LOCKTON COMPANIES LLP

Insurance Market Update

H2 2021

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UNCOMMONLY INDEPENDENT

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FOREWORD

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Welcome to our second edition of the Lockton Companies LLP Insurance Market Update

We hope you find the latest content informative and that it provides you with useful insights to current market trends and challenges.

As always, we would welcome any feedback on any additional commentary that would be beneficial in future editions.

Thank you to all our contributors, for giving their time, knowledge, and insights across 16 business segments, including reinsurance. This edition sees a new territory spotlight feature. We are delighted to have commenced the series with Australia.

As we enter the last quarter of 2021, we have seen some amelioration in rating increases with new capacity entrants and remedial rate correction now starting to bolster insurers combined ratios.

Conversely, the cyber market, due to increased claims notifications has seen the sharpest price increases and capacity reductions across all insurance lines of business.

Global property and casualty commercial insurance pricing has slightly abated, but concerns remain regarding social inflationary pressures.

The increase of frequency in severe natural catastrophe events continues to be of concern, together with all things environmental, social and governance (ESG).

More encouraging news has emerged from the construction, D&O, real estate, cargo, political risk and hull markets, but greater focus on terms, conditions and information requests is a common theme across all lines of business. The contingency market has now started to gain greater momentum following the devastating impact of Covid-19.

Insurers' appetite for underwriting new risk is returning as they become more comfortable with their portfolio following significant price increases. This has been supported with several new entrants across classes that are looking to seize opportunities following successive years' rating increases.

Common themes across the various classes of business include:

- Increase in data is required to evidence and support the reason for taking specific strategic decisions. In addition, insurers are requiring more information from clients.
- Underwriters continue to challenge coverage as they follow a more disciplined approach. Their concerns centre around rising claims related to policy extensions, inner limits and claims inflation.

As in 2020, the impact of global change varies by geography. The larger reinsurance markets in London and the United States have started to see signs of smaller rating increases, with some treaties now experiencing single digit rate increases. There remains a keen focus on terms and conditions with coverage contraction being very much evident, particularly around cyber and GDPR exposures.

Climate change is an area of concern for insurers and re-insurers, with many looking to invest heavily in additional analytics to assist in long-term climate change impact modelling.

The recent loss figures from Hurricane Ida have now modelled this industry loss between $25bn to $30bn.

We have highlighted a few recommendations throughout this publication that will help serve our clients in achieving the best outcomes in the current market.

Whilst all of them are of value, it remains critical that the following principles are adhered to in order to ensure a positive and well managed renewal is achieved:

1. Communication – frequent and regular, with proactive early engagement with insurers
2. Set a realistic insurance budget
3. Consider alternative insurance solutions and always have a Plan B
4. Establish and maintain strategic relationships
5. Supply additional information addressing specific risk areas and non-standard coverage requirements
6. Leverage risk management programmes, health, and safety procedures and business continuity plans.

Whilst insurers will continue to push for rate to manage economic and profitability headwinds, much of the portfolio correction has been achieved for legacy risks, except for certain classes of business, cyber being the most notable.

There continues to be significant scrutiny on coverage and terms and conditions, together with a desire for rate adequacy.

In summary, early and pro-active engagement, supported with focused analytics, strong client messaging and a well-executed plan helps in differentiating clients to achieve the best market results.

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ECONOMIC OVERVIEW

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Unequal economic recovery requires robust corporate risk management

What is driving risk?

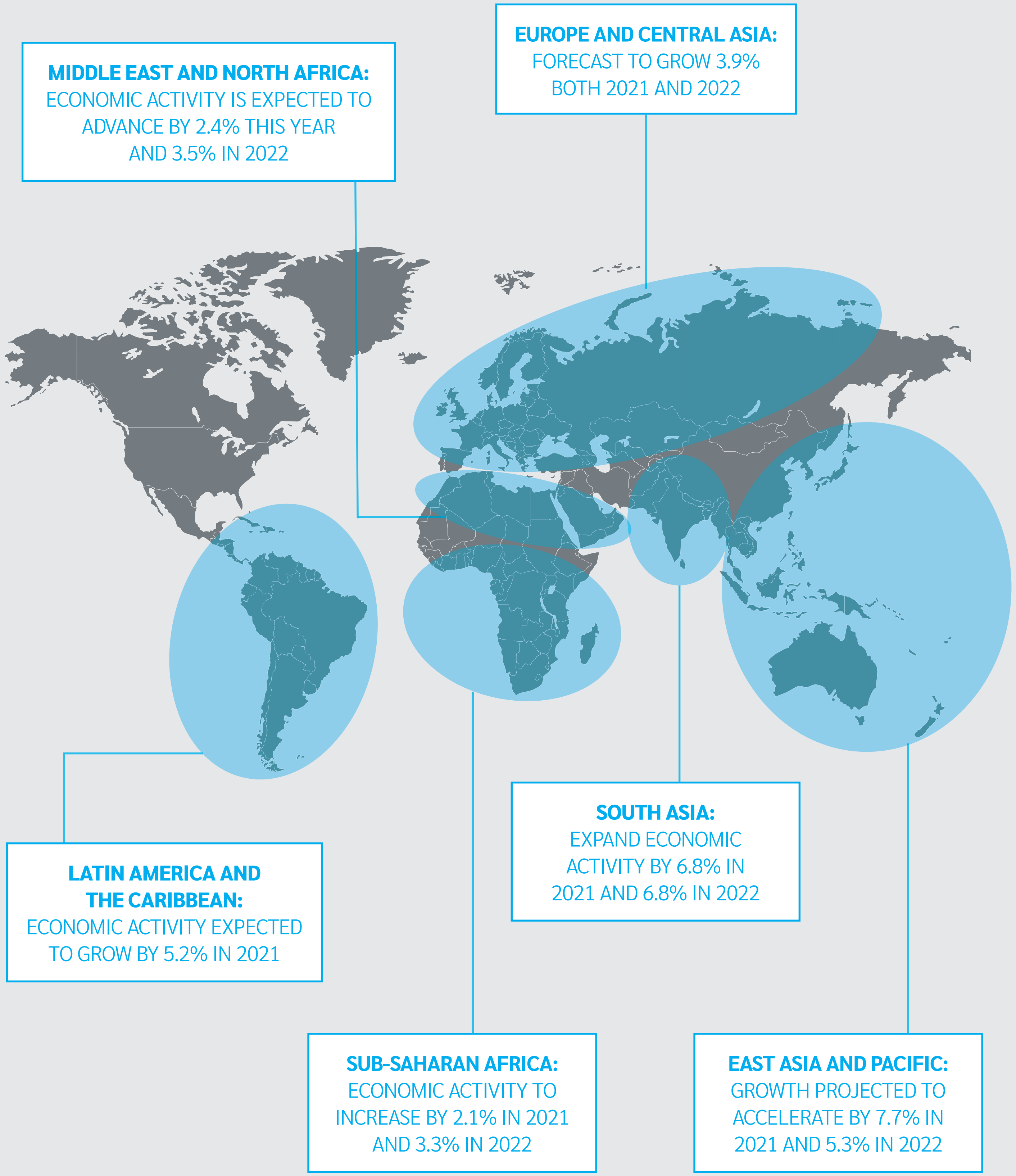
Economic growth is returning in many regions after the disruption caused by the pandemic, but it is not always a smooth process.

Many industries are experiencing supply chain issues, due to shortages of components and bottlenecks in the cargo sector. We're also seeing volatile and unpredictable consumer demand. The fact that countries are emerging from the pandemic at different speeds, in part due to the differing speed of the vaccination rollout and consequent reopening of the economy, is adding complexity to the global business environment.

Nevertheless, the global economic outlook for the current year looks promising with GDP growth of 5.6% for 2021 – the fastest post-recession growth rate in 80 years, according to the World Bank. The US, for instance, are a large contributor to this overall global growth. As a result of large-scale fiscal support and easing of pandemic restrictions, its economy expected to expand by 6.8% in 2021. Other advanced economies are also rebounding, albeit at a slower pace.

Conversely, the economy in low-income countries is expected to expand by an average of 2.9% in 2021 and by 4.7% in 2022, according to the World Bank.

Regional GDP growth



Source: World Bank, June 2021.

