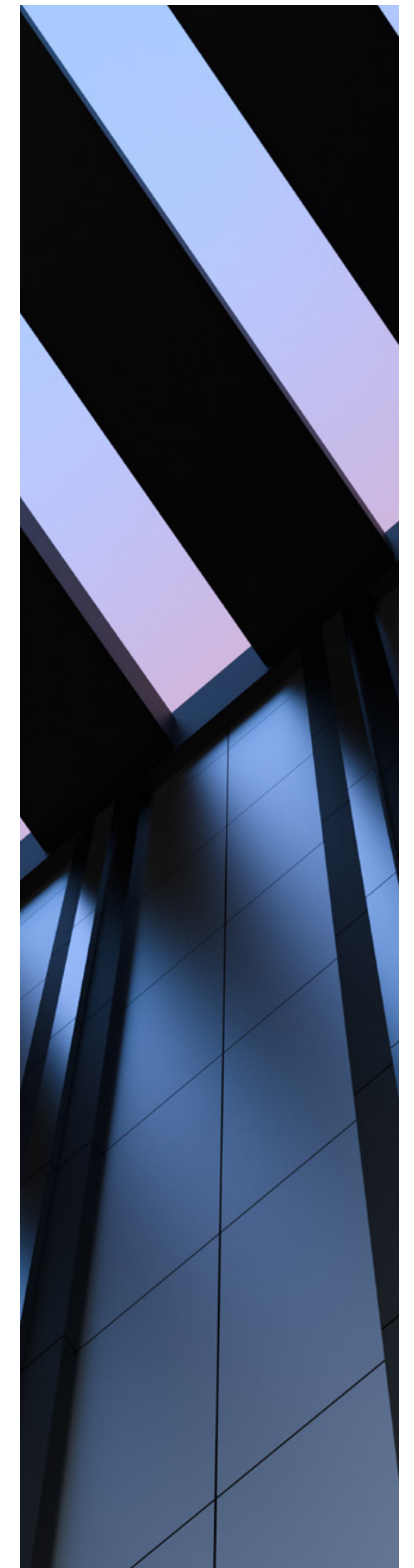
Conversely, carriers look to narrow cover to counteract generous rating, and the legislative US landscape continues to influence UK and European courts. Markets are continuing to push rates upwards in areas they perceive as high risk, including but not limited to healthcare & pharma, heavy consumer products or businesses with significant US and auto exposures.

COVERAGE/EMERGING RISKS

US auto – As US auto claims increase in both frequency and severity, and losses spill into umbrella and master programmes, the London Market is reacting. Appetite is continuously narrowing for heavy US fleet exposures despite rising attachment points from $1m to $5-$10m over the last 18 months. In light of this, underwriters are placing heightened emphasis on the quality of risk management information. Management metrics such as telematics and cameras within vehicles are critical to the defensibility of claims. Clients who can evidence engagement with proactive mitigation of catastrophic claims in an increasingly challenged sector will improve appetite for their risk.

Punitive damage wrap policies –There has been a recent decline in the availability of punitive damage wrap cover in the market following the contraction of available capacity from some carriers who have reduced their max capacity from USD50m-USD25m. Punitive damages are intended to punish an organisation for an action where they are deemed to have acted negligently and therefore are legally liable to pay compensation. They are awarded when the compensation element of the claim, in the eyes of the court, is insufficient punishment for the negligent business. Punitive damages are therefore intended to increase the cost to the negligent party to prevent a similar loss from reoccurring. A punitive damage wrap policy is a separate standalone policy commonly issued out of Bermuda or London that 'wraps' a specific liability policy in order to provide insurance cover for the punitive damages where these are not permitted by US State law under the specific liability policy. Clients who purchase this cover should be aware that as a result of this capacity reduction, programmes may have to be restructured and it is advisable that the renewal process is started as early as possible to enable alternative solutions to be sought.

Class actions – The last few months have seen a continued rise in the volume of class actions filed across the US. 2023 saw 189 class actions filed in the US, a 13% increase on the prior year. A total of USD4.4B have been paid out in settlements, the highest sum over a 12-month period in a decade, according to Woodruff Sawyer. This reflects the continued impact of the volatile judicial landscape across the US, with industries such as technology and manufacturing targeted continually by plaintiff lawyers.



TOP FIVE INDUSTRIES SUED

2022		2023	
Technology	33%	Technology	33%
Biotechnology	15%	Manufacturing	19%
Manufacturing	13%	Biotechnology	14%
Services	13%	Financial	13%
Trade/Retail	12%	Services	9%

Source: Woodruff Sawyer

It is worth noting that whilst case numbers are increasing, courts are still heavily reliant on satisfying the fundamental principles of negligence-based liability. Recent pharmaceutical related cases have been unsuccessful on the basis that negligence does not extend to increased risk of harm, and notable lack of manifested bodily injury means there is no compensable risk.

This attitude is anticipated to spill over into UK courts in the coming years with an exponential increase in the volume of collective proceedings expected. Considering this, we are already seeing the emergence of opt-out representative suits brought in UK courts. Whilst differential in their approach to class action litigation, both represent the infiltration of US judicial attitudes into the UK legal system.

RATES AND CAPACITY

Despite inflationary pressures, rates are increasingly competitive in the UK general liability (GL) and employers' liability (EL) market, particularly for clients with good loss records and well risk-managed risks. Insurers have large growth targets which is pushing pricing and appetite. As such, flat rate long term agreements (LTAs) have now returned to the market and rate reductions are beginning to be achieved, particularly in instances where a remarketing exercise is undertaken.

Despite this, on an individual carrier basis we are continuing to see a reduction in capacity deployed. Insurers across the market are reducing total capacity on any one risk from a maximum of £75m+ to £25m - £50m and are seeking increased ventilation if participating across numerous programme layers.

This contraction of capacity is likely in response to concerns around social inflation and the rise of nuclear verdicts in the US which is driving nervousness in the London market. For clients with significant US exposures (particularly in heavy trade sectors and those with significant auto or large pharma exposure) we can expect this restriction in capacity to deteriorate further in conjunction with a continued push for rate increases. This sits in contrast with the otherwise softening rate landscape.

Excess of loss renewals attract slight rate increases, stemming from years of very low rates and a continued need to push premiums to a sustainable level. Similarly to primary layers, if there are significant US exposures markets are pushing for larger increases.

RECOMMENDATIONS

Provide detailed risk management information: Where exposures are more volatile, such as a heavy US presence or a significant accumulation of public liability exposure, clients should look to share greater specifics around their risk management. Carriers require greater emphasis on lessons learnt from large losses and proactive mitigation of emerging risks. Examples of this include telematics information on heavy US Auto risks, safeguarding procedures, environmental, social, and governance (ESG) policies, contract risk management and detailed evacuation procedures for hospitality risks.

Consider the stability of long-term agreements: In a competitive marketplace, carriers look to differentiate themselves from their peers in offering flat rates and aggressive loss ratio break clauses. Locking into an LTA provides budgeting certainty and aids in the building of strong long-standing carrier-client relationships.

Utilise analytical tools: Clients should work with their brokers to utilise Lockton's analytical style of broking and 'economic cost of risk' modelling. The market continues to look favourably on those clients who are willing to take on more of their risk and determining optimum risk appetite is key in establishing a successful programme.

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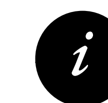

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CASUALTY

US

Declan Durkan

Capacity stabilises but some sectors remain challenging

Capacity in the London Market has stabilised over the past months and this trend is expected to continue at least over the first half of the year. Rate increases generally remain at the mid-high single digit level with well performing industries seeing some softening.

Markets such as CV Starr and Argo have effectively closed their London casualty books with underwriting reverting to the US and Bermuda respectively for existing business.

Challenging placements for the upcoming year will continue in industry classes such as transportation, with trucking in particular being extremely difficult. Accounts with large auto fleets are also being scrutinised by underwriters due to concerns regarding large settlements and increasing verdicts. New York construction capacity continues to be limited. Rail accounts have also come under increasing scrutiny following the East Palestine derailment in 2023 that had environmental implications due to hazardous material freight.

Demand for alternative risk transfer solutions has increased with London providing capacity to replace domestic insurer appetite changes, most notably Chubb in the trucking space.

Social inflation, third party ligation funding and 'nuclear verdicts' are expected to put pressure on rates as the year progresses. Settlements are still trending up and we expect to see more of the same over the next 12 months.

Challenging placements for the upcoming year will continue in industry classes such as transportation, with trucking in particular being extremely difficult.

BERMUDA

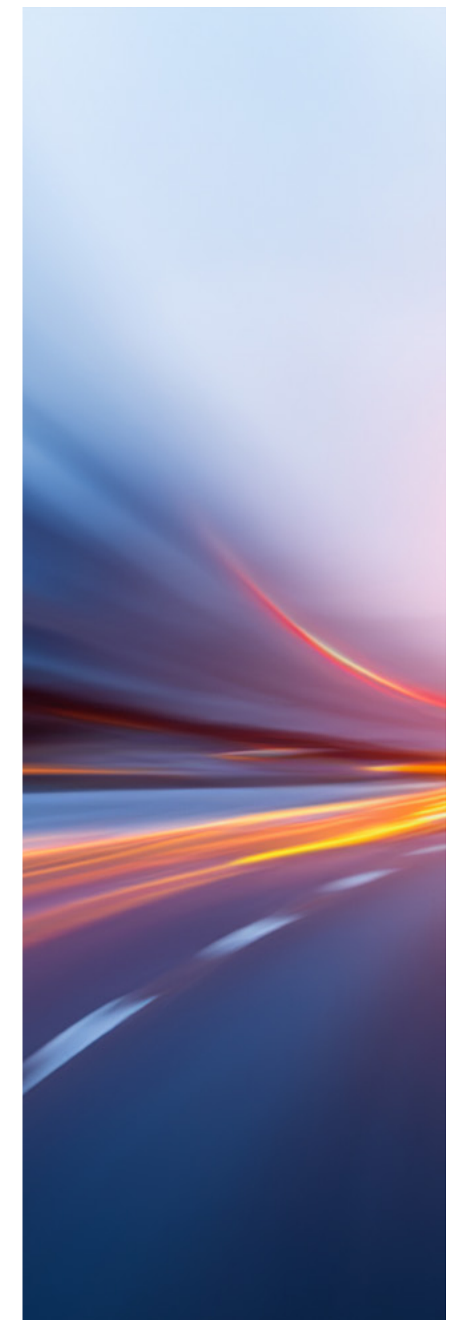
The market in Bermuda has, like London, stabilised during 2023 and continues to be a vibrant provider of excess capacity with 17 markets now providing direct casualty capacity. Rate increases are in line with London, although this varies depending on class of business and loss experience.

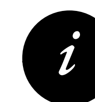
Continuing deterioration in loss trends, driven by social inflation and 'nuclear' verdicts, has resulted in some carriers withdrawing from certain classes such as transportation. This sector is under real stress and insurers are keeping a watching brief with a cautious approach to new business and renewals. Carriers continue to manage severity by reducing capacity, with $5M (or lower) on low attachment points, often "ventilating" layers and placing any additional capacity higher up towers. Quota share arrangements are the norm, especially at lower attachment points.

New capacity has entered the market, with managing general agent (MGA) Helix utilising additional Lancashire capacity below $50m attachment point. Realm underwriting is selectively writing excess casualty and the Pat Kenahan (formerly Ascot and AWAC) led new MGA vehicle, First Specialty, commencing underwriting in March 2024.

LOSS TRENDS

The fourth quarter 2023 reporting season has been marked by a series of negative announcements relating to casualty reserving, with several carriers addressing adverse development between years 2016–2020 and even prior. This, combined with the social trends previously mentioned, will keep the market firm for the foreseeable future.





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CASUALTY

INTERNATIONAL

Calum Draper

Insurers' appetite for risk is growing

Following a benign 2023, international casualty insurers are seeking to grow their portfolios. This is set to lead to increased competition which should benefit buyers.

2023 was a positive year for the London international casualty market, with underwriters having selectively pushed for rating increases especially in cases of adverse prior year loss developments. In the absence of firm data yet to be released by Lloyd's, anecdotally multiple carriers noted positive combined operating ratio (COR) results in the late 80%s to early 90%s. January 2024 renewals mark a new financial year for carriers, and with the absence of any material treaty changes, many underwriting teams have strong growth targets for the year.

We are still seeing slight rate increases on primary business as carriers seek to compensate for claims inflation. However, the local Canadian market has quickly become more competitive and London brokers and carriers are fighting to retain business each renewal. For these risks, we are often seeing significant rate reductions.

A major aspect drawing clients to the London Market is the breadth of wordings we can offer and the coverages we are able to provide, including Incidental Medical Malpractice, Professional Indemnity and Care, Custody and Control sub-limits. The London Market also offers opportunities to streamline administrative costs for both brokers and underwriters. Demand is quickly growing for Abuse/Sexual Molestation Liability coverage, with interest particularly strong from Australia and Canada. This is a highly specialised solution for which there is deep expertise and underwriting appetite in the market. Clients also appreciate the advantageous renewal outcomes that ensure stability by signing multi-year arrangements that provide long-term pricing fixes.

Competition is rising, not only due to new entrants but also because Lloyd's and company carriers are eager to grow their portfolios. This is reflected in a heightened hiring activity. Sompo has hired a whole new team of underwriters in Q3 2023, potentially turning into one of the largest wholesale carriers in London. Markel, having recently established a casualty practice in London, has set ambitious targets for the business and has hired several senior underwriters, most recently James Murray, previously Class Underwriter at AXA XL. Hiscox, already a significant US casualty player, has entered the international sphere by hiring Matt Hunt with a focus on construction business. Non-Lloyd's players like Convex also continue to grow, highlighted by the hire of Sophie Elwood from Convex.

MINING/POLLUTION

In the mining world, new carriers have entered Canada offering pollution coverage. Insurers have been neglecting this area in the past 5 years following significant losses. Lockton London's environmental impairment liability offering will come into play here, enabling clients to purchase a top up of bronze, silver and gold pollution insurance which is typically broader and more specialist than the coverage afforded by a standard commercial general liability policy.

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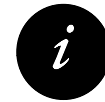

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3.

FINANCIAL INSTITUTIONS

UK

Laura Skaanild

Competitive premiums continue with great opportunities still available

Availability of capacity in the market continues to drive competition across all lines of financial institutions (FI) business. While macroeconomic and geopolitical conditions are very challenging and there is concern for what may be on the horizon (including from a regulatory perspective with the various incoming changes), premiums remain very competitive. Certainly, for those with favourable risk profiles, there is the opportunity to capitalise on what, on the face of it, appears to be some very attractive pricing, coupled with enhanced contractual terms. For those clients with more challenging risk profiles and legacy claims issues, this is the time to undertake a full remarketing exercise and reset the baseline.

While at the end of 2023 we saw some particularly opportunistic pricing, as underwriters are moving towards the end of their financial year, we're starting to see some moderation in rate reductions in H1 of 2024. However, we expect the current buyer friendly conditions to continue in the near to mid-term and likely for the remainder of 2024.

On like for like renewals, with incumbent insurers, we are seeing rates range from minus 5% to approximately minus 15% for asset managers, and flat to minus 10% for private equity and venture capital, corporate service providers, wealth managers and corporate finance firms. Where strategic restructuring of the programme is undertaken and/or new insurer partners introduced, premium reductions can be much more significant. We have seen reductions reach as much as 30 to 35%.

For other sectors, such as banks and insurance companies, we are still seeing favourable terms, but premiums and coverage are reflecting loss experience and incoming regulations. We are successfully negotiating retentions as expiry or lower and routinely achieving additional coverage wins, as markets continue to seek to outperform the competition. We have taken the opportunity to enhance our product offering to expand our extremely broad proprietary wording even further.

While those sectors that typically perform very well from a claims perspective (for example, long only asset managers) continue to have a lot of appeal from a risk profile perspective, the particularly low premiums mean that we are seeing insurers have more appetite for risks with a typically more challenging profile e.g. corporate service providers and wealth managers, crypto and fintech. Some markets are viewing such risks as a means of achieving a better rate and ones where they can be more competitive.

While it is great to have a broader range of options for clients and to be able to achieve very appealing pricing, the environment does necessitate a considered dialogue regarding price, quality, stability. With the current economic conditions, we are seeing clients who haven't historically been price buyers needing to be much more price focused and therefore some are starting to consider dispensing with historic insurer relationships to make meaningful savings.

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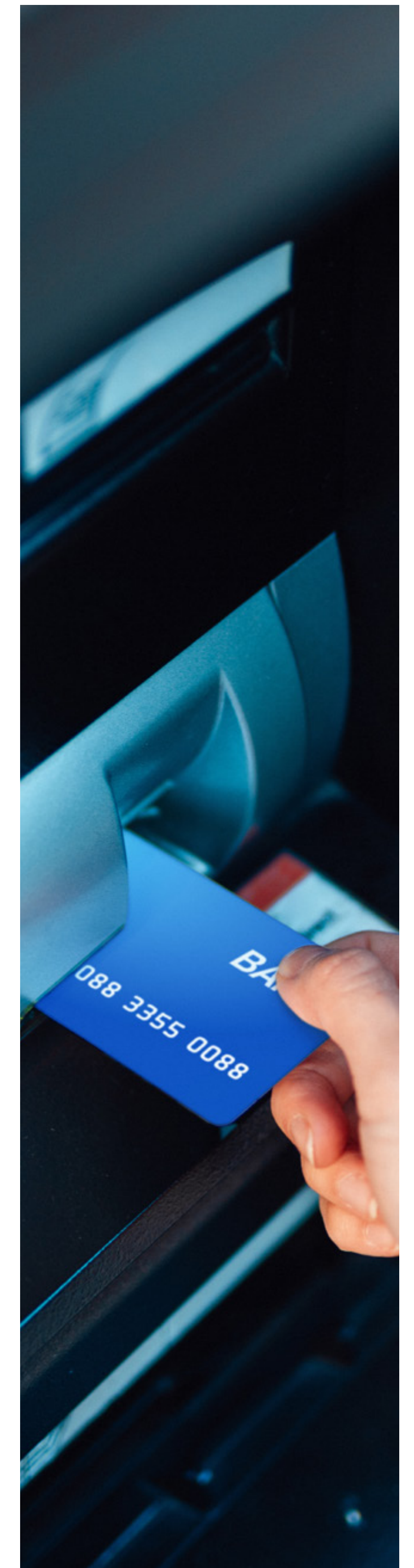


In such cases we carefully work through pros and cons, including length of the relationship, support during harder market cycles, any open claims notifications plus premium 'banked' to date (the latter being helpful commercially, should there be a claim which is not clear cut from a coverage perspective). A further important point is the extent to which those insurers which are now demonstrating increased appetite for a sector will continue to support it when the market cycle starts to firm.