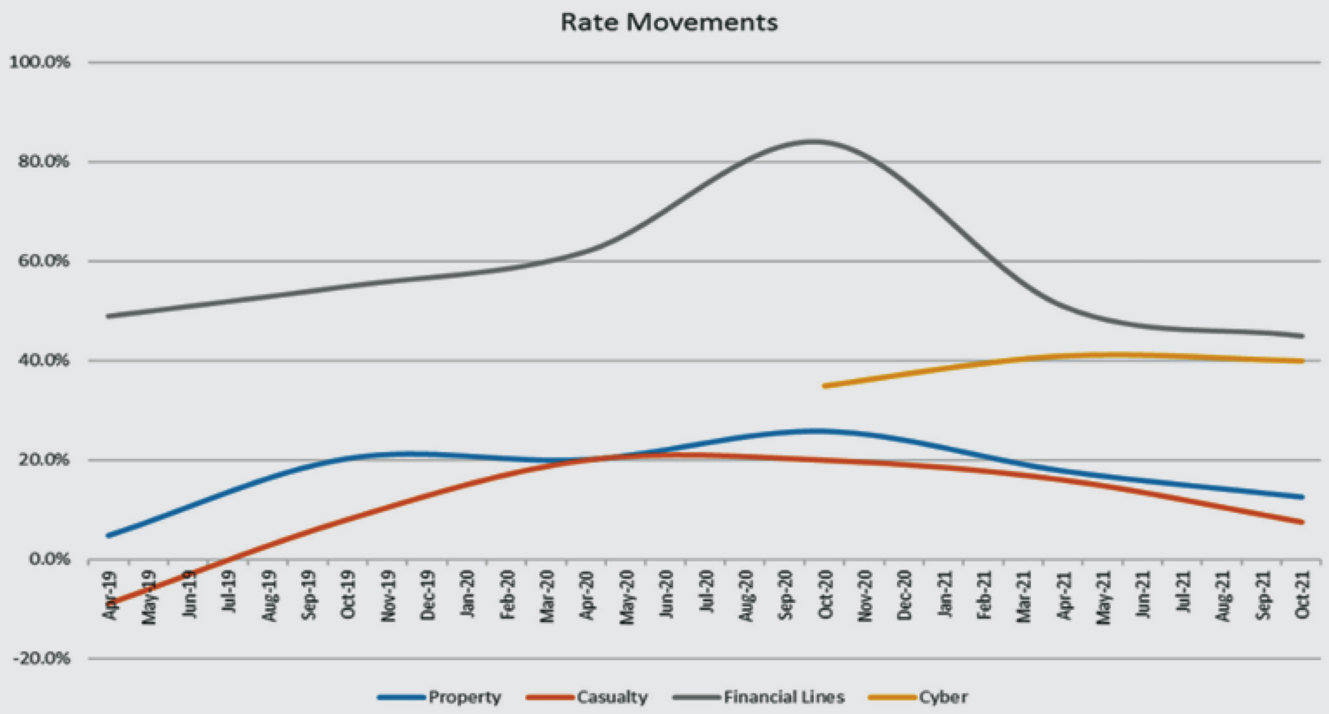
In the post-pandemic environment, businesses face significant challenges when planning and developing a corporate strategy. Conditions can change swiftly, requiring a higher degree of flexibility, robust risk management processes and risk solutions.

In addition, businesses are facing new risks due to shifting political, environmental, social and technological factors. Despite significant rate increases and the tightening of terms and conditions during past renewals, insurance underwriters now require more information than in the past, in order to better understand the risk. As a result, the renewal process now takes longer and requires more data, as well as more frequent communication between insurance buyers, brokers and insurers.

Insurance rates

Insurance rates continue to harden in most risk areas, but the degree of rate increases is diminishing. Insurers are becoming more comfortable with their portfolio after significant price increases, so their appetite for underwriting new risks is coming back.

The chart below reflects insurers' changing risk perception in property, casualty, financial lines and cyber, based on regular Lockton internal qualitative surveys.



Outlook

While the implications of the pandemic for the casualty insurance market continue to concern insurers, losses attributed to climate change are starting to impact their portfolios. The German Insurance Association (GDV) has estimated that the floods that hit the country mid-July gave rise to costs in the region of EUR7bn. Such large loss events are expected to become more frequent, due to climate change.

Reinsurers are increasingly concerned about the impact that climate change may have on their portfolios. As a result, they are looking for property rate increases in areas particularly at risk of floods and storms. Primary insurers that face reinsurance premium increases at renewal are likely to pass these on to their clients. Europe has recently experienced severe floods and wildfires across many regions, while wildfires, storms and floods have hit the US, causing several billions of dollars of losses.

Swiss Re has said that climate change poses the "biggest long-term threat" to the global economy, which was set to lose 18% of gross domestic product due to climate change by 2050, if no mitigating actions are taken. Risks from secondary perils such as floods and wildfires are increasing, and urbanisation is exposing more people and assets to major climate events, it explained. The fight against climate change will require large investments, which will need to be insured. At the same time, society needs to be protected against the remaining risk, highlighting the major role that the insurance sector is set to play in this emerging risk area.

Further, cyber risk is high on reinsurers' agendas. Because the threat is constantly shifting and losses are on the rise, insurers and reinsurers are still grappling with this peril and adjusting their underwriting approaches accordingly.

1.
PROPERTY INSURANCE MARKET

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New dynamic after two years of hard property market

While insurers continue to expect rate increases at renewal, market dynamics are shifting after two years in a hard property market.

Some insurers who started tightening their underwriting approach at the beginning of the cycle, are now finalising their portfolio corrections – and are showing renewed appetite for risk.

They are now switching to growth mode with a greater focus on new business. Consequently, competition is increasing in the property insurance market. Several large global companies have seized the opportunity to switch insurance providers in recent months, after the incumbent pushed for double-digit rate increases and competing markets were quoting level. With insurers' strategies changing and the reopening of the economy following several challenging lockdowns, positivity is very much the general mood. This is a significant shift since our last update.

Unfortunately, not all clients can benefit from the more moderate rates. A case in point are those whose long-term agreements, which offered protection against rate increases at recent renewals, are ending. In such cases, insurers are likely to demand the same increases experienced a year ago. Furthermore, these companies will also need to submit a higher volume of underwriting information and detailed forms than before.