These are all things to consider carefully when presented with terms that may be particularly interesting from a pricing perspective; we enjoy helping clients navigate the issues to achieve the optimum balance for their particular business.

REAL ESTATE ASSET MANAGERS

The investment segment of real estate is facing mixed sentiment recently. Inflationary and subsequent interest rate pressures have seen high profile covenant breaches, whilst in the same breath, caused an abundance of dry powder to enter the private credit markets - owing to the attractive returns in this space. Historically safe-haven assets such as office space has also faced challenges in a post-COVID world, with lease breaks/ non-renewing lessees causing occupancy issues. Despite these types of challenges, insurers remain eager to write real estate business. Greater focus on the management of assets, counterparty credit risk, use of leverage/re-financing, valuation validation (i.e. via third parties) and potential consolidation (i.e. M&A activity) are key to ensuring competitive terms and conditions from the market.

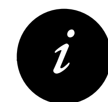
FINTECH UPDATE

The fintech subsector remains an underserved segment of the wider financial institutions market and the disparity remains between the markets serving traditional 'FI's and those also servicing fintech's. Primary layer cover remains concentrated with same group of insurers offering the fintech package of covers to the SME segment of the market. That being said, with the softening market conditions and improving market knowledge, we are seeing growing interest from insurers previously reluctant to engage. This is particularly noticeable in the digital asset space with established Specie insurers entering the market.

While there is still a cautious approach from insurers with extensive submissions required to obtain terms, time engaging with insurers is well spent in terms of developing their understanding of particular clients. As a broker focusing

on the space, coaching clients and underwriters through the nuances of a particular risk and building a positive risk profile, helping underwriters understand risk mitigants is key and can make a real difference to the results achieved.

The evolving nature of the space requires constant updating of the questions being asked of firms, whether this be around ESG policies, use of blockchain technologies, or how firms are utilising their AI and machine learning systems to better support their client base. Further regulatory change is expected with the European Commission announcing in 2023 a new regularly framework for open finance (FIDA) as well as providing details around the new Payment Services Directive (PSD3), both centring around the facilitation of data driven business models with customers protection placed at their centre. This will mean fintech firms will need to assess their cover to ensure the changing regulatory environment does not leave them exposed, particularly around limit size and breadth of cyber coverage.



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FINANCIAL INSTITUTIONS

SPECIALTY

Liam Hegarty

Insurers intensify efforts to secure new business

Despite an uncertain economic outlook, insurers have a robust appetite for risks in the financial sector.

Global financial institutions have enjoyed a period of price stability in a bustling London Market over the past 12 to 24 months and the available capacity is at its highest level in several years. Insurers currently have a robust appetite for risk in this sector and new capacity is entering the market, boosting competition, and creating attractive opportunities for insurance buyers.

Insurers are intensifying efforts to secure new business opportunities while also ensuring the retention of existing portfolios. Companies maintaining a consistent risk profile may benefit from reductions in premiums, while those embracing growth or enhancing risk management practices could unlock further savings. Even if the business has recently filed a claim, proactive renewal preparations coupled with clear explanations and evidence of effective risk mitigation measures can lead to favourable outcomes. In this upbeat environment we encourage policyholders to make the most of market competition and secure the best deal.

Insurers' buoyancy is set against an uncertain economic outlook, including concerns about inflation, interest rates, and geopolitical tensions. Regional economic conditions in some parts of the world, such as slowing growth in major economies or disruptions in global trade, can have ripple effects on financial institutions. This can result in restricted access to capital or tightened lending conditions. Consequently, insurers are monitoring some classes more carefully, including special purpose acquisition companies (SPACs/De-SPAC), real estate investment firms, and private equity. This is due to suppressed deal flows, valuation concerns and exit challenges influencing investor sentiment. Insurers will still be able to offer competitive terms in these areas, but their growth plans are likely to focus on financial technology (FinTech), insurance companies, and alternative asset management firms offering diversified investments.

Below is a summary of the information and actions required to achieve the best outcome at renewals:

PREPARE THOROUGHLY:

- Current insurance policies, including coverage limits, deductibles, and exclusions.
- Comprehensive overview of business operations, including industry sector, size, geographical locations, and revenue streams. Changes in business operations, assets, and risk exposures since the last renewal.
- Loss data, claims history, and other relevant information to assess previous claims and loss trends. Investments made in loss prevention technologies or initiatives aimed at reducing future losses.
- Identification of emerging risks, industry trends, and regulatory developments that may impact the business' insurance needs.

MARKET ANALYSIS AND BENCHMARKING:

- Analysis of insurance market conditions, including pricing trends, capacity availability, and insurer appetite.
- Benchmarking of insurance programmes against industry peers and competitors to assess competitiveness and identify opportunities for improvement.
- Clear business objectives and priorities for renewal negotiations, such as securing competitive pricing, enhancing coverage, or improving policy terms. Target benchmarks and desired outcomes to guide negotiations.
- Engagement with a wide selection of insurers, both incumbent and new. Different insurers have unique expertise, resources, and capabilities, and clients can tap into specialised knowledge and industry insights that may not be available from their current insurer(s).

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4.

CYBER

Charles Emkes

Favourable conditions for buyers

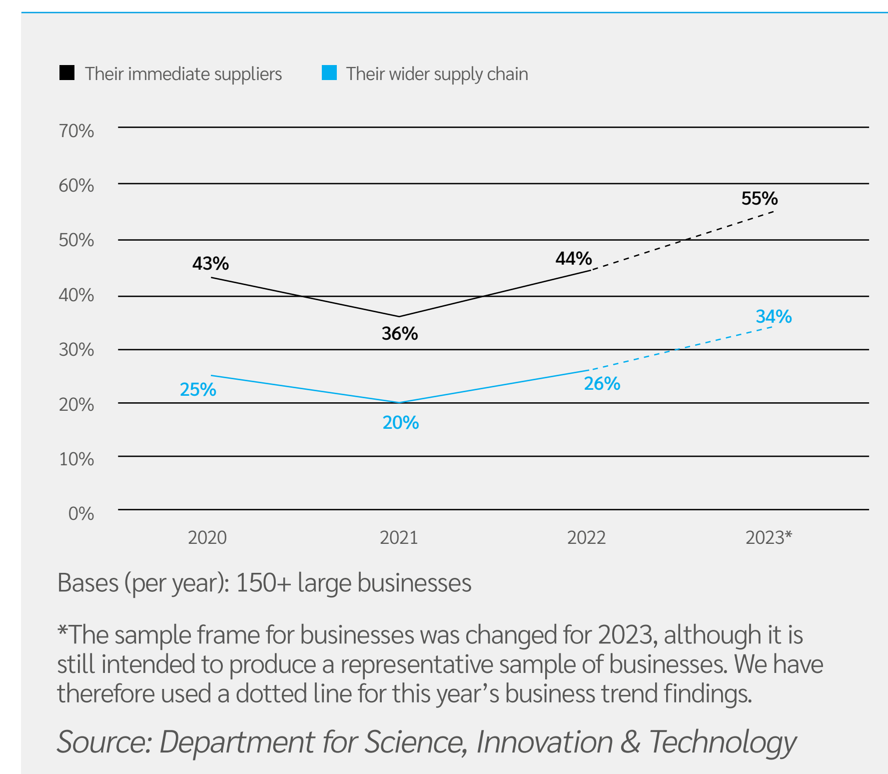
Market conditions for cyber insurance buyers has been improving due to an increase in available capacity. However, claims are also on the rise driven by AI, deepfake technology, and growing concerns over cyber related property damage.

MARKET CONDITIONS

As more insurers and reinsurers are starting to offer cyber cover, market capacity and capabilities are growing at a rapid pace. Stronger competition is causing premium decreases for insurance buyers with evidence of robust or significantly improving cybersecurity controls and procedures. Insureds are currently often able to increase their indemnity limits at renewal back to a more suitable level for their exposure, however, claims notifications are rising as criminals use new and emerging tools such as deepfake technology, AI and machine learning algorithms to breach cybersecurity defences.

Meanwhile, demand for cyber cover is rising as businesses are increasingly aware that strengthening their own cybersecurity controls are no longer offering sufficient protection. Concerns are growing around inherent risks such as supply chain disruption caused by a cyber breach at a supplier or a third-party software provider.

This concern is confirmed by the UK statistics from the Department for Science, Innovation & Technology. The chart shows the increase in the percentage of large businesses that have recognised the potential cyber security risks posed by their immediate suppliers or the wider supply chain.



Bases (per year): 150+ large businesses

*The sample frame for businesses was changed for 2023, although it is still intended to produce a representative sample of businesses. We have therefore used a dotted line for this year's business trend findings.

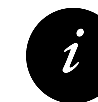
Source: Department for Science, Innovation & Technology

This also highlights the growing concern that companies face as cybersecurity is a board level strategic priority. This is reflected in the growing number of boards that have at least one individual with relevant expertise.

Demand for insurance covering property damage as a result of a cyber-attack is also growing. This is particularly the case in the energy and real estate sectors following growing geopolitical instability. As the deployment of the Internet of Things (IoT) and spatial computing increases, businesses need to pay more attention to operational technology systems and the disruption they may cause.

PREPARE FOR AN UNCERTAIN FUTURE

Despite overall positive conditions for purchasing cyber insurance, we strongly recommend that businesses continue to invest in cyber security, maturity and robust insurance. This should help securing favourable policy conditions at renewals and ensure preparedness for potential future market volatility.



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5.

TRANSACTIONAL RISKS

UK

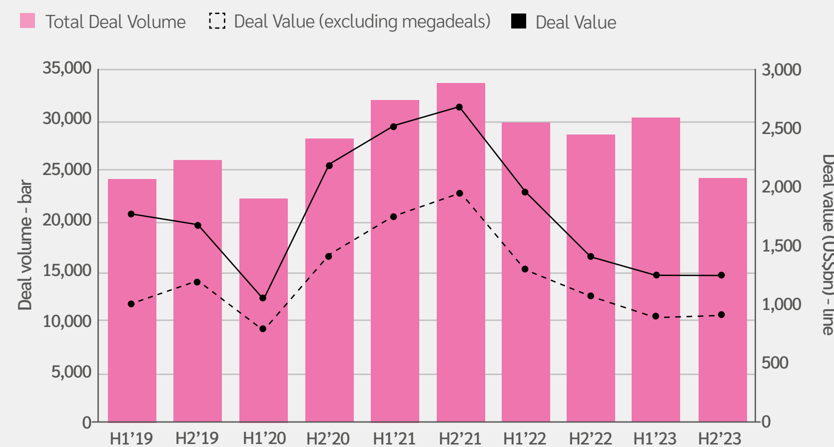
Harry Blakelock

Capacity remains strong despite increasing loss ratios

Mergers and acquisitions (M&A) insurers are experiencing increasing loss ratios. Nevertheless, margins remain healthy, and capacity is at record levels.

The M&A landscape over the past 18 months has been one of a lack of predictability, with material drop offs in submission deal volumes leading to a softening of the M&A insurance market. M&A volumes and values declined by 6% and 25% respectively in 2023 compared to the prior year, according to PwC. The underlying sentiment is that this is just a blip with the fundamentals to trade remaining sound.

DEAL VOLUMES AND VALUES, 2019-2023 (GLOBAL)

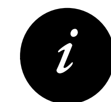


Source: PwC

As the M&A insurance market looks for green shoots, we have seen growth in emerging market territories where insurers find attractive premium rate levels and the market is less saturated. Renewable energy is also an area where there is increasing need for W&I protection due to its growth trajectory and consequent M&A activity.

Despite the depressed M&A activity, insurers and reinsurers remain attracted to this product line. There is plenty of talk that this will change with loss ratios increasing and a slight rebalance of the books resulting in a hardening of rates. However, as it currently stands, we have more capacity than we have ever had in the market and insurers are eager to write deals. To do so, insurers are having to differentiate themselves from competition through lower rates, broader cover, and an increasingly streamlined underwriting processes, benefitting insurance buyers.

To better serve the market needs, we have created new product offerings to complement our existing warranty and indemnity (W&I) and tax product lines. We have also launched an intellectual property and contingent risk offering. Given the current state of the marketplace we are pushing insurers on coverage and negotiating terms under policies that previously were unobtainable.



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6. MANAGEMENT LIABILITY

Mike Lea

Market softens despite macroeconomic concerns

The directors' and officers' (D&O) liability insurance market has been softening for the last three years, fuelled by additional capacity from new entrants and excess insurers. Competition over premium and clients has led to insurers considering deploying their capacity at lower attachment points in programmes. This has started to challenge the established primary markets.

This market softening is taking place in a challenging economic environment. The threat of a global recession is still real as interest rates remain high. Social inflation has led to more claimant friendly jury awards in D&O cases, and concerns remain over governance and regulatory reforms and increased geopolitical tension. Some commentators, including the Lloyds' performance regulator, have therefore questioned the sustainability of the current, competitive D&O insurance market behaviour, not least because of the absence of signs of an improving claims landscape.

D&O Insurers, many of whom went through painful portfolio remediation in the hard market prior to 2021, are now creating more meaningful D&O protection solutions for clients whilst charging lower premiums. For instance, insurers are incentivising the use of their panel defence counsel firms through lower policy deductibles to combat rising defence costs.

NEW ENTRANTS

2023 saw the entry of Westfield, Kayzen, and Hamilton into the D&O market. In addition, some insurers who took small excess lines on D&O programmes are now staffing up for growth. Further, some insurers who entered the market in 2020 such as IQUW and Inigo are broadening their appetite beyond their initial core focus on US publicly traded companies. Verde, which is a managing general agent (MGA) comprised of Lloyd's capacity and had entered the crime insurance market in 2023 is expanding its offering to include D&O for commercial companies. Ki, the algorithmically powered auto follow facility has also committed to providing additional capacity following recognised lead insurers.

Individually, none of these new entrants will disrupt an already crowded and competitive marketplace. However, combined there will be as much or more D&O capacity in the market in 2024 than there was in 2019, before the latest hard market cycle.

MARKET DYNAMICS

The softening of the market may have been started by the introduction of new underwriting capacity, but a major catalyst in the last year has been the broker driven return to major market facilities for volume D&O business. The efficiencies of commoditising D&O placements allow major brokers to continue to handle business despite a diminishing pool of brokerage.

Insurers looking to gain market share quickly are eager to support these major broker facilities, which are characterised by broad policy wordings, near universal appetite, and ease of process. In addition, brokers and insurers have returned to innovation as a differentiator with two D&O insurers launching environmental, social, and governance (ESG) focused syndicates: Volante has launched a Shareholder Activist Protection and Rising Edge has developed a specific product for non-executive directors.

Insurers have been keen to tie in clients by offering multiyear D&O programmes, a trend that is likely to continue throughout 2024 and potentially beyond. In

preparation for 2024, many insurers have split their portfolios into two groups: accounts where they will be willing to consider premium reductions to compete and accounts they will walk away from if the premium reduces further. In this phase of the market, some insurers apply maximum rate reductions in their underwriting approach.

TRENDS IN D&O INSURANCE

- Greater number of insurers willing to quote primary layers
- Long term/multi -year options offered selectively to clients with a stable business model and financial outlook
- Insurers willing to quote on "any one claim" limits, as opposed to "annual aggregate" for less US exposed clients
- Insurers behaving opportunistically by providing unsolicited quotations for primary and underlying layers, and for standalone run off in mergers and acquisitions (M&A) transactions
- Premiums reducing, especially in excess layers
- Larger line sizes with most insurers returning to £10m (and some to £15m) as their maximum deployed capacity, up from £5m
- Incumbents agreeing premium reductions to maintain their positions and offer competitive terms for new business
- The global macro-economic environment will impact some clients more than others, and this is likely to be reflected in the availability of D&O capacity for them
- The overall renewal outcome for each client will depend largely on the business's financial strength, the industry sector, and geographical footprint

> In H2 2024 update we highlighted Corporate Governance reform, Greenwashing, Failing ESG targets, and reputational damage as the likely concerns for boards

- Brokers soliciting each other's clients by promising premium reductions.
- Insurers "swapping" D&O clients by imposing maximum allowable rate reductions

PREPARING FOR RENEWAL

In H2 2024 update we highlighted Corporate Governance reform, Greenwashing, Failing ESG targets, and reputational damage as the likely concerns for boards. These areas of risk represent the directorial responsibilities where legislation and regulation are constantly evolving. They present challenges for main boards and subsidiary boards, both in terms of ensuring compliance and appropriate board composition.