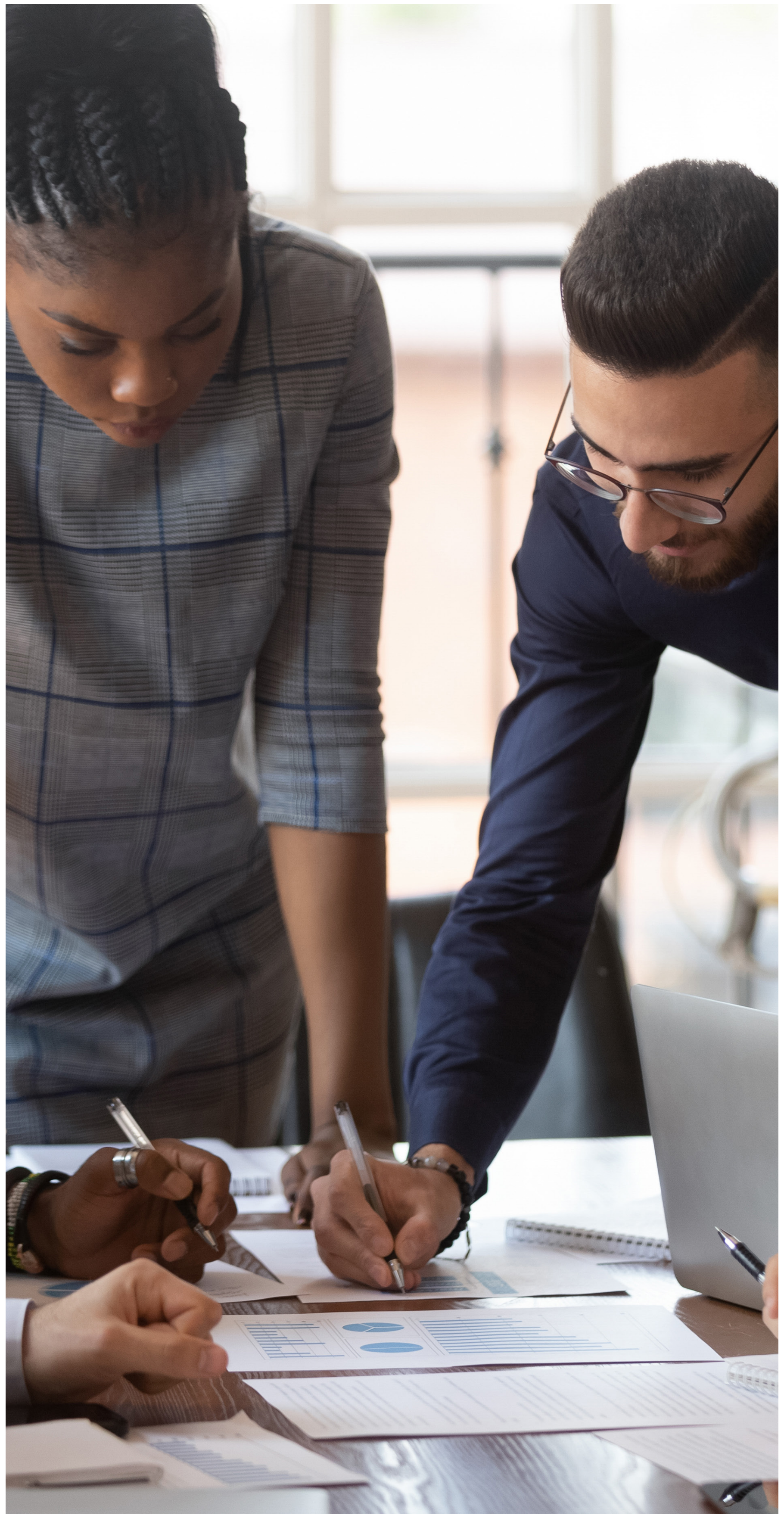
Climate change risks

Insurers are watching closely the potential impact that climate change may have on their risk exposure. With the frequency and severity of natural catastrophes increasing, insurers are set to review their appetite to write exposures in higher risk areas. Notable events such as the July floods in Central Europe and the numerous wildfires raging across the globe will undoubtedly accelerate the reaction to this change. Early signs suggest that insurers will respond by reducing limits for natural catastrophes in high-risk areas. In such cases, achieving historical catastrophe coverage will come at additional cost, adding pressure to an already challenging market.

Furthermore, insurers are likely to request more information about the potential exposure to climate change, including more details on building construction and business continuity planning.

Communication is key

The insurance market has stabilised in recent months and economies are returning to growth after the disruption caused by the pandemic. However, insurance market dynamics continue to adapt and react to the changing risk environment. Frequent and regular communication is key, to avoid disappointments at renewals and also to ensure that insurers receive all required documents and information in a timely manner. A close and strong relationship between clients, brokers and insurers is the best recipe for creating satisfactory results for all involved parties.



2.

US CASUALTY INSURANCE MARKET

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A less volatile US casualty insurance market

In a surprising turn of events, at October 1 renewals, some markets were offering rate reductions to retain existing layers, as competition was introduced from other markets all looking to grow their portfolio.

Although insurers still mostly seek positive rate movements at renewals, the volatility experienced 12 months ago appears to be tapering off. Nevertheless, the rise in "nuclear verdicts" (those in excess of $10m) cannot be ignored and a complete softening of the market is not expected any time soon.

The median cost of large jury awards has risen by 35% in the last five years, according to Advisen. The database shows that the median cost of a jury award over $10m has increased from $20m –$27m since 2015. Nuclear verdicts, driven by social inflation, are particularly affecting businesses in the transportation sector. The median cost of auto awards over $10m experienced a big spike in 2019. The pandemic has granted a temporary respite due to a drop in mileage.

The median costs for product liability awards have also increased sharply to exceed the nuclear verdict level in 2020.

New Capacity

Many insurance buyers are able to maintain expiring limits and attachment points, a marked improvement from 12 months ago. The stability so far seen in 2021 has certainly been welcomed and this has largely been aided by the introduction of new capacity to the market.

Key New Capacity in 2021

- Inigo London – the Lloyd's syndicate began underwriting from 1st April with underwriters from Hiscox syndicate.
- Vantage – the Bermuda based carrier started underwriting in June with underwriters from Sompo and Willis. The insurers currently has a small net line available with more set to follow when their treaty is finalised.
- Helix – the Bermuda based carrier started underwriting in June with underwriters from Argo Re Bermuda.
- Ark – the Bermuda based carrier started underwriting on 1st April with underwriters from Hamilton Re.

The emergence of new capacity in 2021, added to the new capacity from 2019/2020 (Ascot / Arcadian / Convex) creates healthy levels of competition in the market, which in turn is helping to stabilise pricing.

Coverage

Many underwriters are looking to impose specific coverage restrictions. The most common are referenced below.

More excess layers are including "restrictive as underlying and quota share endorsements" to their policy, to ensure that they are not providing broader coverage than other insurers. There is certainly less flexibility around getting this removed than prior years.

Communicable disease or epidemic/pPandemic exclusions are standard on many programmes. However, we have successfully negotiated write backs for items that have been covered under the programme in the past.

Lloyd's cyber wordings came into effect 1/1/21 to ensure that no policies were silent on cyber. These endorsements are mandatory and are being added on all business going forward.

Perfluorooctanoic Acid (PFOA)/Per- and Polyfluoroalkyl substances (PFAS) continue to be a topic of concern. Underwriters will certainly ask questions of insureds around any past or present exposure and will look to amend policy terms accordingly.

Furthermore, insurers are increasingly adding climatic change endorsements to programmes, specifically in relation to coal-related risks.

We should be addressing all of these potential coverage restrictions as early in the renewal process as possible.

Recommendations

- Engage with your broking team early to set renewal strategy. Travel opportunities appear to be opening up as we head into the last quarter of 2021 and certainly should be in the budget for 2022. In the meantime virtual meetings remain critical in order to achieve optimal results at renewal.
- Set a realistic insurance budget to cover potential increases in premium spend. Emphasise risk mitigation measures in place to present the risk as positively as possible, particularly following a loss
- Consider alternative options to traditional insurance solutions. In case of frequency of severity losses a multi-year structured solution could be a sensible option to discuss. Alternatively consider if retaining more risk is an option, either via an increased self-insured retention or by taking risk mid-programme to keep premiums lower and / or fill potential gaps.

3.

UK CASUALTY INSURANCE MARKET

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Casualty insurers are still seeking rate corrections

Despite the majority of insurers reporting profitable growth and improved underwriting margins, rate challenges continue as insurers seek to correct years of rate reductions and increased claims severity and frequency.

Underwriters are still seeking "appropriate" rate increases and the liability market therefore continues to experience a period of rate "correction" and portfolio scrutiny. Drivers for this underwriting approach include Covid-19 loss uncertainty, heavy US litigation, large personal injury losses and capacity leaving the market or reducing market share. While rate increases are more dominant across healthcare, retail and hospitality, insurers are setting higher rate targets for their underwriters across their entire liability portfolio.

This comes despite the fact that insurers returned to profitability in the first half of 2021 across property and casualty, helped by lower catastrophe losses and marked premium growth, following a year of sharp rate increases throughout 2020.

Policy wording

Underwriters continue to challenge coverage as they follow a more disciplined approach. Their concerns centre around rising claims related to policy extensions, inner limits and claims inflation. Insurers are heavily scrutinising their portfolios, to reduce and manage what they see as unacceptable volatility. Underwriters have been looking to remove cover, apply reduced sub-limits, or charge additional premium to insure against abuse, professional indemnity, financial loss, US auto and GDPR.

Underwriters are also testing definitions as insurers seek to narrow defined terms, such as for "bodily injury" or "employed persons". Most notably, insurers are increasingly seeking to amend the definition of bodily injury under employers' liability to cover mental injury, mental anguish and nervous shock only when it is resulting from physical bodily injury. This has been driven by a number of losses relating to cyber and the Data Protection Act.

Lockton continues to push back on this, but insureds need to be mindful of how such changes may impact their risk exposure.

Insurers also remain concerned about the transmission of communicable diseases. While markets continue to differ in their approaches, exclusions are being widely applied to specific sectors, such as healthcare and hospitality. Lockton was able to negotiate write-backs for medical treatment insurance in some markets. Reinsurers tried to reduce their risk from aggregated losses at the past January 21' treaty renewals, by preventing insurers from aggregating all claims into one event. However, they didn't introduce mandated or blanket exclusions.

Increased time and information

Insurers are requiring more information from clients and more risks are requiring sign-off at a senior manager level. Long-term agreements (LTAs) are difficult to arrange (even where there is a strong client–insurer relationship), with many markets either refusing an LTA option or offering one with incremental rate increases. Furthermore, global programmes with even minor US exposure require sign-off from US specialists. As rates continue to increase for US domiciled business, rates pressure on global programmes where risks have significant US presence or product sales in judicial hellholes, remains high.

Insurers are requesting additional time and information across renewals and new business – with some markets requesting data for global programmes three months prior to renewal. Where insureds have experienced losses, lessons learned and large loss information is paramount, to allow insurers to take a more favourable view on the risk.

Price and capacity changes

In addition to cover, capacity is under review across insurance portfolios. The cost for capital is increasing with minimum premiums often set at $/£1000 per million. This has led to a dramatic increase to excess of loss premiums for certain insureds, with increases of up to 200% where premiums were below 300–400 per million.

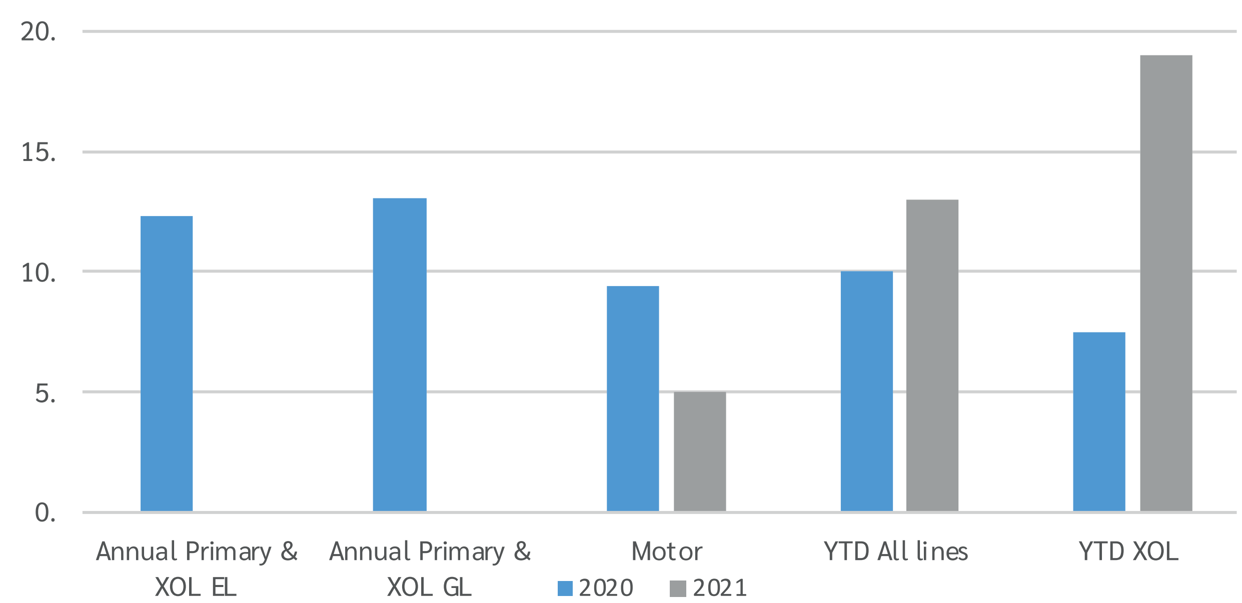
If insurers do not believe they can get the requisite return on capital, they are either exiting certain lines of coverage or reducing the limits deployed. The total capacity provided by UK insurers is now offered in shorter tranches with ventilation required. While London markets can still offer a 50m lead, many insurers will not look to exceed 25m with others focusing on 10m.

Insurers are generally less interested in new business within healthcare, leisure and hospitality, or where there is significant North American exposure.

The data below has been compiled from the Lockton London casualty team portfolio. It encompasses major account risks, and a selection of mid-market and regional accounts.

THE DATA BELOW HAS BEEN COMPILED FROM THE LOCKTON LONDON CASUALTY TEAM PORTFOLIO. IT ENCOMPASSES MAJOR ACCOUNT RISKS, AND A SELECTION OF MID-MARKET AND REGIONAL ACCOUNTS.

General Liability Rate increases 2020 vs 2021



Healthcare Risks

Line of Business	Approx. Minimum Rate Change
Employers Liability	+10%
General Liability Healthcare	+10 to +20%
General Liability Long-Term or Aged Care	+15% to +25%
Standalone Medical Malpractice	+10%

Outlook and recommendations

Insurers are not considering price reductions without a sound technical rationale showing why a reduction is merited. While there are signs that new market entrants could take pressure off the market, the positive impact of a “rate correction” on insurers’ operating ratios could be offset by future challenges.

These could include changes in legislation; the rising cost of social inflation; increased life expectancy; and increased exposures from emerging risks.

Clients need to work closely with their placement brokers, to ensure they are well positioned to achieve the best possible outcomes in this underwriting environment. This will include:

- Specifically targeting insurers with appetite and capabilities to service the risk, rather than scattergun marketing.
- Establishing strategic relationships with key and alternative insurers.
- Supplying additional information, addressing areas such as:
  - Covid-19 risk control
  - Supporting non-standard coverage requests
  - Leveraging risk management programmes, health and safety procedures and BCPs
  - Learning from large loss summaries.

4.

INTERNATIONAL PROPERTY MARKET

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Increased capacity stabilises the wholesale facultative insurance and reinsurance property market

Despite 2020 being a challenging year for the wholesale insurance industry and the recent losses from Hurricane Ida, there are still positive signs for 2021 for both clients and underwriters alike.

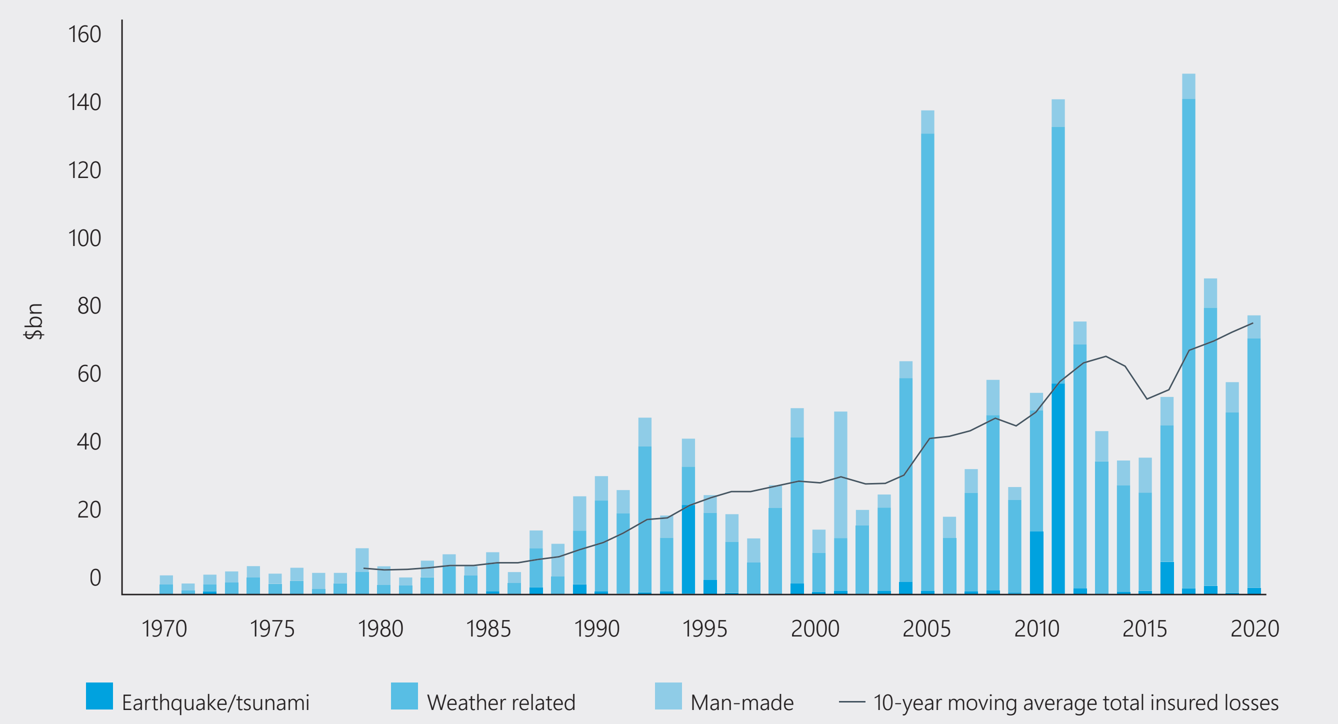
According to Swiss Re, 2020 global insured losses were USD 89bn (an increase of 41% from the previous year's) and the fifth-costliest year since the carrier's records began in 1970, with a 10-year average of USD 79bn. This has led to a fourth consecutive year of underwriting losses.