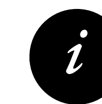
An additional layer of complexity for multijurisdictional companies is that overseas subsidiaries will have different laws and regulations to comply with. An example of this is The German Supply Chain Due Diligence Act which imposes due diligence obligations on entities which trade with businesses in Germany to comply with environmental and human rights standards in their supply chains.

The outlook for emerging D&O exposures can be characterised by increased board responsibility for:

- The company's use of generative artificial intelligence
- Prompt disclosure and regulatory self-reporting for material data breaches
- Evaluating progress towards stated ESG targets and keeping pace with regulatory change in financial reporting
- D&O underwriters welcome insight into the potential impact of geopolitical tensions on the business from a reputational, financial and international sanctions compliance perspective

The upcoming Audit, Reporting and Governance Authority in the UK has focussed its immediate attention to certain industry sectors where there have been high profile accounting scandals, catastrophic safety or pollution events, corporate failures or questionable conduct. These are: construction and materials, food products, gas and water utilities, industrial metals and mining, and retail. With increased scrutiny on the Big Four accounting firms, there will continue to be a greater turnover in auditors for financially distressed businesses. Clients facing such challenges should be prepared to discuss these with insurers.

In preparing well for questioning in these areas, policyholders will attract the maximum number of insurers. This will also create some competitive tension that will help to optimise outcomes for D&O renewal programmes.



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7. CONTINGENCY

Andy Thompson

A buoyant market following January renewals

The contingency market started 2024 in a buoyant mood following completion of the January reinsurance renewal season. Currently, capacity for the majority of market participants remains at a similar level as in 2023. There are rumours that there may be a few new entrants to the contingency market during 2024, in addition to Aviva.

Premiums for live event cancellation coverage remain stable coming into 2024 but insurers are requiring the application of deductibles in various aspects of coverage. In some cases, pockets of the London Market will not provide coverage for 'natural catastrophe' perils such as windstorms. As evidenced in previous years, climate change is increasingly affecting live events and the market is closely monitoring developments in this space.

Pricing and capacity pressure can sometimes be mitigated by factors such as the inclusion of deductibles, strong risk management capabilities demonstrated by the insureds' event management plan, and detailed budgets. Clients need to be able to provide as much information about their event as possible to allow insurers to assess and competitively price the coverage they are providing.

INSURERS' CONCERNS

Insurers have been adjusting their underwriting approach considering the impact of recent losses in the London Market, mainly due to natural catastrophes and adverse weather conditions. To more accurately assess the risk, underwriters are insisting that brokers and their clients provide detailed information at renewal such as accurate budgets, event management plans, and proposal forms.

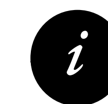
One area underwriters are monitoring particularly closely is the wildfire season in the USA and Canada, and the disruptive air quality resulting from wildfires, which could impact events.

GROWING NUMBER OF ENQUIRIES

The number of enquiries for live event cancellation coverage continues to rise. This reflects the increasing costs that event organisers, sponsors and the like incur when organising and staging an event. Rising costs are increasing the risk exposure of event organisers and therefore event cancellation insurance is becoming more prevalent in the minds of individuals and companies associated with live events.

Whilst no individual or company is immune to the effects of the cost-of-living crisis, the sheer number of sold-out live events demonstrates strong demand, which is positive news for the months and years ahead.

However, in an ever-changing world driven by climate change, geopolitical conflicts, and the constant possibility of epidemics/pandemics, the risk of cancellation to an event is perhaps higher than ever. Lockton is actively engaging with insurers to seek solutions for their clients' needs in addition to continually discussing the environment and potential risks faced by live event organisers. Despite the challenges, optimism is dominating the market due to the high number of successful events taking place around the globe.



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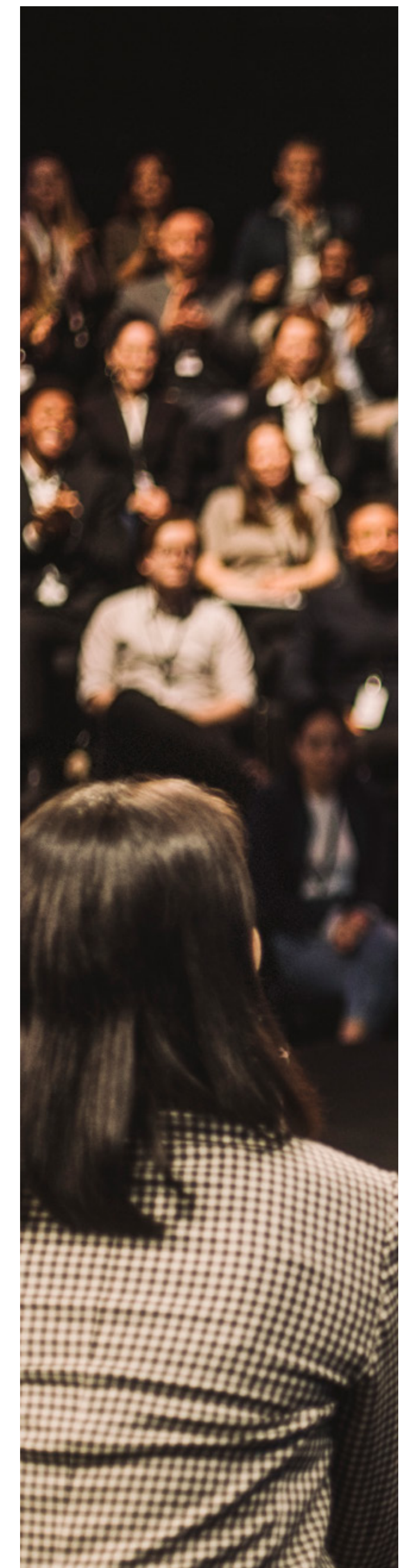


8.

CRISIS MANAGEMENT

POLITICAL VIOLENCE & TERRORISM

Martin Halls

Insurers widen coverage except for Israel risks

After significant loss notifications following the Russian invasion of Ukraine and recurrent, widespread civil unrest occurrences elsewhere in 2022, the market seemingly relished a sustained period of respite during the first three quarters of 2023. This has prompted a handful of carriers to review their underwriting appetite mid-term, loosening the underwriting conditions for more challenging territories, occupancies, and conditions. This may have been driven by the fact that market rate increases failed to meet underwriting expectations in 2023, suggesting that more underwriting agility was needed.

THE MIDDLE EAST CONFLICT

The market had been expecting an escalation of the Middle East conflict. The London Market had around $8 billion of political violence exposure to Israel when the Israel-Palestine conflict reignited in October 2023. As a reaction, insurers paused underwriting activity and reviewed their exposures while closely monitoring developments in the region. This resulted in challenging renewals for many brokers throughout the market. Policies with Israel exposure saw significant reductions in coverage, exclusions and required senior management sign off. Despite the continued conflict, this position has slightly improved over the past couple of months with a marginal loosening of underwriting controls. A handful of markets are now reviewing new and renewal business on a case-by-case basis. There is currently approximately $20m of capacity available in the London Market for risks situated in Israel but this is heavily dependent on the occupancy, location, and loss history.

Pressure on underwriting controls, combined with sharply rising reinsurance costs and impending losses from Israel were some of the factors that resulted in CNA Hardy withdrawing its capacity for political violence in November 2023. This has led to concerns of a domino effect of other carriers closing their books but fortunately this did not come to fruition.

JANUARY TREATY RENEWALS

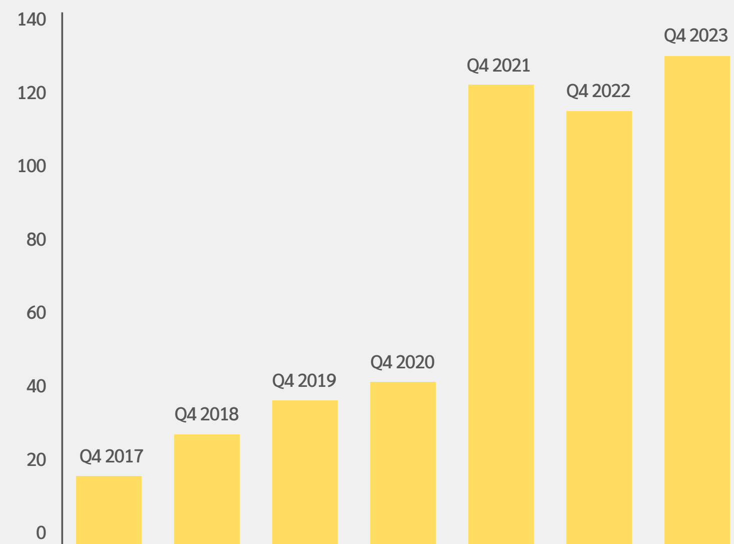
As underwriters readied themselves for January treaty renewals, the overall underwriting moral was more positive with insurers hoping to improve on their average circa 100% rate increases compared to the year prior. The Middle East conflict certainly dampened expectations and resulted in significant scrutiny on exposures and underwriting capabilities. Whilst overall treaty reinsurance rate increases improved for insurers, some political violence aggregate caps have been heavily reduced by up to 90% in some countries. This has undoubtedly had a notable impact on insurers' underwriting strategies during the first quarter of 2024, impacting also clients who don't operate in countries directly involved in the Israel/ Palestine conflict. Turkey, Lebanon, Egypt, and Taiwan are the notable territories where underwriters have experienced severe aggregate depletion following the conflict and subsequent treaty renewals.

US MASS SHOOTINGS

In addition to the Middle East conflict, the political violence and terrorism (PVT) market has experienced a continued increase in the number of mass shootings in the US. This has caused a continued hardening of the active assailant market. During Q4 of 2023, the US saw the fifth highest number of mass shootings in a quarter with 130 recorded events, according to S&P Global Market Intelligence. This represents a 225% rise from the average number of fourth quarter incidents since 2014. In 2023, the US has experienced a total of 606 mass shootings, a 474% increase compared to the average since 2014. The rising number of incidents, combined with a growing active assailant market over the last 10 years and improved wordings for clients, has caused rising losses for insurers. Nevertheless, there is still a large number of markets willing to lead or follow behind active assailant insurance policies.

Whilst overall treaty reinsurance rate increases improved for insurers, some political violence aggregate caps have been heavily reduced by up to 90% in some countries.

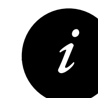
TOTAL NUMBER OF MASS SHOOTINGS IN Q4, 2014-23



Source: S&P Global

MARKET CAPACITY

Notwithstanding the market hardening in recent years in response to global conflicts and widespread civil unrest, the political violence and terrorism market outlook for 2024 is mostly positive. The majority of market capacity was retained over the January reinsurance renewal period with two new market entrants anticipated for 2024. The expected new competition is perhaps already influencing underwriting approaches with more market competition and greater flexibility being applied to policy terms and conditions. This is visible through the re-introduction on a case-by-case basis of some previously heavily excluded extensions to policies such as "miscellaneous unnamed locations" and "contingent business interruption".



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CRISIS MANAGEMENT

PRODUCT RECALL & REPUTATIONAL RISK

Freddie Schlesinger

Abundant capacity creates opportunities for clients

Plenty of insurance capacity combined with new market entrants is causing rates to soften, creating an attractive environment for buyers.

HCC has recently entered the London Market by setting up a new global crisis management team with product recall underwriters from AXA. The move is showing the strong appetite among insurers for specialty product lines.

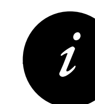
January reinsurance renewals were successfully navigated by product recall insurers without any notable restrictions, despite the significant losses suffered in the reinsurance space. The competitive market environment has led to insurers broadening their appetite beyond the 'typical' industry verticals. This can, for example, include gas meter companies wanting to protect their business from the costs of a recall & replacement issue due to the "Design Error" and "Efficacy" exposure they face. Furthermore, the market is more willing to broaden cover out too with a mold, rancidity and fungi endorsement being more commonly offered to food & beverage companies than ever before.

The market has seen a few major claims recently. A large US food supplier has, for example, faced a product contamination case across 50 US states due to Salmonella found in snack bars. The event has affected both the London and the US insurance markets.

Further, a global aviation company is allegedly facing an in-flight issue, leading to a grounding of a large number of planes. The recall market can provide cover for aviation components and since there have been a few incidents recently, there will likely be an uptick in supplier interest in efficacy/warranty coverage to protect against the reputational risk and financial loss of a recall related issue.

A number of high street names and blue-chip companies have recently faced major recalls. These included fragrances, food, laxative supplements, and medicines. Businesses understand the reputational threat a recall or withdrawal event can have to their business, but even more so now, there is an understanding that many businesses tend to be underinsured due to the perceived threat to their own company versus the cost of insurance.

In response to demand, Lockton has also created a new facility for small and medium-sized enterprises (SMEs) in the food and drink industry.



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9. ACCIDENT & HEALTH

Robert Rechtern

Insurers start to relax the underwriting approach post-COVID

Despite the Accident & Health (A&H) class not having suffered any significant individual 'per person' losses from COVID-19, some sub classes were more affected such as travel, specific purchased cover as well as to various reinsurance programmes. Because of these losses, insurers initially imposed blanket contagious disease exclusions, longer deductibles, and region-specific exclusionary language.

Some insurers have recently started to take a more relaxed approach and remove these stricter underwriting conditions. Nevertheless, there is little movement from a rate perspective. The average risk adjusted rate change remains similar to that of 2023, between flat to +3-5%.

- Notable losses continue from the US sport market (specifically baseball) whereby much of those risks are either written by MGAs (with London market support) or form part of reinsurance placements backed by many London players.
- Following Russia's invasion of Ukraine and more recently the conflict between Israel and Palestine, many carriers were quick to invoke war exclusion language or cease in further providing travel coverage to those specific areas affected. Whilst a few more innovative markets looked to provide coverage with a loaded rate, many withdrew. More recently we have seen markets re-enter, looking to support travel to the region as demand increases, following established carriers in the space.

> Capacity remains abundant, with growth at the front of 'markets' minds

NEW ENTRANTS & MARKET MOVERS

After a period of reasonably benign activity, there have been a number of significant movements in the A&H market. Some carriers such as Everest have seized the opportunity to commence underwriting the class. Other insurers including Chaucer have decided to cease direct trading because the class no longer aligns with the business strategy. Notable movers in the A&H market would be:

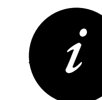
- Stuart Liddell, joined Ark from SiriusPoint
- 5 leavers from QBE Re to Redriff Agency Limited
- Dale Willetts, joined Carbon from Sompo International
- Catherine Lumbers, joined Axis from Aegis
- Oden Grenville, joined Antares from Starr
- Andrew Fuller, joined Everest from Sompo International
- Amelia Fenton, joined Starr from Chaucer

OUTLOOK

- Capacity remains abundant, with rating stable for the 'vanilla' risks as carriers seek to remain competitive.
- Further to certain carriers coming out of the "Decile 10" performance review or from carrying out internal remedial account work, the desire to look at accounts requiring remedial action is increasing.
- With global travel resuming post pandemic, there has been an uptick in clients either re-engaging for cover or signalling the need for it going forward.
- Many markets have been tasked with growing, naturally increasing the desire to write more business, prompting the increase in marketing discussions.
- Due to extensive market changes, Lockton suggests engaging with multiple insurers to ensure best cover at the most competitive pricing.

RECOMMENDATIONS

- Prepare in good time, with advance notice to broker of impending changes.
- Data and ability to articulate it to underwriters (claims & exposure analysis) – this may result in more favourable offers.
- Be prepared to meet with your carrier, with your broker and close the relationship gap – we are a people led industry.
- Work to manageable and realistic timelines to ensure optimal end results.



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10. SPECIE & FINE ART

Philip Dalton

James Ferrer

Insurers' appetite creates competition

The Specie & Fine Art market remains pretty flat in terms of premium rates. However, insurers are showing signs of a hunger for premium which is enabling the generation of greater competition. As a result, we are able to push underwriters on rate and terms and conditions, especially on new business, giving the assured the most competitive terms available. Appetite is currently more limited for niche areas like "Cash in Transit" and "Jewellers Block".

Market capacity remains firm and currently sits at circa USD2.5bn. The movement of underwriters between syndicates has created additional market opportunities and introduced new appetite at some syndicates where team changes generated a different way of thinking.

CHALLENGING RISK AREAS

The war in Ukraine continues to affect Specie & Fine Art risks with restrictive clauses/exclusions implemented across all specie classes in relation to the ongoing conflict. Some insurers are softening their stance on risks in Ukraine and for the right risk profile are willing to offer cover, excluding war for all risks of physical loss/damage at a heightened premium. We have not yet seen any reaction from insurers in relation to the ongoing conflict in Gaza, but if tensions escalate, we anticipate the implementation of similar clauses.

Fine Art insurers remain concerned about earthquakes and wildfires in California, as well as windstorms in the Gulf of Mexico. Nevertheless, markets are willing to offer capacity at a premium compared to lower risk areas in the US. Specie insurers are concerned about a gradual increase in crime rates following a relatively quiet period during the pandemic lockdowns.

Incidents of climate change activists targeting art works is becoming alarmingly frequent and this could lead to more stringent controls on entrance to museums and increased security around iconic works such as the Scream, Norway, or the Mona Lisa, France.

MARKET TRENDS

Technological advancement in the Fine Art space continue to bring innovation around packaging and tracking works for shipping. Digital art works are more widely circulated with online and in person exhibitions presenting different approaches to risk, including Cold Wallet Storage and protection of digital assets via the blockchain.

Arch and Canopius continue to push forward as lead markets in the cryptocurrency world further developing the scope of their products. What started as a cold storage policy only is now expanding to cover hot wallet exposures, mining exposures and, in the case of Canopius, a crime bolt-on. The market for crypto risks is still small and generating competition in this area is a challenge for brokers. Nevertheless, there are opportunities for genuine new business, and we are keen to develop the crypto risk market further.