2020 was the most active wind season on record with 30 named storms. Hurricane Laura resulted in USD 10 billion of insured losses, Hurricane Isaias USD 4.1 billion and Hurricane Sally USD 3.5 billion respectively.

California wildfires (USD 7.5 billion), along with severe thunderstorms and damaging winds in eastern Wyoming and western South Dakota, led to USD 5 billion in insured losses.

This increase in frequency and severity has brought into focus long-term rating models and the accuracy of modelling tools, particularly as to how they adapt to climate change. Increased catastrophe losses now appear to be a long-term trend, including most noticeably, the recent European floods (Berndt) and wildfires together with Hurricane Ida. Since 2017, (re)insurers have paid out almost USD 400bn in catastrophe claims. This is an increase of approx. 150% on the USD 160bn paid out by carriers from the period 2013–2016.

INSURED LOSSES, 1970-2020 AT 2020 PRICES



Source: Swiss Re Institute

Market Capacity 2021

Despite the impact of the Covid-19 pandemic, a record-breaking 2020 hurricane season and high levels of natural catastrophe activity in 2021, insurable limits of over USD 2bn are still readily available for property risks, especially to softer non-catastrophe exposed accounts. Many underwriters are armed with a larger budget for 2021, so there is more capital competing for business. However, capacity offerings will vary directly, according to catastrophe exposure and occupancy. Overall, global reinsurance capital has increased by circa 7.00%, reaching USD 658bn by the end of 2020.

Clients that have a strong track record and low loss frequency or classified as a softer occupancy, will often attract significant insurance capacity. In some cases, such accounts even end up heavily oversubscribed. Those accounts with significant catastrophe exposure, or where the portfolio is in distress, or related to coal, metals, food, wood workers, recycling and mining, may have to negotiate harder as they compete for a more limited insurance capacity. This will often result in a combined quota share / structured approach to both domestic and international markets.

New entrants

This rise in capital has been driven by strong investment, market appreciation and significant dividends and share buy backs. 2020 / 2021 has also seen increased internal capital allocations as well as a number of new entrants into the Market. The most notable of these being KI (Brit's fully digital and algorithmically driven syndicate), CFC 1988, ERS 1856, Guide One and Inigo as well as a number of MGAs, all looking to maximise the recent hardening terms.

Pricing outlook

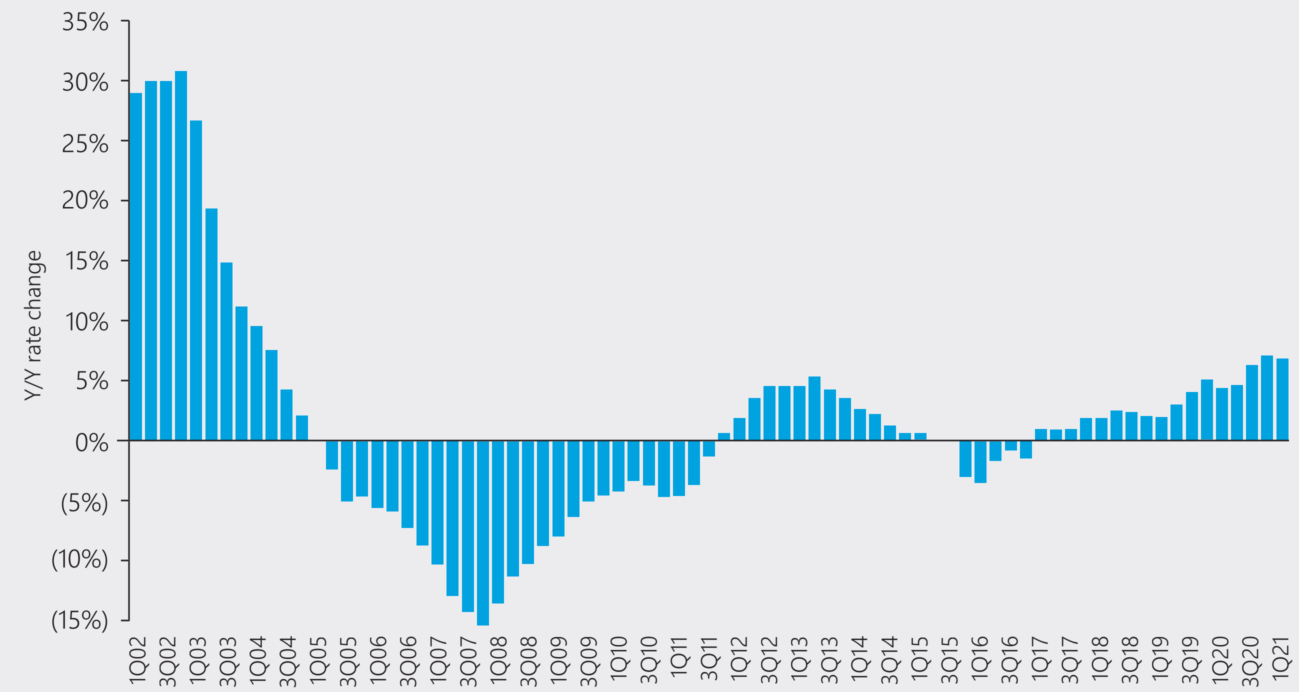
Underwriters are continuing to achieve average rate increases in the 5%–10% range, although this varies significantly depending on the type of business and the loss experience. North American rates following Ida are still increasing at over 10%, while Europe, Middle East and Africa (EMEA) and Asia Pacific are averaging around 5.00%.

For H2 2021, renewal negotiations are starting around plus 5.0%–7.5%, rather than the 10%–15% seen last year, and a marked reduction compared to rate increases at the mid-year 2020 renewals. However, loss hit business may face significant increases above the average levels. Overall, property catastrophe rates across most regions are now broadly at a similar level as 2012–2013.

London primary business and the wider vanilla client base are now seeing significant competitive pressures with renewals at low single digits or flat. At the other end of the spectrum, clients in territories with significant catastrophe exposures or with challenging occupancies can still face double-digit increases, although even here the pressure is receding due to more competition.

This positive outlook is directly linked to the current strong levels of supply in the market and the increased competition. Global market have plugged the gaps created as AIG and FM withdrew from placements they had previously written 100% layers or quota-share structures.

COMMERCIAL INSURANCE RATE BAROMETER - 1Q02 TO 1Q21



Source: MarketScout and KBW research

Data shows that global wholesale market prices are currently close to 2012 levels and a further hardening of rates cannot be completely discarded, with three months of wind season left to run.

With global insured catastrophe losses at USD 42bn, the first half of 2021 levels are the second highest since 2011. Losses from winter storm Uri in the US (USD15bn), recent European floods (up to USD 8bn) and wildfires, together with civil commotion losses in South Africa (circa USD 1bn) and most recently Hurricane Ida (USD 27.5bn plus), illustrate that underwriters may still feel pressure to push for higher rates.

Despite these losses, we have seen strong underlying underwriting performance with increased reserve releases and the reduced impact of Covid-19 compared to the prior-year period. These combined factors have helped to drive up operating profits and push down combined ratios into the low 90s for a large number, enabling many carriers to return to profitability.

Coverage considerations

Although broad coverage is still readily available, terms and conditions continue to tighten specifically around cyber, where the default position appears to be LMA 5400/5401. We're seeing the same tightening around general non-damage business interruption, including comprehensive or total pandemic exclusion wordings and the LMA 5393. Recent losses in South America and South Africa have also led to increased scrutiny around coverage and sub limits related to strikes, riots and civil commotion.

Recommendations

In the current market place, it is essential to engage early, create competition and differentiate clients. Although occupancy and catastrophe exposures are the main determining risk factors, buyers can make their risk more attractive through robust risk management, a high quality of survey information and a detailed breakdown of values. Focused retention levels and an early review of placement structures will build strong, tripartite client, broker and underwriter relationships allowing individual clients to positively stand out in a crowded market.

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USD 42bn
global insured catastrophe losses in H1 2021

USD 15bn	USD 8bn	USD 27.5bn
losses from winter storm Uri in the US	losses from European floods and wildfires	losses from Hurricane Ida in South Africa

5. PRODUCT RECALL MARKET

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MGAs embrace the product recall insurance space

While many companies prefer the security of buying protection from a global insurance giant, in niche areas such as product recall, managing general agents (MGAs) are ably filling the gaps, and may even offer superior solutions.

MGAs are entities that act as an agent of an insurer and manage the underwriting function on its behalf. They provide access to specialist markets such as product recall, where MGAs like Axon, Perigon or DUAL are replacing large players that are exiting the segment, including household names such as Allianz, Liberty and Zurich. Nevertheless, clients often react with suspicion when brokers suggest an MGA to secure their product recall risks. While this initial reaction may be understandable, it is undeserved.

Brokers do perform an arduous and lengthy due diligence process before approving an MGA, so as to ensure that it offers a solid and adequate protection. This includes a thorough assessment of the MGA structure, the financial capacity provider behind it, as well as a review of its technical framework.

Perigon, for example, is fortunate to be 100% backed by the growing strength of Fidelis, which has raised the possible line size per product recall risk to $50m, enabling the MGA to offer large-limit deals.

Another area of focus is claims handling which does not always reside within the MGA but with the capacity provider, potentially adding complexity to the claims resolution process.

Once specialist brokers feel comfortable with the quality of the insurance capacity (often from multiple capacity providers), as well as the claims and decision-making process of an MGA, it can be a better long-term partner to brokers and clients than a global and less specialised player.

The struggle of large insurers

Zurich had entered the product recall insurance market to enhance its offering for food and drink manufacturers. However, loss activity across this sector made the insurer retreat from the sector, including product recall. Zurich's risk evaluation was based on whether they had or wanted a business 'relationship' with the risk around food and drink production, instead of evaluating the specific opportunities in product recall separately.

Allianz considered product recall a vital enhancement to winning global manufacturing risks, as it was seeking premium growth. However, after suffering extensive combined recall and liability losses on single risks, the insurer decided to reduce its offered capacity. Allianz decided to withdraw from certain countries and more recently, to pull out of the product recall market completely, following five years of aggressive growth.

Such cross-class linkage can lead to sudden shifts of appetite that are unrelated to the profitability of a specific product, causing severe tensions in a sector.

Liberty pulled out of product recall as part of a reshuffle in its capital allocation, while Novae exited the segment citing a lack of 'critical mass' of recall premium income. If a niche class such as product recall does not develop adequate income to justify the time and resource required, large insurers are likely to drop the risk.

The benefits of specialisation

The specialist focus on the actual product recall risk has allowed MGAs to develop niche products and wording enhancements more rapidly. CFC, for example, has been successful in developing an appetite for UK small food producers that is below most corporate minimum premium requirements. CFC's historical success and growth has allowed it to become a fully-fledged Lloyd's syndicate and other MGAs may follow the same route.

MGAs' relatively low cost base and flexibility enables them to remain profitable where large insurers may struggle. As long as MGAs can grow profitably, they can rely on plenty of additional market capacity. Insurers will appreciate the opportunity to benefit from a strong business proposition without the need for major investments.

MGAs are generally more flexible and agile and can adjust the cover and wording as needed without extensive sign-off by corporate legal teams. Within smaller teams, the decision-making process is generally quicker, allowing brokers to provide timely responses to clients.

State of the market

As the line size of MGAs tends to be smaller, the binding process is likely to require greater syndication or risk sharing between underwriters. At their peak, Allianz could and did commit to risks up to $50m. Currently, such risks are commonly split among at least five insurers. As a result, brokers need to invest more time and effort to build the best capacity structure and ensure efficient claims handling.

Despite a generally hardening market, rates for product recall risks have remained stable. Loss activity has been moderate after insurers increased self-insured loss retention levels, which has had a marked impact on loss frequency.

However, as the motor industry switches to sustainable technologies there has been a rise in claims related to lithium-ion batteries used in electric vehicles that is attracting insurers' attention. Automotive electronics-related recalls increased by over 300% between 2009 and 2019, according to a 2019 Stout automotive defect and recall report.

The product recall market has grown steadily over the past five years, towards an estimated specialist (standalone) premium income of around $500m. This is shared between around 25 markets centred on London, Bermuda and the US. This growth is likely to continue: generally stabilising insurance rates are set to take off some pressure from insurance buyers, enabling more of them to consider the value of protecting against product recall risks.

6. CYBER INSURANCE MARKET

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Regular market losses drive the cyber insurance market

The cyber market continues to harden as ransomware losses hit the marketplace with regularity, driving the following responses from cyber underwriters:

- Insurers are typically increasing retentions to insulate carriers
- Coverage is often restricted by the inclusion of ransomware-related sub-limits and coinsurance (or both)
- Where sufficient cyber hygiene controls are lacking, ransomware-related exclusionary language is increasingly common
- Minimum rate increases of 80-90% are typical, even for clean risks with best-in-class controls
- Rate increases of 100% and above are not uncommon for highly exposed industries, particularly hospitality, education and healthcare.

Issues in the market:

1. Technology Supply Chain

We continue to see a rise in cyber events affecting technology supply chains. Such an attack is efficient from a cyber-criminal's perspective, as multiple targets can be attacked via one vendor. The net effect on cyber underwriters can be potentially devastating, in terms of aggregated exposure.

Supply chain exposure is causing reverberations around the marketplace and sharpening underwriter focus. Additional questions are being asked of clients – specifically in relation to their exposure to the Accellion, Microsoft Exchange, SolarWinds and Kaseya supply chain events.

Underwriters are applying greater scrutiny around security controls that mitigate the ransomware threat. In our experience, the following cyber hygiene protocols are a bare minimum, without which it will be challenging to obtain a quote for a cyber policy:

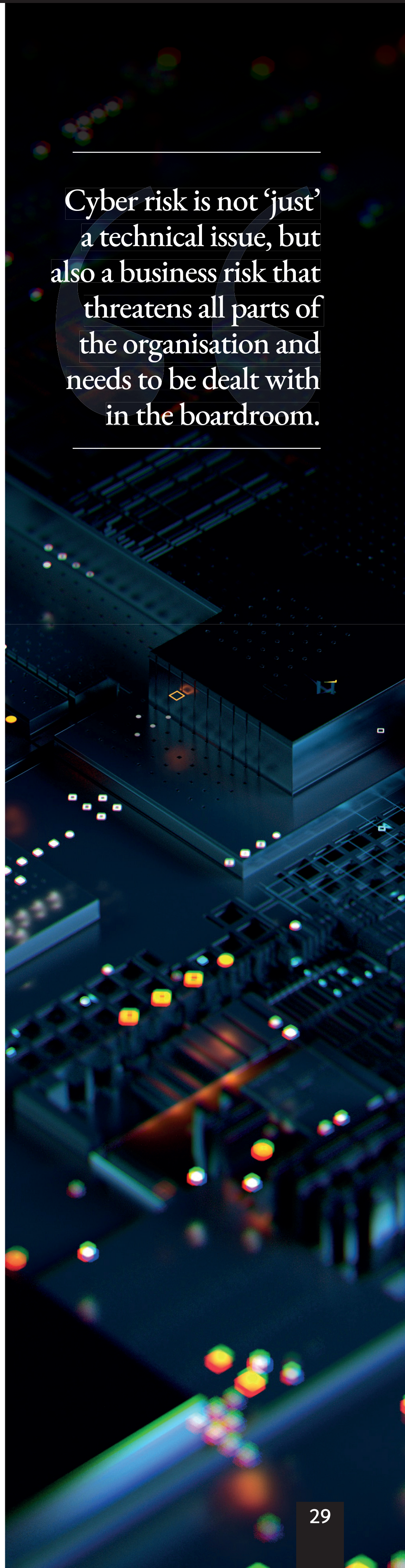
- Multi-factor authentication for remote access
- Endpoint detection and response solution rolled out across the IT environment
- Secure offline backups.

As well as advising clients on these fundamental security protocols, we are recommending additional measures that will maximise the likelihood of favourable cyber terms. These include:

- An incident response plan specific to ransomware which is updated and tested regularly
- A business continuity plan addressing network outages, offline communications and data recovery protocols
- Remote desk protocol access from outside the network
- Updated software and patching protocols
- High-level employee awareness training
- Password management software
- Vulnerability assessments, including penetration testing, red-teaming and table-top exercises
- Appropriate separation of operational technology and information technology
- Privileged access management and permissions across the IT environment.

2. Sound governance

As robust underwriter scrutiny continues to play out, there is a heightened responsibility at governance level. Cyber risk is not 'just' a technical issue, but also a business risk that threatens all parts of the organisation and needs to be dealt with in the boardroom. Failure to do so may affect a business's ability to obtain favourable (or any) cyber terms (and may also create exposure for directors and officers who fail to mitigate and manage cyber risk).