We are discussing non-fungible token (NFT) risks with different market participants to establish a product offering for the growing opportunity in this space. Following the pandemic, face-to-face trading has returned to Lloyd's of London and the Lockton Specie & Fine Art team is taking advantage of the opportunities this presents.

> Market capacity remains firm and currently sits at circa USD2.5bn.

RENEWAL PREPARATION

We recommend benchmarking the pricing of your risk and challenge your broker to secure the best coverage available and a high level of service. Face-to-face meetings with underwriters are likely to particularly benefit larger clients or those that have suffered losses or are seeing significant changes in risk exposure.

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11.

POLITICAL & CREDIT RISKS

Matt Golding

Global economic outlook continues to weigh on the Political & Credit Risk Market

The global economy continues to be in a precarious state amid the protracted effects of the overlapping shocks of Russia's invasion of Ukraine and the recent events that have unfolded in Israel. Although it is likely that the Ukraine war will continue, it is looking less likely that this will escalate into a direct conflict between Russia and NATO. Nevertheless, the ongoing and evolving sanctions and export controls in Russia will remain a challenge from a compliance perspective.

The Israel-Hamas conflict is likely to de-escalate given increased international pressure on Israel. The conflict has not had a direct impact on the global economy yet, but the targeting of ships in the Red Sea region by Yemen's Houthi rebels does threaten disruption in supply chains, as well as potentially causing a spike in the oil price that could affect the global economy. There is also the potential contagion risk to nearby countries in the Middle East, upending regional security.

Following growth of 3.1% in 2022, the global economy slowed to 3% in 2023 but some analysts estimate a slight improvement in growth in 2024 of a rate of 3.1%. Lower energy prices in 2023 helped bring down headline inflation, but core inflation proved persistent with the impact of higher interest rates. It is however expected that the US Federal Reserve and the European Central Bank will cut interest rates several times in 2024.

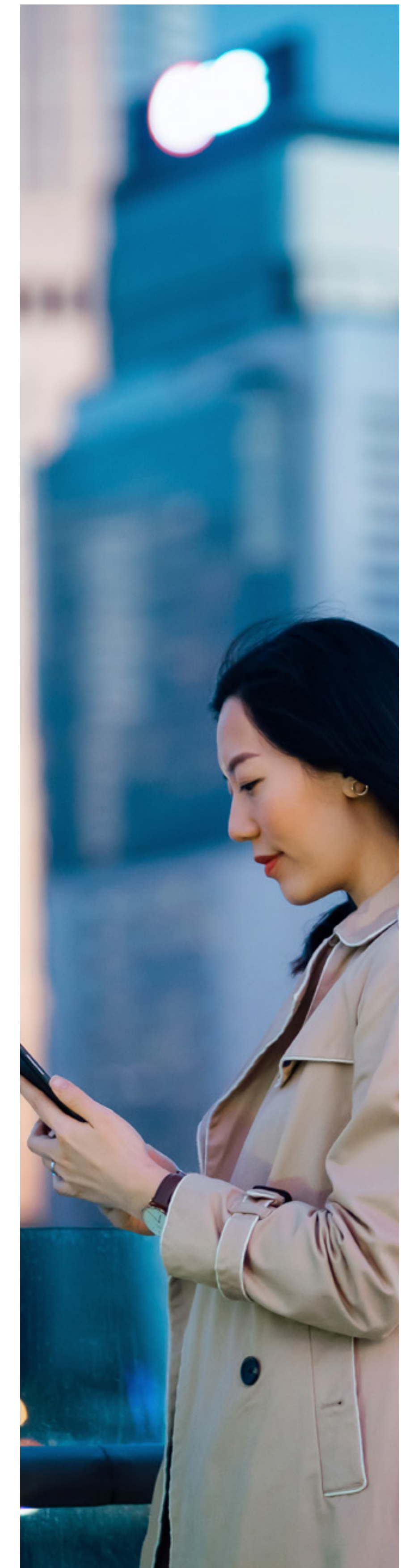
The potential debt crisis has economists and policymakers concerned with total sovereign borrowing still at pre-pandemic levels. Standard & Poor's note that three sovereigns (Argentina, El Salvador and Mozambique) defaulted in 2023 and a record six rated sovereign remain in default (Lebanon, Belarus, Suriname, Sri Lanka, Zambia and Ghana). With very high levels of exposure to sovereign-backed projects insured in the market, insurers are understandably concerned that there is another potential for a sovereign default.

MARKET TRENDS

The repercussions of the Russian invasion of Ukraine continues to impact the insurance market. Although insurers now have a clearer understanding of their exposure in the affected countries, appetite to write risks in Russia and Ukraine has reduced dramatically.

Since the end of February 2022, the vast majority of insurers have refused to provide cover to insureds where the underlying transaction has a Russian nexus, for example, the sale of oil products of Russian origin. One change we have seen since the second half of 2023 is that a small number of insurers is now willing to cover the sale of Russian originated products, provided that the transaction is in compliance with the price cap; all relevant sanctions are adhered to; and that the insured signs an attestation confirming such compliance. However, Lloyd's of London is providing more detailed processes to be complied with when covering products of Russian origin, with an attestation confirming such compliance having to be completed for every single cargo being covered (previously, a blanket attestation provided at inception would have sufficed).

Insurers have seen claims notifications following the Ghanaian default in December 2022, which has made them focus on other exposures in the country as well as exposures to other sovereigns of a similar credit rating.



Whilst most insurers will likely have been avoiding CCC rated countries for some time, other emerging market economies in the single B range which have still been attracting foreign direct investment and taking on large amounts of debt are now under close scrutiny.

On the political risk side, concerns still remain with the situation between China and Taiwan with many insurers confirming themselves off risk. This has been further exacerbated by Taiwan's January 2024 election that produced another president that is not aligned with Beijing.

RECOMMENDATIONS

Whilst the outlook may sound gloomy, the Political & Credit Risk market has been fairly robust since the difficult period caused by COVID and there is still significant capacity and appetite for the right transactions. We were going through a market cycle whereby premium rates were increasing, but we are now seeing this stabilising for 'good' credit risks (higher up the credit curve) given that these are highly sought after by insurers. The more challenging unsecured credit risks are becoming increasingly difficult to place with limited appetite to cover these. When insurers are considering these risks and are potentially interested in providing cover, premium rates tend to be significantly higher.

Insurers continue to focus on key insureds who can demonstrate a deep understanding of the risks involved and a willingness and ability to try to resolve and mitigate any issues that may arise.

The insurance product should be seen as a last port of call, not the primary route of recovery in a default situation. Insurers appreciate it if clients explore all paths to mitigate against a loss before claiming under the policy.

To use the market successfully, insureds should consider the following:

- **Offer insurers a spread of risk:** insurers are increasingly wary of the market being used to shift high-risk deals off a firm's balance sheet (aka "risk dumping").
- **Quality submissions:** a well-structured submission supported by detailed analysis will be viewed more favourably than one with little detail and/or a lack of internal risk analysis.
- **Treat insurers as partners:** insurers prefer to work with insureds who adopt a portfolio approach to risk selection and those that acutely understand how insurance can facilitate their business.
- **Risk retention:** key to creating an alignment of interest with insurers is to be prepared to hold a fair retention of the risk. For more challenging transactions, many insurers will only offer a line equal to or less than the size of the uninsured participation.

> Following growth of 3.1% in 2022, the global economy slowed to 3% in 2023 but some analysts estimate a slight improvement in growth in 2024 of a rate of 3.1%.

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12.

UK PROFESSIONAL SERVICES

LARGE LAW FIRMS

Neville Miles

Rates ease as capacity increases

In recent years, we have experienced challenging market conditions with surging premiums, a lack of appetite from insurers to take on new clients, and an absence of market entrants. Economic difficulties, driven largely by the geopolitical environment, have further increased during the past year. Inflation in the UK has been at a 40-year high.

Notwithstanding this difficult environment, insurance market rates have eased for large law firms, and capacity is increasing. Further rate reductions are expected through 2024, particularly for firms that have seen revenue growth, continue to demonstrate a positive approach to risk management, and that have a good claims record.

The lack of insurer options during the hard market years meant that many firms were forced to renew with their incumbent insurer. However, with the change in market conditions, we are experiencing an increase in appetite from a variety of insurers willing to quote for new business. This creates competitive tension in the market, which in turn is helping to ease rates.

There are reasons to be positive: insurers are more receptive to new business opportunities, and equally keen to retain their existing portfolio of business, resulting in a greater willingness to negotiate on premium levels, and the accompanying terms and conditions.

Scrutiny and rigor continue in underwriting practices as insurers focus on reducing volatility through best-in-class risk selection.

UNDERWRITING

At the primary layer level, law firms with good claims records are generally achieving rate improvements. With regards to excess layers, we anticipate reducing rates for selected risks, particularly for those firms with revenue growth of up to 10%.

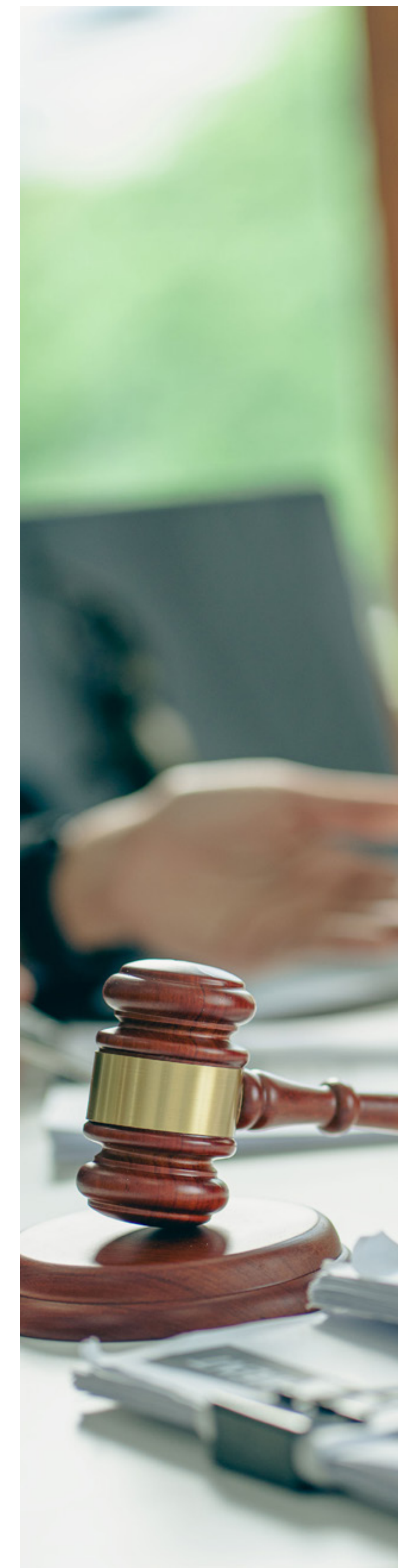
There is plenty of capacity available to achieve significant limits of indemnity. However, insurers remain focused on profitable growth and retention of well-performing risks. Plus, their growth ambitions tend to concentrate on specific areas. Underwriting has generally become more flexible, but it remains disciplined and based on individual risk profiles, controls, and performance.

The impacts of global inflation, combined with other factors, continue to drive up claims' costs. Insurers also remain focused on limiting their cyber exposure and continue to clarify cyber-related coverage language.

Detailed information, even for well-managed and well-performing risks, is critical to achieve best placement results.

Insurers are not just looking at the professional indemnity insurance risks, but also the overall financial health of the business. This is particularly pertinent following the demise of several firms during the past few years. Insurers are wary of picking up 6 years run off, with the potential of no premium payment.

Self-insured excesses remain generally stable. Increases may be required for some challenging and/or poor performing firms, and where insurers are concerned that risk management controls may be insufficient.



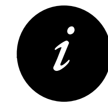
EMERGING RISKS

Artificial Intelligence has been gaining a lot of attention from the insurance community recently. Insureds are also increasingly raising questions about insurance coverage and possible future restrictions. Underwriters are concerned about potential new exposures. It is likely that we will see numerous questions and concerns from clients and underwriters alike.

RECOMMENDATIONS

Insurers remain selective, so firms need to present themselves in a positive way. Here are a few tips:

- Increase underwriter confidence in your risk for better placement outcomes. Engage throughout the year to bring insurers along on your journey and differentiate your risk.
- Communicate transparently and often – in person, when possible – and provide access to relevant experts across your organisation.
- Start the renewal process early and define clear objectives.
- Tap into available data to provide robust, quality underwriting information including, risk control and mitigation practices and actions you have taken from past experiences.
- Include details of the firm's growth and strategy plans.
- Conveyancing claims remain a concern for insurers. If the fees from conveyancing (residential and commercial) are above 25%, the more information provided about the nature of the property work the better.
- Accompany your claims history with a 'lessons learnt' explanation.
- Submit your proposal form and accompanying documents well in advance of renewal.
- Be prepared to answer questions relating to sanctions and cyber related risks.



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UK PROFESSIONAL SERVICES

SME LAW FIRMS

Brian Boehmer

Positive trend continues in professional indemnity

The positive trend felt throughout the solicitors' market continued for legal practices in the recent renewal season, with a more active professional indemnity insurance (PII) market. This is largely down to leading insurers growing their respective portfolios, and two new insurers entering the PI primary solicitors' market, providing new capacity. For many solicitors, increased competition resulted in more favourable outcomes compared to previous renewal systems.

In addition to the increased primary layer capacity, there are also more insurers willing to provide additional layer capacity, an area of the marketplace that has been dominated by one insurer for a significant number of years. It is pleasing to finally have some healthy competition.

PRACTICE PROFILE DETERMINES OUTCOMES

The open market for solicitors' PII continues to work well for much of England and Wales, particularly as competition increases. It can seem dysfunctional for some practices, however. Those with a modest fee income, or whose profile includes higher-risk areas, are likely to have suffered again at this season's renewal. These are not bad firms; rather, the harsh reality is that underwriters make their decisions based on purely economic factors, the major one being affordability. If a firm undertakes a perceived higher-risk area of practice, then insurers must look to charge a minimum premium. If the practice cannot pay, the insurer is unlikely to offer any terms.

Despite more competition, not everyone received lower annual premiums. Rateable fee incomes – one of the biggest factors influencing premiums charged – have increased in recent months, reflecting what has been a period of success for many legal practices. Of those that Lockton proudly represent, 65.7% had generated more in fees at this season's renewal, at an average increase of 11.39%.

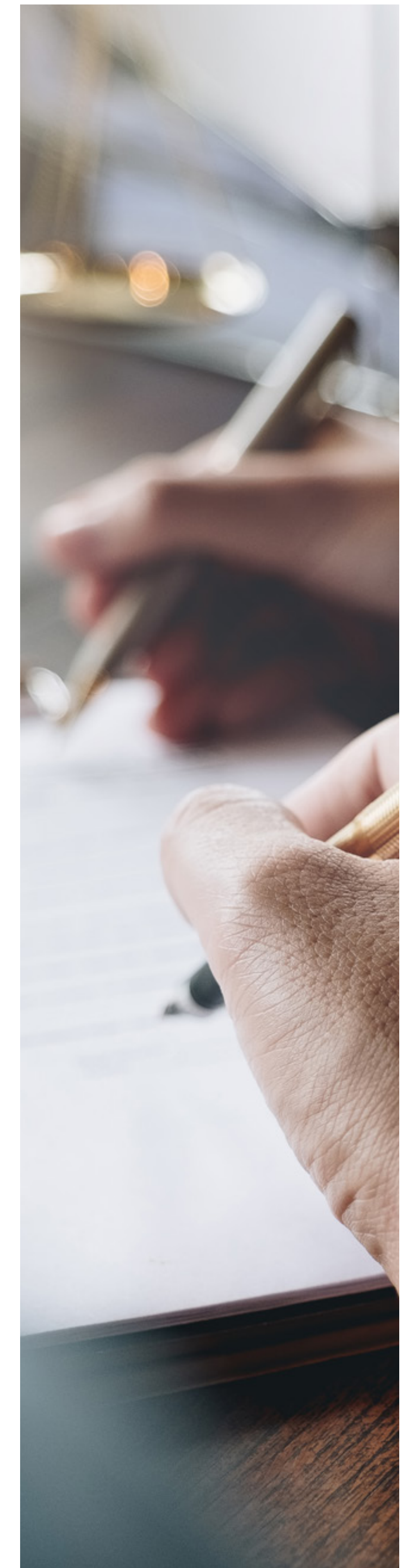
The best performance came from practices with 4-5 partners, with 15.06% percentage growth. This growth naturally had an impact on the premium charged – pleasingly, however, premiums rose on average by a comparatively modest 3.36%, equating to a reduction of 3.82% in the rate applied to fee. This meant that the average cost of PII did not erode practices' profit margin.

The improved market conditions also impacted the working layers, which likewise saw increased competition. Most new entrants focussed on firms below £5M in fee income, helping to drive rate reductions for the working layer by 2.88% on average, consistent with the impact to the primary layer. For coverage placements exceeding £10M, the pricing was relatively flat, with only modest adjustments made.

RISING SEVERITY OF CLAIMS

The positive adjustments to rate, while good news for firms, aren't necessarily reflective of the general claims environment. Notifications volumes have not reduced, nor have the value of claims. Rather, with rising contract values, along with the continued increase in the value of assets, severity of claims is becoming greater, not smaller.

Most losses are not publicised, and rightly so – but there are some situations that do hit the legal press headlines, as seen with the collapse of law firm network Kingly, which impacted both the Compensation Fund and professional indemnity insurers.

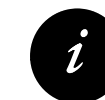


INSURANCE AND RISK ASSESSMENTS

Each and every insurer's appetite differs when it comes to the risk profile of a practice that they are willing or able to quote competitively. Naturally, there may be greater competition for those practices focused on areas of practice that are lower in risk. But equally, the variance between insurers pricing may be quite modest, as there will be a minimum premium charged.

For many areas of practice, insurers required additional information to finalise terms. Key topics included conveyance and property work, matrimonial work, cyber resilience, financial stability, succession planning, merger and acquisition (M&A) strategy, and sanctions-related information.

Arranging finance also took longer than in previous years, with numerous finance providers undertaking enhanced due diligence before providing instalment plans.



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UK PROFESSIONAL SERVICES

ACCOUNTANTS

Ian Saxelby

Chloe Sweet

Welcome rebate for accountants' professional indemnity

Moving into 2024, there is a welcome rebate in pricing for accountants' professional indemnity (PI). This is good news for firms in the wake of a hard market cycle, and is set to ensure that insurance costs amount to a lower percentage of firms' overall revenues.

The catalyst for this improvement is a growing appetite among established insurers. At the same time, the entrance of new players into the market is driving competition, exerting a downwards pressure on rates. While there is undoubtedly softening to come, however, uncertain economic conditions make it difficult to predict the market – especially as inflationary costs begin to trickle through in respect to claims.

INCREASING FRAUD CREATES FGI CONCERN

Fraud claims have increased in both frequency and value in the past few years. There are several reasons for this, but the main factor is that online banking makes it so much easier to fraudulently transfer money.

In order to reduce their exposure to these losses, some insurers have altered their policy coverage for Fidelity Guarantee Insurance (FGI), while others have applied particularly onerous terms and conditions – for instance, offering FGI on an aggregate basis, rather than any one claim. This limits the amount insurers are exposed to in a policy period, as once the aggregate limit is eroded by losses, they will not be required to pay any more. However, such cover would not be compliant with ACCA regulations, for example, which stipulate that cover should be on an 'any-one-claim' basis.

Alternatively, it's becoming more common for insurers that offer FGI to ask for dual authorisation for any financial transactions over a certain amount. Insurers may insist that there are two independent signatures on cheques, or that any electronic transfer of funds is witnessed and documented by another director or employee. If this second authorisation check is not made, any subsequent first-party fraud may not be covered by the policy and insurers may refuse the claim.

Often, an insurer will ask on their proposal form or statement of fact whether the annual accounts have been audited and if dual authorisation is in place. This acts to alert the firm that these procedures must be in place for FGI cover to apply. Other insurers will simply include these terms within the conditions or exclusions of their policy wording.

Many insurers are beginning to leave FGI cover out completely in their accountants' PI policies altogether.

AUTOMATIC RENEWALS

Over the last 10 years, insurers have looked to streamline their practices from an underwriting perspective, while seeking ways to build loyalty among their policyholders. This has led to a boom in automatic renewal processes and continuous policy coverage.

These policies do offer plenty of benefits, and certainly have an important place in the market. However, insurers are within their rights to repudiate.

With many firms facing an inflationary-driven rise in fee income, for example, existing coverage limits in PI policies may no longer be sufficient. Insurers must review their coverage levels and increase them where necessary to remain compliant with their regulatory obligations.

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UK PROFESSIONAL SERVICES

CONSTRUCTION AND PROPERTY PROFESSIONALS

Chris McAllister

Continuous improvement but a dislocated market

The expansion of available insurance capacity in the general professional indemnity sector has continued through to 2024, with growing market competition and appetite for new business. The market has attracted capacity from managing general agents (MGAs) as well as from insurance providers that had previously exited the risk area. This has created a better environment for buyers of professional indemnity (PI) insurance compared to 2023, with many insureds having recently secured rating reductions at renewal.

However, economic instability within the construction sector remains high with a series of high-profile insolvencies. In addition, claims activity continues to rise due to combustible cladding and fire safety related matters. Both trends are adding a degree of hesitancy and dislocation to the market depending on the specific risk profile of the business.

TARGETED APPETITE

Since 2018, insurers have been seeking to return to profitability through successive premium rate increases. This trend has, meanwhile, plateaued and started to reverse at an accelerating pace in 2023. The more established insurers are now concerned about the level of rate reductions anticipated for 2024, particularly where their portfolios are challenged by new market entrants without legacy claims.

> We believe that competition will be particularly strong for small and medium-sized enterprise (SME) buyers.

We believe that competition will be particularly strong for small and medium-sized enterprise (SME) buyers. However, this will only apply to firms with strong claims record and that are not primarily involved with the design and/or construction of residential assets, where rates will continue to be comparatively high.

Appetite for risks also varies among insurers, and Lockton is reacting to emerging trends and developing broking solutions to suit specific risk profiles.

SUPPLY CHAIN FEARS

Insurers are closely monitoring the economic factors affecting the construction sector. This includes the cancellation or postponement of major infrastructure projects such as HS2, or inflationary pressures affecting labour and materials. In the past, such conditions have been associated with an uptick in both claims activity and pressure on service providers to take on work under less desirable contractual terms. Consequently, insurers are focusing on the quality and resilience of a firm's supply chain management.

Policyholders should therefore prepare for increased scrutiny from PI insurers over a firm's supply chain risk management in three areas:

1. Competency to perform the services
2. Financial solvency
3. The quality of the contract risk management and sub-consultants/-contractors' PI insurance

Firms that are able to demonstrate strong controls are likely to secure better rates and avoid potentially onerous exclusions or limitations in their policy terms and conditions.

CLADDING, FIRE SAFETY AND BSA 2022 – NEW ROLES AND NEW LIABILITIES?

Insurers' position on cover in relation to combustible cladding and fire safety exposures is generally improving and those firms with total exclusions should be able to secure some limited cover, at least on a "go-forward" basis.

Policyholders are looking for clarity over cover restrictions and want cover limitations to be applicable only to 'high risk residential buildings'. Insurers are still hesitant but insurance buyers should discuss their options with their broker.

Perhaps most significantly in this area is the introduction in October 2023 of the responsibilities for two duty holders – the Principal Designer and Principal Contractors – under The Building Regulations etc. (Amendment) (England) Regulations 2023, which are borne out of the recommendations of the Building Safety Act 2022

(BSA). Policyholders have questioned how insurers may consider firms undertaking these roles. Construction and Property PI insurers have so far been particularly quiet on their position though, quite possibly because the roles themselves relate to the betterment of controls in the design and construction process overall.

Firms are advised to be proactive and transparent with their insurers regarding the obligations arising from the implementation of the BSA. So far, insurers have neither raised specific additional information requests on the matter, nor have they sought to limit cover in any way. We will be closely monitoring this space as the liabilities from such work are better understood.

RECOMMENDATIONS

- **Be proactive** – engage your broker and insurers early to begin the renewal process to give yourself time to consider your options.
- **Be thorough** – be prepared to provide more information beyond the proposal that articulates your good risk management practice.

Policyholders should look to stand out from the crowd and be the risk of choice for insurers to write.

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13. REAL ESTATE

Rob Hunter

Craig Charlton

Insurers align underwriting with a softening market cycle

Following an economically challenging period between 2018 and 2022, insurers in the UK and Europe are now adapting their underwriting strategies to align with a softening market cycle.

MARKET TRENDS

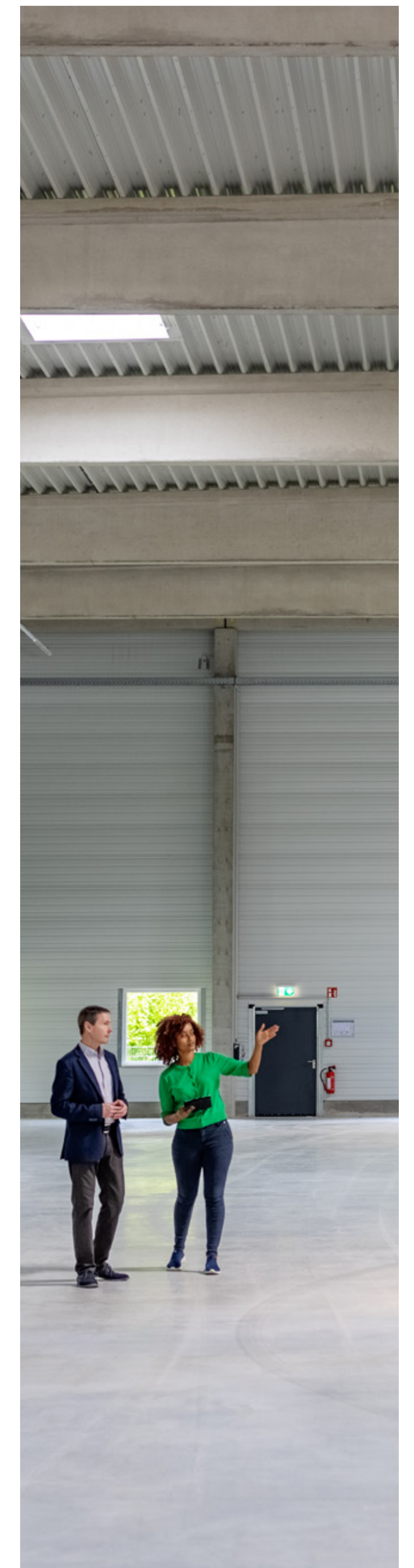
While discussions of a ‘softening’ market would have been dismissed as recently as Q3 2023, signs of a competitive market are clear to see during the opening period of 2024.

Insurers have benefitted from several factors, including recurrent interest rate rises bolstering their income from invested premiums. The January reinsurance renewals were expected to be difficult due to a spate of weather-related catastrophe losses globally, but reinsurers reported improved underwriting results. By virtue, this is passed to fronting insurers and, as such, there is currently no evidence to suggest reinsurance pricing will drive rate increases across the primary UK and EU real estate markets during 2024.

As a result, we expect real estate portfolios with a good claims history to benefit from the stability of pricing and premium rate reductions as well as continuity of cover and excess levels.

EMERGING CHALLENGES AND RISKS

- **Residential risks** – this remains unappealing for many insurers as the marketplace for this type of asset is restricted. Insurers are particularly cautious about high end residential properties due to the increased cost of reinstatement and potentially large alternative accommodation costs.
- **Lack of information** – many insurers continue to push back on portfolios with little detail around the exposures they are underwriting. Real estate buyers should continue to focus on underwriting submission quality.
- **Modern technology** – the introduction of robots in logistics warehousing, for example, has created a few concerns. For starters, the information and testing of these systems remains sparse. Coupled with recent large fire losses, insurers remain sceptical and will apply adverse premium loading to account for an increased fire risk, for instance.
- **The installation of photovoltaic panels** – insurers require detail on the installation process, who conducted it, the maintenance plan, the age/condition, and the roof construction these are to be installed on.
- **Installation of electric vehicle (EV) chargers** – should be discussed with insurers to ensure they are installed in the optimal position on the premises.
- **Modern methods of construction** – the insurance market continues to research and test modern methods of construction, such as the use of glued laminated timber and cross laminated timber. The attitude to these materials is becoming more accommodating. However, information and early engagement is key for buildings using these materials.

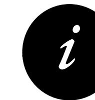


POSITIVITY IN THE MARKET

Despite the necessary risk considerations, the following tail winds contribute to a positive outlook for 2024:

- Increased participation in the real estate insurance market and increased capacity for those already involved is breeding healthy competition and leading to positive outcomes for clients.
- Insurers have undertaken a period of rate correction across their exposures and, as such, have established a far more stable trading platform to deliver positive results for clients.
- Insurers are becoming more flexible on terms and conditions while showing a greater willingness to negotiate and compromise.
- Long term agreements are now commonplace from insurers, evidencing that a long-term view of the market is one of stability.
- Insurers investment in technology allows them to greater understand their exposures and, with that increased knowledge, provide a solid underwriting foundation to avoid volatility when catastrophe events do occur.

It's vital that real estate buyers and their insurance broker tell a positive story in submissions and renewal discussions. To make their risk attractive, insurance buyers need to highlight any efforts taken to mitigate potential losses and to improve the quality of their overall risk. This is an effective way for real estate buyers to differentiate their risk and position themselves to secure more favourable renewal outcomes.



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14.
CONSTRUCTION

Lewis Coward

A settled market despite disruptive economic factors

Against a backdrop of global economic factors connected to inflation, supply chains, and the rise in operating and production costs, the construction insurance market remains broadly settled in many respects for both projects and annual programmes in the UK and the International market.

UK TRENDS

The construction sector remains fairly buoyant in many segments. In addition to new build developments, we continue to see an increase in refurbishment type projects as local authorities and their planning committees prioritise urban re use and regeneration.

Rates have plateaued across the sector for both project and annual placements. With regards to excesses, we are now seeing standardisation for escape of water for high rise developments (anything over 7 storeys) at £150,000 each and every loss, and the introduction of natural flood excesses, £100k - £150k in certain regions following Storm Franklin in 2022.

Lead insurers continue to raise the bar for risk information requirements and in many cases will need to assess individual risks involving in-house engineers which can lead to an average of two week turn-around time on quotations.

There is focus on risk management and mitigation of escape of water losses especially in the residential sector when it involves multiple units and extensive pipework. We have seen a real push from the market for clients to embrace CIREG (The Construction Insurance Risk Engineers Group), and the 'Managing Escape of Water Risk on Construction Sites' guidance document which details risk management around flow and leak detection systems.

INTERNATIONAL TRENDS

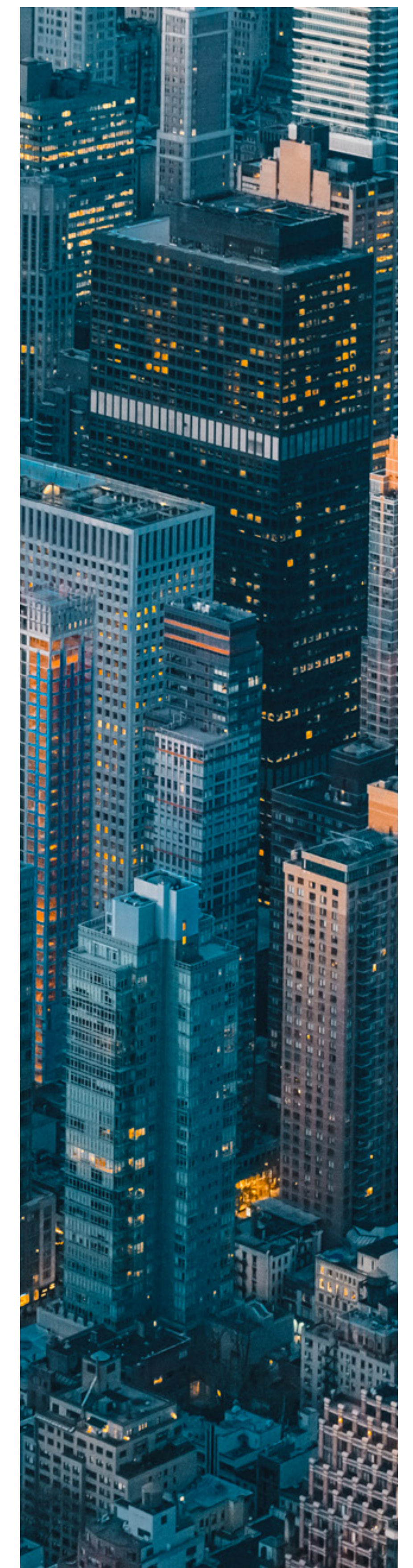
The International insurance hubs have experienced the same trends to that of the London marketplace over the last three years, with insurers in the US, Canada, Middle East and Australia all increasing rates and restricting cover for builder's risk exposures. These have largely been driven by poor performance in prior underwriting years, the increased cost of purchasing treaty reinsurance and the increased frequency of catastrophic events.

KEY DEVELOPMENTS

Capacity available for specialist engineering and construction insurance remains healthy for non-combustible projects. We are starting to see new market entrants coming into construction & engineering, specifically in Lloyd's. This has yet to have any impact on terms and conditions and is more likely to be a case of maintaining the status quo.

Much like the UK, escape of water and the ensuing damage remains the greatest challenge, and carriers continue to increase their minimum deductibles to mitigate costs and put more emphasis on internal water mitigation plans.

In certain territories, the frequency of catastrophic events remains the main challenge. For example, losses from flood have been on an upward trend globally. In 2022, there were numerous severe flood events around the world, resulting in combined economic losses of more than USD 80 billion. Insured losses are estimated to be "just" USD 20 billion, further evidence of what has for many years been a large global protection gap.



CHALLENGES

Market appetite remains moderate-low for refurbishment projects owing to the complexity and perceived heightened exposure and historical losses. Lead insurer options and follow capacity are limited compared to new builds, with construction underwriters not keen to insure an existing building or structure at a value over 40% of the build cost and especially when additional covers such as “Delay in Completion” and “Third Party Liability” are sought in conjunction. Existing structures developments that are Grade Listed and/ or have elements of timber, still remain the most challenging risks to place.

Cross laminated timber/ hybrid/ timber frame construction – with the construction industry facing pressures around environmental, social, and governance (ESG) we are likely to see more of these types of projects in the near future. However, despite the global drive behind this initiative these types of risk continue to be a challenge in the context of the insurance world and will be for the foreseeable future, unless new capacity enters the market and underwriter perception shifts. We continue to monitor the market. However, appetite remains lukewarm at best, with underwriters taking the view these types of building methods present too much exposure to their underwriting portfolio, not helped by a number of high-profile fire losses in the market. We do have a handful of lead insurers prepared to offer a solution to our clients if projects are modest in size, single dwellings low-rise, or part of a larger portfolio and underwriting information around design and risk management is of a high quality. As these types of risks start to become commonplace, we are hopeful insurers take a more proactive approach to this sector as 2023 develops and beyond.