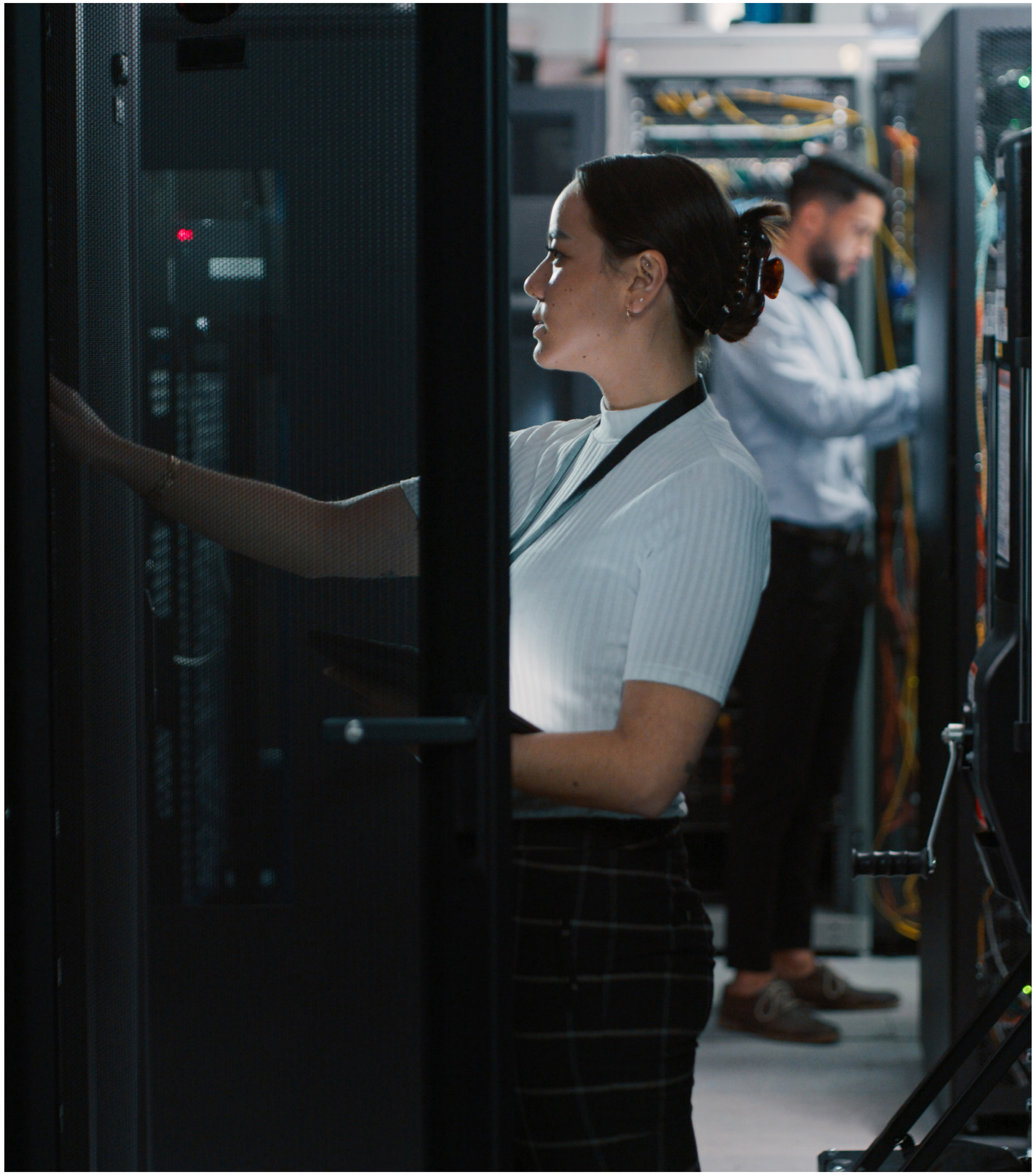


Cyber risk is not 'just' a technical issue, but also a business risk that threatens all parts of the organisation and needs to be dealt with in the boardroom.

3. Silent cyber

"Silent Cyber" (non-affirmative cyber coverage under traditional insurance policies) continues to be under the spotlight.

A 2019 market mandate requires Lloyd's underwriters either to affirm or exclude cyber cover in non-cyber policies. As a result, typically many insurers are requiring a cyber endorsement that excludes cover for cyber-related losses from their more traditional lines of cover (such as professional indemnity or property). This can have the effect of creating "coverage gaps" that did not exist previously. Many of those gaps can be plugged by a standalone cyber insurance product prompting conversations around the purchase of standalone cyber cover, or a reassessment of any existing cyber cover (and a possible increase in cover).



New product

To plug a potential gap in cyber cover, Lockton's Global Property Practice in London has joined forces with Brit Consortium 9194 to develop an exclusive "Silent Cyber Property Solution".

The product is a standalone property policy that provides cover for physical damage and ensuing business interruption losses that are due to a cyber act having taken place at an insured location.

This new policy has the effect of reinstating cyber-related property coverages, which might otherwise be removed, and is available for Lockton clients.

It is worth noting that the policy does not replace a standalone cyber-specific policy. (A cyber policy typically excludes property damage but does, for instance, include access to an incident response team, reputational harm loss, business interruption losses from a cyber-related outage, and third liability arising out of a cyber act or a privacy breach.)

7. INSURANCE BROKER PI MARKET

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The best of times; the worst of times

A paraphrase of Charles Dicken's opening to A Tale of two Cities reflects the sentiments of most of our insurance broker clients.

On the one hand, for many brokers, business boomed during the various Covid lockdowns as insurers hiked their rates and slashed the capacity they were prepared to offer. On the other hand, brokers renewing their own professional indemnity (PI) cover or worse, seeking their first PI policy as a start-up, have found the febrile marketplace of 2020 shows little if any improvement during 2021.

The Covid tsunami

As it became apparent to insurers during the early months of 2020 that this virus could result in huge losses over multiple lines of business, they took steps to mitigate at least those exposures they could quantify, and some they could only guess.

A few insurers realised that, irrespective of their original intent, some of the commercial wordings they agreed to during the soft market prevailing over the previous two decades now left them open to business interruption claims.

The UK's Financial Services Authority (FSA) sponsored legal challenge to insurers denying such claims helped clear the air for some, but many clients remain in dispute with their insurers.

The strategy of denying claims under BI as well as certain event cancellation claims, resulted in a number of insurers realising this may have a knock-on effect on another line of business – professional indemnity and specifically, insurance brokers who will have placed the policies they would now deny claims under. The overwhelming majority of claims against brokers derive from claims not being paid or being disputed by insurers.

Consequently, from late March 2020, many PI insurers imposed draconian Covid exclusions because they now anticipated what one described as a "tsunami of claims against brokers".

Lockton's view of these exclusions was – and remains – that they are unsatisfactory, having been drafted in haste and with a view to excluding every imagined Covid-related eventuality.

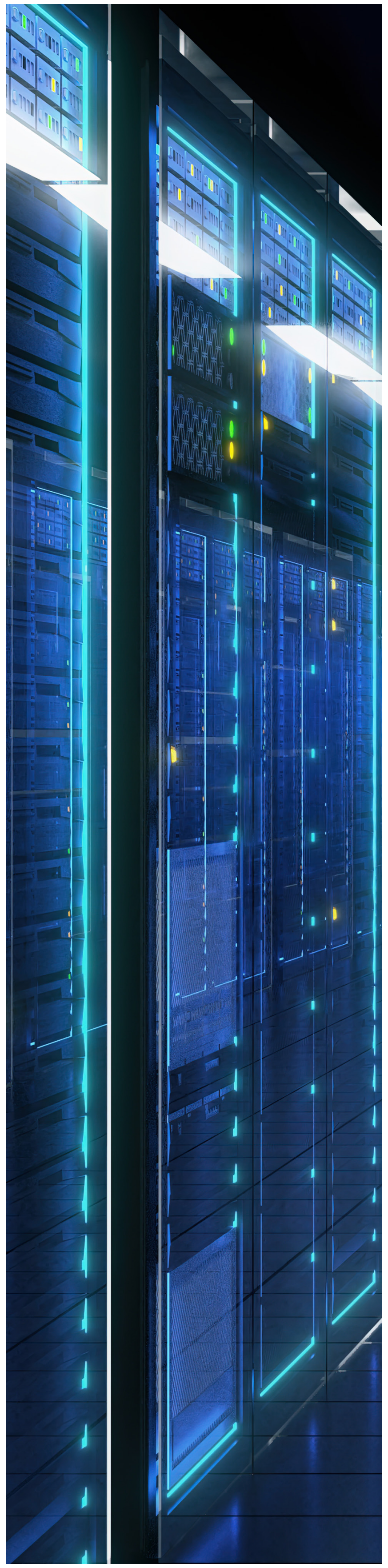
The FSA expressed concern about many of these clauses and questioned if they were in breach of their requirements governing PI cover. Lockton continues to monitor the situation but to date, most insurers have remained impervious to all challenges and efforts to moderate such clauses.