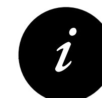
Project extensions also continue to be an issue with uplifts on rates and increased deductibles required to extend the policy beyond the agreed end date. Extension provisions on policies no longer allow for unlimited extensions at pro rata rates, so they are negotiated based on the risk exposure at the time.

Lengthy construction periods and disproportionate “Delay in Start Up Sums (DSU) Insured” - Construction periods greater than 5 years are proving difficult for some insurers, essentially due to the inability to accurately predict future reinsurance costs. DSU sums insured that exceed 30% of the estimated contract value will automatically rule certain carriers out of that placement owing to treaty restrictions.

OUTLOOK

We anticipate further stabilisation of the market with established lead insurers. With a dearth of capacity and appetite, there will be continued challenges around refurbishment projects and cross laminated timber/ hybrid/timber frame both in the UK and the US markets.

Vertical/split placement solutions will continue to be commonplace on market capacity risks or the more challenging placements.



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CONSTRUCTION

SURETY

Ben Milan

Pressure on industry starts to ease

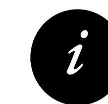
The UK construction sector has recently sustained some notable losses, but there are signs that the end of the turbulent period of daily insolvencies is in sight. Where liquidity has been key to survival over the past 24 months, the squeeze on contractors might just be starting to ease: construction material prices are falling, the Bank of England interest rate has remained flat for a sustained period (even with a potential reduction on the horizon), and many legacy "COVID" fixed price contracts are closing out. This should all be good news for those who had the balance sheet strength to withstand the past 24 months of industry distress.

For many sureties, 2023 was the worst year on record and consequently, appetite for the UK construction sector has been significantly tightened. Two sureties have even exited the market in 2023. The market conditions have caused a major squeeze on capacity for this sector and has presented further challenges for some contractors. Bond capacity and availability have been recurring themes in conversations with contractors on the conditions of the UK construction surety market. The recent insolvency of a £400m+ contractor has once again highlighted the importance of bond arrangements and the challenges that the lack of readily available capacity can present.

With appetite for UK construction reducing, many sureties have been turning to other sectors/products including Insurance Deductible Guarantees, Decommissioning & Restoration Guarantees, and bonds related to Power Purchase Agreements, to try and fill their incurred revenue shortfall. Nevertheless, most sureties remain receptive to UK construction risks. Further, rumours of new sureties entering the market are becoming true with one new surety having already entered in Dec-23. Another is expected early Q2 2024, and another is potentially looking to enter Q3 2024.

Anticipated bond rate increases have materialised across all sureties. Increases were arguably a long time coming as throughout COVID, rate increases were minimal. However, with significant losses incurred which will take some time to recover from, sureties and stakeholders are now seeking a return to profitability. Current rate increases appear justified and reasonable, kept at bay by market competition.

Our outlook for the UK construction surety market remains cautiously positive. Sureties are still looking for sound, profit making businesses with a healthy cash/liquidity position and a strong tangible net asset base. The market does understand the challenges the industry faced over the past 18-24 months and is willing to support clients who have faced bigger difficulties where possible. We are seeing a large increase in demand for the product, especially from employers who have not had the security of a bond in place. This demand is likely to continue rising. As the days get longer and the weather improves, contractors may be able to close their remaining legacy/problem contracts more efficiently. In the absence of major, market moving insolvencies in spring/summer of 2024, the market could see improvements throughout the year.



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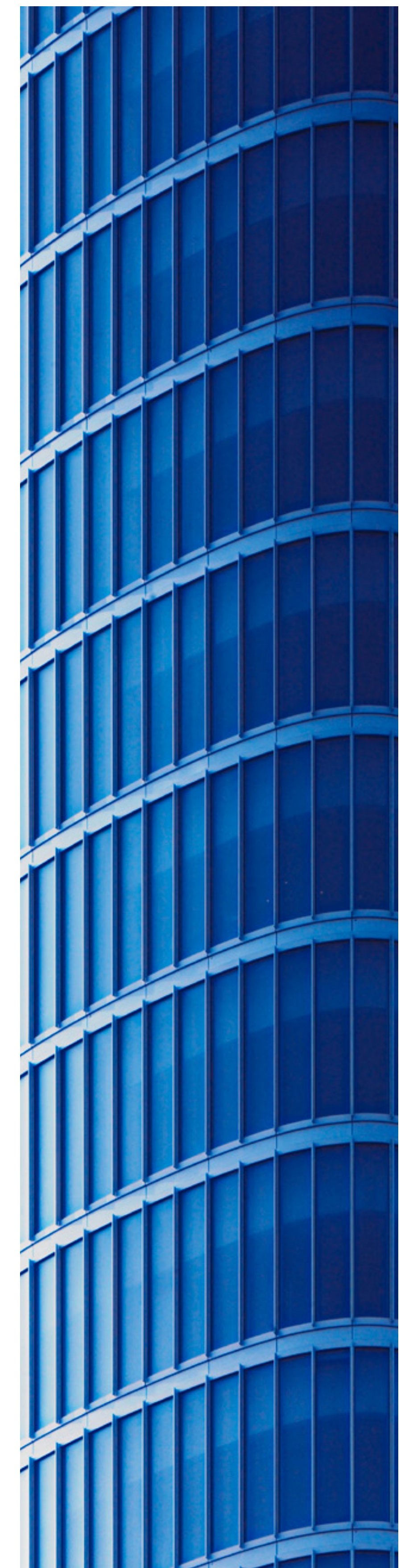


15.

MARINE & TRANSPORTATION

HULL AND MACHINERY

Michael Reynolds

The London hull market has a renewed hunger for business

After years of cumulative rate increases that have, to an extent, resulted in improved underwriting results, we are now seeing significant capital entering the class.

Existing carriers are taking larger shares of risk and are aggressively pursuing growth. In addition, several managing general agents (MGAs) have entered the market, including Fortify in 2023 and AI in 2024. In combination with underwriters chasing business, this has contributed to falling rates in 2024.

The market softening is different from the last in that this time, most hull slips are a verticalised placing, often with insurers writing their own slip at their own price, instead of following the leader's terms.

With underwriters basing their pricing decisions on their own rating models, anyone can effectively buy in to a placing for a share.

The broker's job is therefore to get a composite price – from within the same market and across markets. We are often able to improve this composite price by reallocating shares within the current placing structure to reduce premiums for the ship owner.

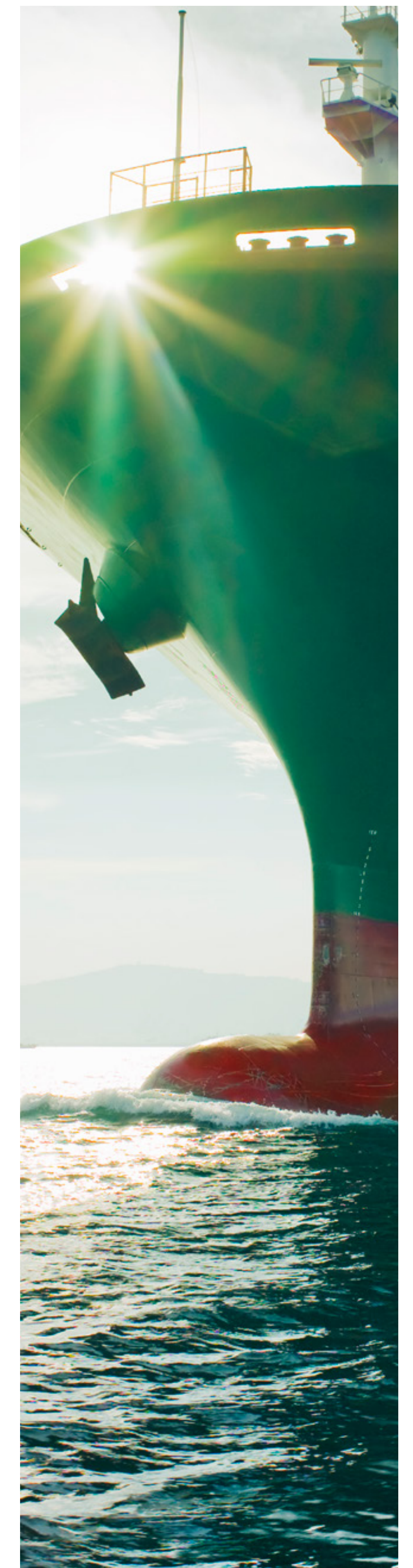
Shipbuilding volumes are at an all-time high and Lockton Marine has just completed a €2.1bn cruise ship construction. We anticipate this trend to continue with shipyards the worldwide busy with orders, both commercial and naval.

The hull market has been somewhat distracted, and up to a point subsidised, by the war account in 2023. Often the same underwriters are writing both portfolios, and the underwriting results have improved. This was also the case post pandemic, when the reduced ship trade contributed to fewer claims for the insurance industry. However, machinery claims seem to be picking up again, and loss ratios are creeping. It could well be that underwriters get squeezed in three ways in 2024: higher claims frequency, inflationary pressures, and falling premiums. The impact on results could be dramatic, but for now shipowners with a decent loss record can expect their broker to achieve improved pricing with the extra options and capacity available.

WAR RISKS

The current geopolitical instability is keeping the spotlight on the war market. Underwriters faced a significant change in the way they operated at the start of 2023, when reinsurers imposed Russia/Ukraine/Belarus (RUB) exclusions from 1/1 without any run off provision. Instantly, underwriters were writing on a net basis, and significant capacity was thus withdrawn from the market. This development was ultimately to the detriment of shipowners. The market was proactive in looking for solutions: Lockton has, for example, developed a net line facility aligned to our main covers and imposed port aggregation limits to enable underwriters to control their exposure.

The market began to function with the reduced capacity, helped by the fact that most RUB exposed vessels were of lower values. We have learned to deal with the various sanctions protocols and price cap regulations.

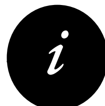


In mid-2023 the claims for vessels trapped following the initial Russian invasion became due, many with a negotiated settlement to the original owners or third parties.

Meanwhile, the Israel/Gaza conflict has evolved into threats to, and attacks on shipping in the Red Sea. These were initially allegedly aimed at vessels linked to, or trading with Israel. But since the US, UK, and other allies started engaging in bombing Houthi rebel sites in Yemen in an attempt to protect global trade, the industry is closely monitoring the situation for potential signs of escalation. The worst-case scenario would involve the conflict spreading to the Persian Gulf and the Straits of Hormuz. The resulting disruption to tanker trade would have major implications for the world economy, and by extension, the insurance industry.

If this wasn't enough, vessels have recently been threatened by Somalian pirates who may be taking advantage of the chaos further along in the Red Sea and the Gulf of Aden.

So far there are no concrete signs of a solution to the current conflicts and the shipping market will need to prepare for more of the same in the rest of 2024.



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MARINE & TRANSPORTATION

P&I

Filippo Fabbri

Plain sailing in the absence of Black Swan events

The mutual protection and indemnity (P&I) clubs concluded their renewal season (all policies renew on 20th February) with a modest uplift in rates. Our estimation at this early stage is that the market (the 12 mutual clubs insuring around 85% of all the ships in the world) achieved an increase of about 3% in cash terms and 4.5% if change in individual retentions is factored in. This is slightly below the targeted 5% ahead of renewal.

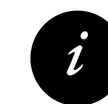
The tariff reinsurance contract was renewed at a reduction for all ship classes but with significant reductions for passenger/cruise vessels. This reflects the good record of this sector and the $1bn payment, spread back over 10 years, otherwise known as the “Costa Concordia” claim. The renewal was the first for some years where most clubs did not mandate their general Increase but were prepared to negotiate around individual client’s records.

Moving forward, we can anticipate more of the same. The classic drivers are, at time of writing, benign: pool claims (high value claims of more than $10m shared by the 12 clubs) remain at an average level, attritional claims are consistent and predictable, the reinsurance market is proving supportive, and investment income is back at positive levels. Whilst individual combined ratios are back at break even or below, and despite the current benign environment, we would still anticipate the market to want a small increase next year, probably up to 5%.

This is, in part, predicated by the scrutiny of Standard and Poor’s, as most clubs are still operating from a negative outlook. Indeed, the American Club has just been downgraded in the last few weeks. However, we do not see other clubs being downgraded and expect many to be given stable or positive outlooks. We also anticipate that some clubs will consider a capital return next year – the Steamship Mutual, Britannia, and the Gard all did so for renewing members this year.

All of this is assuming the absence of Black Swan events – recent years have seen pandemics, war, sanctions and general geo-political instability. As ships drive the world economy, (as the saying goes, “90% of everything at some point goes by sea”) macro events have a quick and volatile effect – this plays through swiftly to the mutual insurers.

One of the other key drivers will be the introduction of European carbon emission requirements for all vessels trading in EU waters, which requires a carbon offset based on the calculated emissions generated during the time spent in the waters. The requirement increases over the next few years, and we are actively looking at potential solutions around the liability and delay aspects of the requirements. Further, we are actively lobbying the P&I clubs to do more to assist shipowners beyond simpler advice. We have noted major ship owners showcasing an increasing tendency to select service providers based on their “green” credentials.



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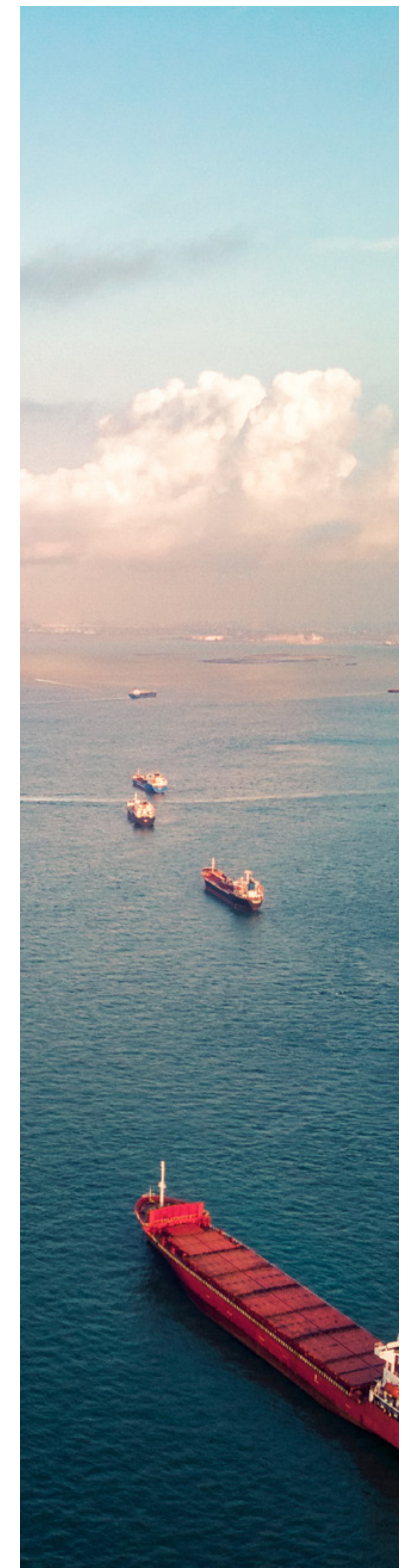


PORT & TERMINAL MARKET

LIABILITY & PROPERTY

Michael McGratten

Capacity influx offsets outflows

The market continues to be challenging but clients are facing lower rate increases across the board as years of hardening rates attract new capacity.

While a few insurers have pulled capacity out of the marine liability market in 2023, this trend has been offset by a significant amount of new capacity entering the market in 2024. This is due to the multi-year hardening of rates which are up around 50% since 2019, creating a more attractive environment for insurers. Probitas (recently acquired by Aviva), the Ark Consortium, Dale, Everest Re, SiriusPoint and Sompo are all looking to deploy meaningful new capacity as well as new leadership options into the liability market.

Nevertheless, underwriting discipline continues with the omnipresent background of social inflation justifying a continued push for rate rises. The market will be more responsive to client objectives as new capacity will be used to drive better outcomes for clients. Optimum data is required for port property accounts, including risk engineering surveys.

LIABILITY TRENDS

- Wet bulk and grain terminals continue to face challenging renewals; coal terminals do, too, due to environmental, social, and governance (ESG) concerns
- Excess liability underwriters are reviewing the scheduled non-marine underlyings (specifically auto liability) and are requiring higher minimum attachment points (no longer accepting USD1million underlying auto limit for fleets of significant size)
- There is a recognition that back years, predominantly 2015 to 2019, are continuing to develop at a rate greater than prior expectations.

PROPERTY TRENDS

- Insurers require substantial amounts of data including risk engineering reports & detailed asset schedules prior to quoting
- Valuations remain a significant discussion point - due to inflation and higher replacement costs, insurers will challenge flat values
- Expect continued verticalization, with insurers participating at different price levels
- While the frequency of natural catastrophe (NatCat) losses, such as severe convective storms, may have risen in 2023, there was no single large loss like 2022's Hurricane Ian, which sent a chill through the property reinsurance market toward the end of the hurricane season
- Tropical Storm risk's extended range forecast for the 2024 season is for an above-average season with 20 named storms, 9 hurricanes and 4 major hurricanes

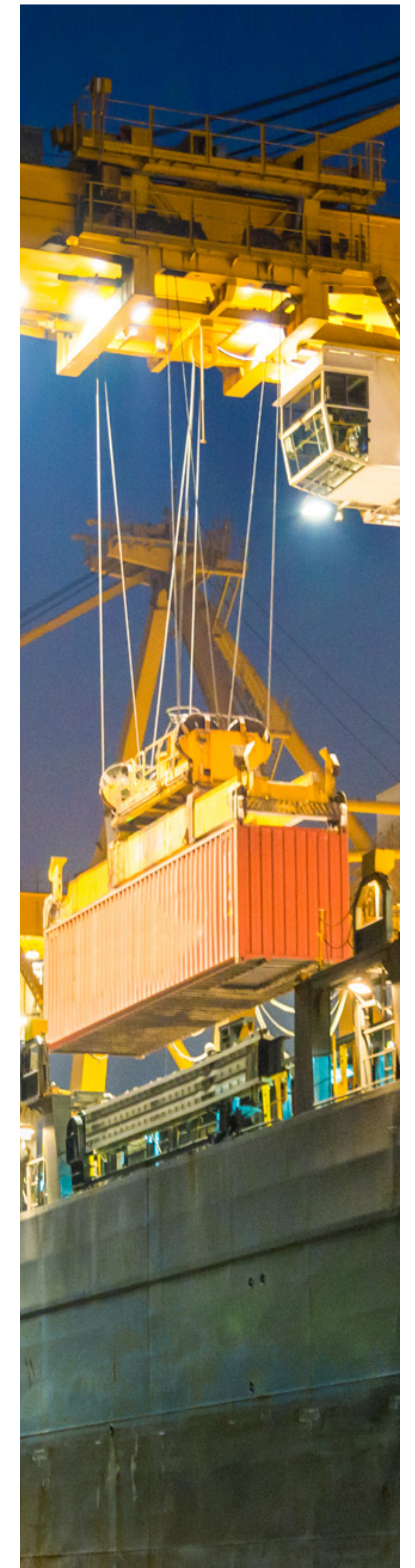
RATE ENVIRONMENT

A benign Gulf wind season has been offset by some sizeable attritional non-cat claims. The premium base is well placed to withstand modelled losses after a prolonged period of rate rises. The fear of shock losses affecting the volatility of the account will keep insurers disciplined as the cost of capital remains high.

RATE EXPECTATIONS

All things being equal, we anticipate risk adjusted rate increases in H1'24 for clean accounts in the following ranges:

- Marine liability: +2.5% to + 7.5% (result dependant on exposure to long tail liability)
- Excess liability: +2.5% to + 7.5% (focus will be on whether net premium for share is an optimal use of capital)
- Clean marine property non-cat: flat to +10%



- Clean marine property cat: +5% to +10% (very location specific)
- To mitigate rate rises, deductibles and sub-limits may need to be reviewed, certain coverages aggregated or conditions tightened
- Loyal accounts do receive beneficial terms whilst underperforming accounts are subject to larger rate rises

We anticipate the market moving towards a more stable rating environment in H2'24.

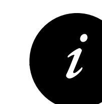
RECENT PORT & TERMINAL MARKET LOSSES

Half of maritime incidents are occurring in ports and terminals, according to Rightship. Many of these risks are out of the ports' control. Ports need to be ready to deal with issues as they occur, while also making sure their operations are not disrupted.

Figures shown are estimated for London markets unless stated.

- Latin American bulk terminal – Q4'22: fire PDBI > USD35m
- Hurricane Ian - Q3'22: – although a small port loss as it avoided Tampa, it was relevant as it hit the property cat/reinsurance and retro markets.
- Middle Eastern Port - Q2'22: chlorine gas explosion during vessel loading > USD10m
- US LNG terminal explosion - Q2'22: USD7m
- Peruvian terminal - Q2'22: USD600m (marine tower only - strict liability)
- Latin American bulk terminal - Q1'22: handling equipment PDBI > USD13m
- Hurricane Ida - Q3'21: largest port related claims being:
  - Port Fourchon area ~ USD125m damage – split between London and US markets
  - Port of New Orleans ~ USD40m
- Indian cyclone - Q2'21: PDBI USD20m
- UK grain terminal explosion - Q3'20: GBP90m
- Hurricane Laura - Q3'20: PDBI USD150m
- 4 separate vessel allision claims totalling > USD100m since 2020
- For P&I business, while 2023 saw benign claims activity, underwriters are still concerned about mounting costs of dealing with major incidents, especially after the USD800m Golden Ray loss.

The above incidents are in addition to the 2019 losses at ITC Deer Park (USD175m) & NuStar's San Francisco fire (USD75m).



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16.

CARGO

Jack Barker

Cargo market remains stable amid global conflicts

The London cargo market continues to prove its stability to assureds in 2024 due to increased capacity, new entrants trading more actively since early 2023, a relatively static January reinsurance treaty renewal season, and more balanced profitability booked over the past few years. However, insurers' reaction to geopolitical conflicts may require creative solutions and persistent negotiations to ensure appropriate protection.

FAVOURABLE CONDITIONS FOR BUYERS

An overall upbeat market environment has resulted in Lloyd's syndicates looking to grow their market share. Renewals are generally treated as 'flat' on prior year's rating, assuming no major losses or other factors have influenced the client's risk profile.

In addition, we're increasingly seeing more competition for new business, with many carriers showing less restraint on offered capacity in relation to premium while creating new and innovative products to set them apart from their competitors.

It is also worth noting that a great proportion of the growth in the cargo market has been caused by the restructuring of traditional property placements which saw inventory risks moving into a Stock Throughput product underwritten in the marine cargo market – a concept which has been around for many decades but became increasingly popular during the last hard market cycle in the property market (mainly US).

NEW SYNDICATES/START-UPS:

- Sirius has re-entered the cargo market
- Axon Underwriting has opened a London office

NEW CONSORTIUMS SET UP IN LONDON:

- Build Consortium - Brit/RSA for project cargo and Delay in Start-up (DSU)
- Chubb Battery Consortium

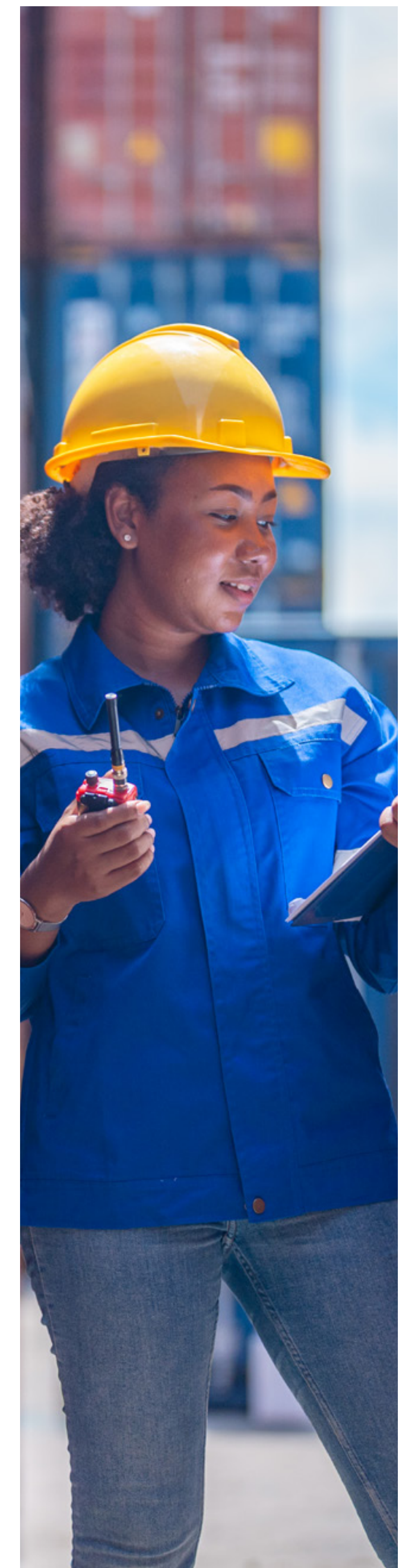
As is usually the case when capacity and competition increase, underwriters have been moving jobs more frequently, including:

- Joanne Reynolds has joined Axis.
- Ben Farley has joined Axis.
- Ryan Godfrey has joined Sompo.
- Rachel Waker has joined Liberty.
- William Warden has joined Talbot.
- Richard Grant has joined Aviva.
- Leigh Meekings has joined Everest.
- Brendan McCarthy has joined Everest.

Underwriters currently serving their notice:

- Gavin Wall (Ex-Ascot)
- Chris McGill (Ex-Ascot)

We're increasingly seeing more competition for new business, with many carriers showing less restraint on offered capacity in relation to premium while creating new and innovative products to set them apart from their competitors.



WAR RISKS

The continuous events in Russia and Ukraine, alongside recent events in the Red Sea, have created new supply chain disruptions. This is driving insured values higher for Stock Throughput risks, requiring more capacity.

Meanwhile, some markets have issued Notices of Cancellation in respect of war coverages because of the events in the Red Sea and Israel-Gaza. However, this seems to be through an improved and more calculated method rather than just blanket notices issued to clients with no exposure in these regions.

We are closely monitoring geopolitical developments, but since the conflicts show no signs of quick resolution, we are anticipating cargo insurers to issue more war, strikes, riots or civil commotion (SRCC) cancellation notices to cargo policyholders.

There is usually a seven-day notice period to cancel and opt for reinstatement of the affected regions. If your insurer doesn't offer a war reinstatement or the offer is not competitive, we have a Cargo War Facility that may cover all war related risks. This facility can, for example, include:

- USD250 million limit for cargo and USD400 million for hull
- No combined single limit between hull and cargo interests
- Ability to cover Russia/ Ukraine/Belarus risks with USD100 million limit each section
- We recommend looking for alternative options only if the reinstatement offered by your insurer is not competitive.

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17. AVIATION

Doug Ogilvie

The market recovers from losses

AEROSPACE

Many insurers within the aviation sector have faced a long period of uncertainty due to the issues and challenges caused by the pandemic, the Russia - Ukraine conflict, and continuing historical loss developments. Nevertheless, the aerospace insurance market remains relatively stable.

For major manufacturers and larger original equipment manufacturers (OEMs), a stable market environment has suppressed premium increases. Other sub-classes have experienced very modest premium increases reflecting exposure changes.

However, insurers have reviewed coverage for certain pricing extensions and restrictions are in place. There remains focus on claims activity, frequency, and severity and increasingly on customers' turnover projections, either organic or through mergers and acquisitions.

Overall, insurers show a strong appetite for aerospace risks. Many insurers are striving to grow their market share and premium base, which is likely to benefit buyers.

AIRLINES

Due to a low claims level in 2022, the airline hull and liability sector saw capacity growth during 2023, not only due to the addition of several new markets but also increased appetite from existing markets. This has resulted in strong capacity leading to a softening of rates.

Day-to-day airline loss levels remain below average, perhaps helped by the fact that the COVID pandemic led to the early retirement of older technology/aircraft types. New generation, high tech and more fuel-efficient aircraft are replacing older fleets. This reflects the airline sector's increased focus on the environment but is also providing the market with a much more benign loss picture.

In the absence of a major loss event, capacity withdrawal or deteriorating loss experience, the current airline market trends are likely to continue into 2024.

HULL WAR, EXCESS WAR THIRD PARTY

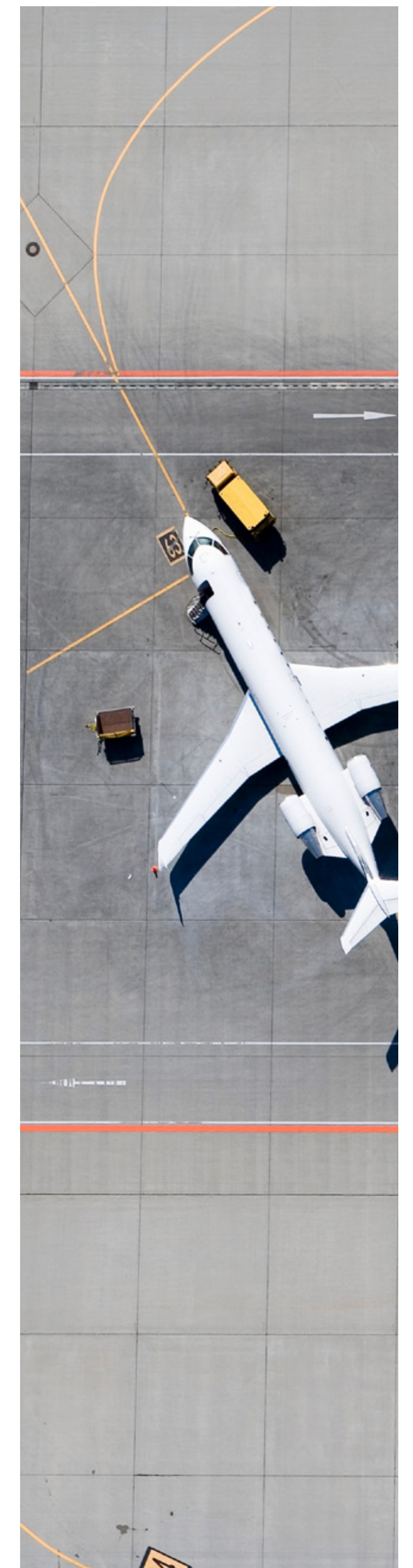
Hull war and excess war third party markets continue to be affected by the unresolved issues surrounding the Russia/Ukraine conflict.

Although new market capacity appeared in 2023, capacity remains tight, and the rating trends remain upwards. The unresolved potential claims from the Russia/Ukraine conflict are still having a significant effect on war market negotiations. The start of the first legal trials scheduled for 2024 covers a large portion of the overall estimated claims amount. However, various other court proceedings in several jurisdictions will also take place around the world with little visibility for the verdicts.

Some lessors announced partial recoveries from Russian state-owned insurance companies in late 2023, but in contrast, several aircraft lessors also filed fresh claims against insurers in London. The overall estimated quantum of potential claims is still significant and continues to concern the markets. Insurers will remain cautious until it is resolved.

The conflict in Sudan in April 2023 resulted in several hull war losses totalling in excess of USD200,000,000. It is worth noting, however, that the market currently can absorb such a loss as a stand-alone event without too much overreaction.

Global insecurity and geopolitical instability will continue to attract the market's attention, with underwriters monitoring their exposures carefully.



GENERAL AVIATION

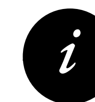
The general aviation sector has attracted significant capacity since the end of 2023 and is currently in a buoyant state. After years of hardening market and fewer losses, insurers have viewed the smaller aircraft sector a profitable and less risky sector. As a result, we have seen existing insurers prepared to deploy larger participations on new business and give "as before" or less on renewal rates to maintain their business and growth. Over and above this, we have seen the growth of managing general agents (MGAs). They have added significant capacity to the sector, creating more competition and pressure on rates and premiums.

We are seeing lower renewal and new business rates for clients, but it is not clear how long the softening market is going to last. Although there is a lot more capacity, and thus more competition, the losses are starting to build while reinsurance premiums are not reducing. This is slightly concerning because lower premiums mean tighter margins when costs are increasing, and we have already seen the exit of one syndicate from the market.

While the outcome of renewals will be shaped by utilisation, losses, mission profile, and geographic limits, insurers' willingness to write competitive business now is likely to benefit clients.

OUTLOOK

- Uncertainty and fallout from the Russia/Ukraine conflict continues.
- Strong capacity in both the airline hull and liability sector and general aviation sector providing positive results for clients as markets seek to retain market position.
- Stable aerospace market prevails.



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18.

SPACE

Russell Sawyer

Lockton team arrives at pivotal time

The new Lockton Space team arrives at a pivotal time for the market. Losses in 2023 far exceeded premium – depending on how you cut it there was approximately USD550M of premium to the market and between USD970M and USD1,400M of losses (depending on insurers' accounting methods).

Chiefly amongst those claims are failures in the commissioning stage of two large satellites: Inmarsat 6 F6-2 and Viasat-3 Americas. The combined losses totalled USD770M. A number of space underwriters are now under immense pressure following last year's bad run. Nevertheless, only one entity, Brit Space Consortium at Lloyd's, has so far ceased to write the class. The immediate reaction of the remaining insurers has been to look for approximately double the level of rating that they would have considered acceptable same time last year. Insurers are also reacting to the pressure from management by seeking to ensure they are not overly exposed relative to their peers. A manifestation of this has been that markets which would have underwritten small risks to a 100% will now only take 50% of the risk. At the other end of the scale, the available market capacity, on a working basis has reduced by approximately USD100M. However, it should be emphasised that currently there is still plenty of capacity for most large risks. Having said that, this year's reinsurance treaty renewals will be tough for the direct markets and there may well be further reductions in capacity.

It remains to be seen whether these measures will be sufficient for all market practitioners to hold onto their posts throughout 2024. Space insurers will struggle to be profitable in 2024 as there is always a time lag on rate "corrections". Launches are typically placed, and rates set around 2 years before the actual launch date. Plus, there seems to be a generic failure across 3 O3B satellites that could generate a total claim of USD470M.

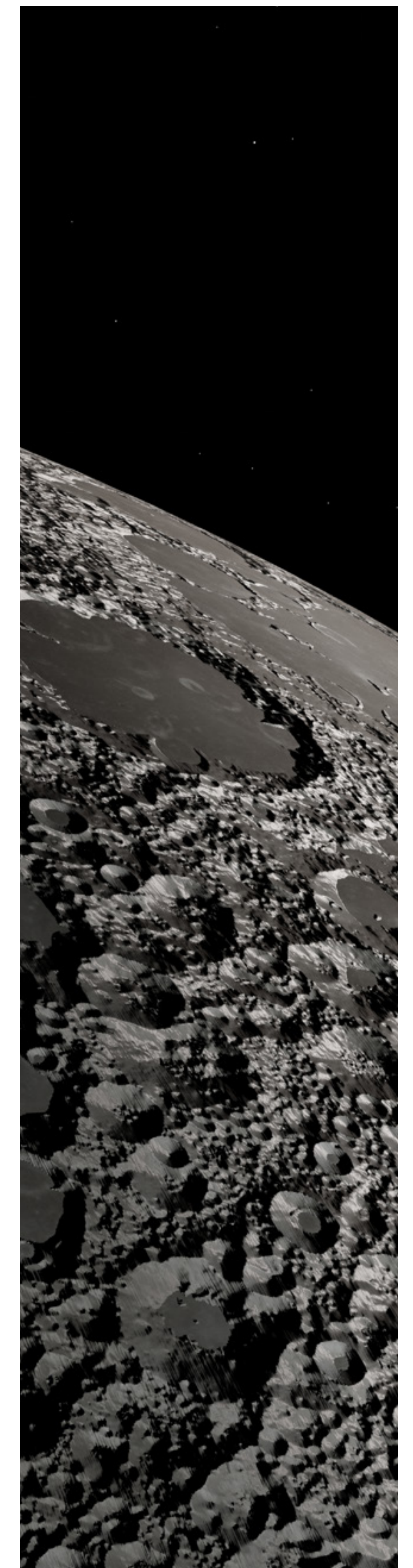
The string of losses in 2023 comes from a variety of sources. An inherent problem with the space insurance sector is that it covers a very small number of launches and in-orbit risks. There isn't the spread of risk that insurers can expect in other classes.

RECENT LOSSES

Satellite/mission name	Date of loss (estimated)	Expected loss
Inmarsat 6FS	Aug '23	$350mn
Arcturus (Aurora 4A)	Jul '23	$40mn
ViaSat-3 Americas	May '23	$421mn
Azersky (Spot 7)	Mar '23	$30mn
Alos-3	Jan '23	$12mn
Pleiades NEO 5&6	Dec '22	$230mn
QPS-SAR 3&4	Oct '22	$11mn
MEV 1&2	Sep '22	$100mn

Launch vehicles have generally performed successfully with the SpaceX Falcon 9 doing most of the heavy lifting at the moment. But the two significant failures of the large communications satellites in 2023 eclipsed premium before even considering smaller attritional losses. The failure of these satellites seems to be design testing related. This proves that even as the sector matures, space is a risky business. With new designs and technology there is no guarantee things will work as per simulations.

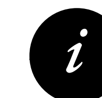
Space insurance claims tend to be controversial due inherent problems in covering assets that you cannot inspect in the event of a loss because they are 22,000 miles away. Further, the cover protects the service over lifetime. This recent string of losses has, however prompted calls



from insurers to review or tighten the cover. Previously it included the effects of remedial actions which have been taken to avoid further failure and predictions as to the future performance of satellite sub-systems. Insurers are keen to find out if some of the claims could have been reduced or eliminated through tighter wording, but it is vital that the market continues to provide cover which meets clients' requirements. This will no longer be the case if genuine losses don't result in valid claims. Lockton will be working hard to ensure any changes are measured and proportionate.

Sadly, for the foreseeable future, the insurance budget for a given project will need to be significantly higher for the same level of cover. It also means that the delta between a skilfully executed placement and a more hastily conceived one may have the potential to be greater than in softer markets. Insurers will want to ensure they have the full technical picture before agreeing to write a risk.

Undoubtably, in this environment, the need for experienced and knowledgeable market experts comes to the fore. Come and talk to us!



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19.

ENERGY

POWER MARKET

Alex Irvin

Shift in rate expectations

Towards the end of 2023, we began to see a shift in the markets' rate expectations whereby low single digit rate increases and even flat rate renewals were becoming achievable. This followed a relatively stable year for losses in the global power market and the replacement of expensive capacity, which had been utilised throughout the harder market period. These developments have meant that we have been able to achieve programme rate reductions for clients with clean loss records and high standards of risk quality and asset management.

CAPACITY

New underwriting capacity entering the power market is still relatively rare. However, we have seen a limited number of new entrants over the past year. Among them, Tokio Marine HCC International is perhaps the most notable. The carrier is set to start deploying capacity in London by the end of Q1 2024. This additional capacity will create more competition and is likely to assist in driving down rates.

COAL APPETITE

Driven by the Russia/Ukraine conflict and subsequent disruption of gas supply into Europe, global coal consumption reached a record high in 2022. Nevertheless, coal risks remain difficult to place in the London Market unless they are presented with a very compelling ESG strategy. A handful of markets have shown a level of flexibility with regards to coal accounts in combination with the "social" aspect of ESG since some territories remain heavily reliant on coal as their primary energy source. Generally, limits and deductibles for coal accounts do remain constrained. While placing coal risks in the London Market remains challenging, there are carriers that are willing to support clients at different stages of the energy transition.

INFLATION

Business interruption values have seen significant increases globally in the wake of the Russia/Ukraine war. Despite a stabilisation of fuel supply throughout 2023, business interruption cover has been the most damaging area for power insurers' loss ratios. Over the past 18 months, underwriters have therefore focused on 'volatility clauses' that look to manage exposures and have introduced caps on a 'per generating unit' or 'per month' basis.

Insurers also continue to scrutinise "declared property values". Insurers are witnessing the impacts of inflation through claims and are keen to understand how clients have arrived at their renewal values. If insurers have the impression that inflation is not adequately reflected in the declared property values, they may decide to adjust rates to compensate for it.

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ENERGY

RENEWABLE ENERGY

Harry Sans

Insurers react to Nat Cat losses

The renewable energy sector has experienced an uptick in natural catastrophe (Nat Cat) losses in 2023 and is consequently adjusting its underwriting approach.

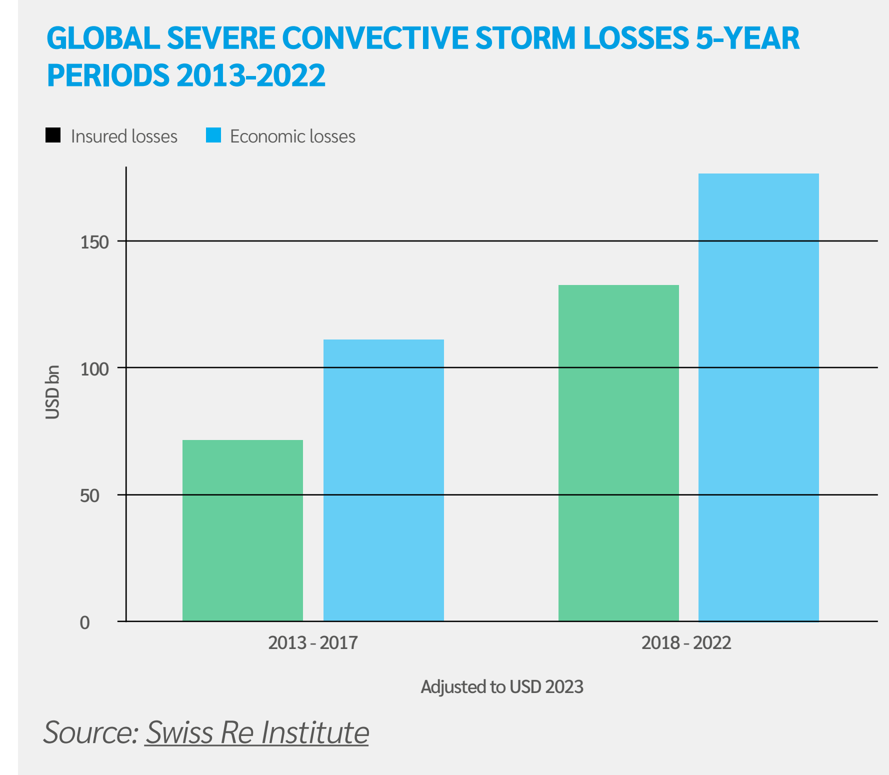
Losses have been caused by wind, severe convective storms, wildfires and floods. Historically insurers saw these perils from specific regions in the world. However, as the transition to renewable energy production is expanding across the globe, insurers are experiencing a re-calibration of claims distribution that is emphasising regions such as the Middle East and Australia.

As a result, some insurers are reducing the line sizes they are willing to deploy, adding sublimits for specific NatCat perils, and applying higher deductibles than included in a standard 'All Risk' policy.

Severe convective storms such as hailstorms, tornados, or thunderstorms are particularly concerning for insurers. Severe thunderstorms have been the main contributor to a high number of low-to-medium severity events causing more than USD 100 billion insured losses globally in 2023, according to Swiss Re. It is the first time ever that severe thunderstorms have caused this level of loss for the industry.

Losses from severe thunderstorms have steadily increased by 7% annually in the last 30 years. 2023 marks an increase of almost 90% compared to the previous 5-year average (USD 32 billion), and more than doubles the previous 10-year average (USD 27 billion).

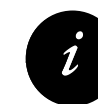
> Losses from severe thunderstorms have steadily increased by 7% annually in the last 30 years.



Source: Swiss Re Institute

Insurers have decreased appetite for severe convective storms risks and are applying very low sublimits. This can create issues for projects as the insurance provision may not meet lender requirements. As a result, project owners are often having to purchase standalone excess layers to meet the lender requirements. These policies can come at a significant cost.

Despite the negative outlook on Nat Cats and the specific vulnerability of solar projects to this peril, there is now more "follow" market capacity available in London. This additional capacity is the result of pressure from senior management at underwriting companies who are looking to support the energy transition and meet their own environmental, social, and governance (ESG) requirements.



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ENERGY

OIL AND GAS

Sarah Humphries

Shifting trends

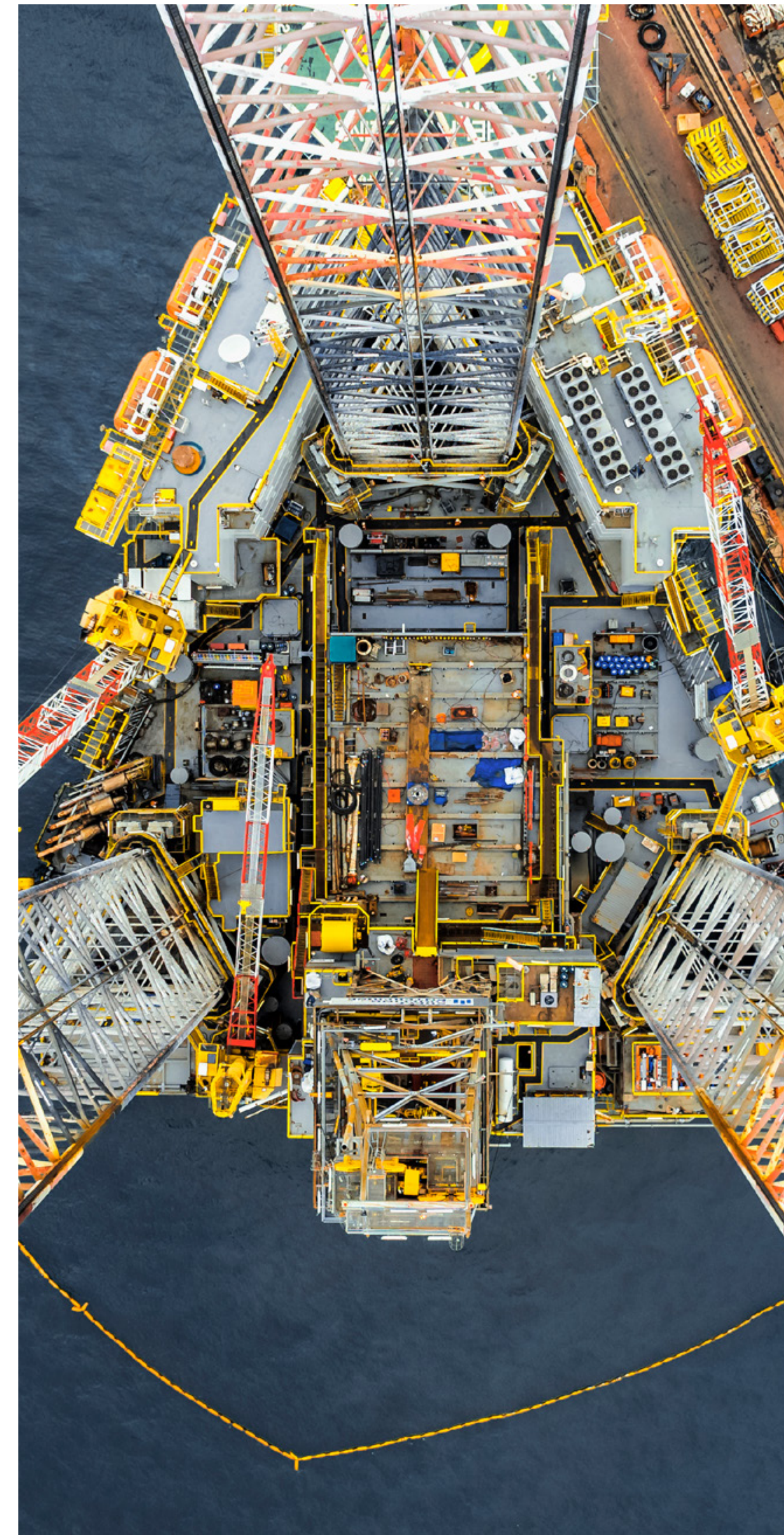
The downstream market is experiencing a slight softening while midstream risks have become more challenging to insure in what can be described as a trend reversal.

The softening in downstream is being caused by underwriters who are becoming more comfortable expanding their line size for on energy risks. This trend means that clients with good loss records and good engineering quality may be able to achieve flat to single digit rate increases at renewal. The outcome will, however, depend on the buyer's Nat Cat exposure.

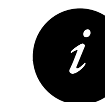
We're witnessing a similar market dynamic for upstream risks, as the rating environment has stabilised from this time last year. Whilst upstream insurers continue to seek rate increases, there has been little momentum building behind this. A benign treaty reinsurance renewal season, the widely reported improvements in insurer profitability, and a continuation of capacity surplus are all contributing to ease any material uplifts in rates.

Meanwhile, the midstream market has become more challenging than downstream. This follows significant midstream losses from prior years, including Freeport LNG and Oneok. Midstream buyers have previously been able to rely on upstream carrier appetite to mitigate rate increases. However, this competition is now more limited as the upstream underwriters' appetite for midstream risks has been satisfied over the past few years. Midstream clients can now expect +5%-10% rate increases at renewal.

Despite a slowdown in inflation, physical damage valuations and the accuracy of declared business interruption figures remain a concern for carriers.



To achieve a good outcome at insurance renewal, long term relationships between clients and carriers have proved critical, particularly if the aim is to smooth market cycles. Further, we do recommend starting the renewal process early and taking advantage of opportunities to have in-person meetings with underwriters where possible.



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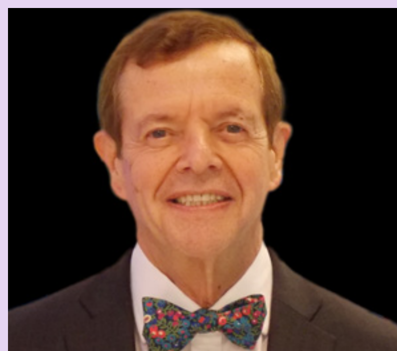
20.

SPOTLIGHT ON MENA



David Way

Region largely relies on international markets for major risks/specialty classes

The insurance market for risks in the Middle East and North Africa region (MENA) has many similarities with the rest of the world, but it also has some quite distinct features. Regional insurers can adequately deal with medium sized enterprises and traditional policies but are largely reliant upon international reinsurance for major risks and speciality classes of cover. And of course, all are impacted by the cycles of the insurance sector, which for property policies means generally moving from the "toughening" of the past few years towards a "softer" pricing regime this year.

SIGNS OF A MARKET CORRECTION AFTER YEARS OF A HARD MARKET

After five or six years of rate increases, the property insurance market appears to have reached a peak (for the time being, at least) with many insurers feeling that a comfortable level of rate adequacy has been accomplished.

For the beginning of this year, the general view is that whilst property insurers are not always offering rate cuts for existing policies, clients with favourable loss records are often securing discounts when insurers who are new to the business jump in with lower prices, squeezing the incumbent insurers.

Many underwriters are under pressure to expand budgets this year. Carriers have switched from constrained growth mode during the past claims-impacted years to a more optimistic approach following significant rate increases, seeking growth and expanded market share.

This is driving competition both in insurance and reinsurance. Carriers are displaying more appetite for business, based on favourable year-end results supported by the increased availability of reinsurance this year from the January renewals.

The recent results of major international insurer Allianz (AGCS) demonstrate why this positive attitude is prevalent this year.

AGCS OPERATING PROFIT UP 20.6% TO EUR 953MN

[23 February 2024] Allianz Global Corporate & Specialty (AGCS) has reported 2023 operating profit of EUR 953 million ($1 bn), up 20.6% compared with the year before.

At group level, Allianz reported operating profit for the year of EUR 14.7 bn, up 6.7% year on year.

GEOGRAPHICAL DISTINCTIONS

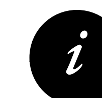
However, there are obviously differences based on geography, and the future is not necessarily "rosy" everywhere. Inflation is a cause for concern across the world, with the pressure it brings to the rising cost of repairs and other claims. In the MENA region there has also been an increase in unexpected weather-related losses, especially wind and flood, unusual in what is mostly a desert area.

Whilst most of the region does not suffer from the traditional natural catastrophe (NatCat) perils of earthquakes and hurricanes, (and the newly termed "severe convective storms") there may be some disconnect between reality and the perception of today's catastrophe exposures in this "desert" region.

GEOPOLITICAL RISKS

Unfortunately, it's necessary to highlight the evolving geopolitical risks of the region, including the recent Red Sea crisis and its effect on shipping costs and shipment / delivery delays impacting claims restoration costs and business interruption periods.

And of course, conflicts in the region have a significant impact not just on insurance but also bringing about human tragedy and distress. We hope that there will be a resolution of these issues in the near future.



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