The calm after the storm

Since the beginning of the year, insurers have had an opportunity to review the effect of Covid-related claims on their portfolios and specifically, of any knock-on effect for brokers who placed those policies.

Other than those sectors expected to suffer direct losses – event cancellation; travel schemes; and business interruption – the results so far do not justify insurers' knee-jerk reactions of 2020. Indeed, two broker clients heavily involved in these classes report complaints from only 0.7% of those clients affected, of which 98% were complaints directed at the insurer, not the broker. These stats suggest that most clients recognise that their brokers provide an excellent service and offer good advice.

Consequently, some insurers have watered down their more over-zealous Covid exclusions. However, they remain a default clause on insurance broker PI policies, especially where a change of insurer is involved.



Silent, or not so silent cyber

Following the Lloyd's mandate that insurers must be unequivocal on the question of cyber cover within their liability policies, the market has embraced these both over-zealously and clumsily since the start of 2021.

In similar vein to the Covid exclusions, cyber exclusions have been varied and frequently 'copper-bottomed'. This has meant that their potential to reach beyond what one might reasonably expect has given rise to lengthy debates with underwriters, as to what their actual intent was when drafting. In recent months, the de facto clause for insurance brokers has become IUA 017, which does come with a briefing document compiled by the insurer group that sanctioned it.

It is therefore vital that if any broker does not already purchase standalone cyber cover, that they do so now, in order to try and plug the potential gaps created by the imposition of IUA017 and its ilk.

Shrinking capacity

Underlying these two causes célèbres was the inexorable increase in rates, once it became apparent that insurer appetites for brokers was on the wane. Insurance broker rates had indeed tumbled since their peak in the early 2000s but the "corrections" demanded by insurers during 2020 on the back of their Covid fears have been fierce and, considering the generally good claims records for brokers, unwarranted. Those most severely affected are brokers forced to change insurer because their incumbent has withdrawn from the market, since there is little appetite for new business among the remainder.

Rate increases of 30–40% were commonplace during 2020, although we are now seeing subsequent renewals settle at between 12–20%, depending on profile and claims record.

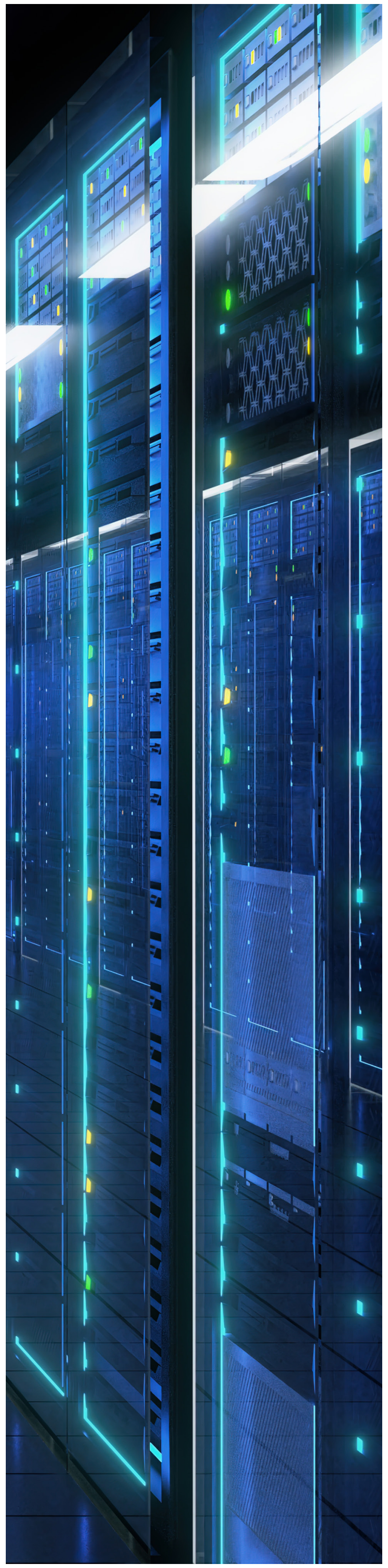
Despite these draconian increases, it is worth noting that compared to the average rates for brokers a decade ago, 2021 rates remain at approximately 40–50% of their peak – so there may be some way to go.

Counter measures

There is no silver bullet solution – brokers simply need to revert to what they do best:

- provide clear and comprehensive answers to every question on the proposal form and ideally, expand on those answers by adding addenda where necessary.
- answer every question and expand beyond a simple "n/a"
- provide extensive background detail on any claims, past and present, and explain which measures have been taken to prevent a repetition. Do not answer "refer to broker".
- complete the now obligatory Covid and cyber questionnaire accompanying any proposal form. The answers to these will be studied carefully.

In short, underwriters are now studying proposal forms in minute detail. They're taking note of the care taken to answer each question, as this is indicative of how the business is managed and the care with which their clients are advised.



8. D&O INDEMNITY INSURANCE MARKET

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New entrants help stabilising the directors' and officers' insurance market

Following the turmoil in the directors' and officers' (D&O) insurance market during 2019 and 2020, we are currently experiencing less volatility in pricing and conditions. Most insurers are well advanced in implementing their strategies to correct loss-making portfolios and are re-starting to show appetite for growth. Several new entrants have entered the market and are keen to build their portfolio in a "rate adequate" environment. Premiums continue to increase but at a much slower and more predictable pace. On some programmes, we are beginning to experience some competitive tension between insurers, particularly on excess layers.

The background

Around two years ago, we began to see some pressure from insurers on financial lines placements to decrease their capacity, increase premiums and bolster policy retentions. We also saw insurers provide limitations to coverage (including but not limited to the removal of corporate legal liability coverage, employment practices liability, and other ancillary covers). In the rising premium market of 2020, the natural consequence of limiting premium capacity was reduced line size and non-renewal of some business. This was a response to deteriorating loss ratios for D&O and crime risks in particular. At that time, the resolve of insurers to exit the market or walk away from particular risk exposures was strong. Some clients could not renew their existing limits and brokers were scrambling to fill gaps in programmes. Some insurers such as Neon, Argo, AxaXL and Axis exited management liability insurance altogether – and Lloyd's itself has limited the amount of premium capacity in these lines for syndicates in 2020.

The current market

In 2021, we have started to see the emergence of new capital entering the D&O insurance market. This is having a stabilising effect on premium increases, by providing more visibility of potential outcomes when budgeting renewals and ability to complete large capacity programmes.

The new entrants are attracted by the more rate-adequate environment. In no particular order, these are: Convex, Arcadian, Awbury, Scor, Mosaic, Ambridge Inigo, ERS Syndicate and Rising Edge.

The market is now bifurcated into legacy insurers still turning around huge cumulative losses, and new entrants chasing premium. Clients may find that their existing relationships with D&O insurers need to be refreshed and new relationships formed with carriers unencumbered by historical losses.

Further, the change of personnel around the D&O market has reached unprecedented proportions, as underwriters jump to new capacity providers, rather than endure the corrective phase of legacy underwriting portfolios.

We also encountered reluctance among insurers to offer policy period extensions where renewal submissions are not received in good time. For that reason, it is imperative that clients' expectations are carefully managed around likely premium increases and limitations in cover, but also around the length of the renewal process and the increased underwriting scrutiny involved. While not all clients have been directly affected by these different factors, there is no doubt that the D&O insurance market needed to make such changes in order to be sustainable. Legacy Insurers have worked to rebalance their portfolio, and are prepared to lose business in order to do so.

General trends in D&O insurance

- Much more intrusive underwriting processes with more concentration on financial resilience and Covid impact
- Reluctance to extend current periods of insurance
- Increasing premiums (in some cases to multiples of the expiring premium)
- "Managed" (i.e. reduced) capacity with each insurer generally not prepared to exceed £10m, often less on risks that have US securities exposure
- Application of limits in the annual aggregate rather than "any one claim"
- Higher retentions for company losses (particularly for companies with Level I American depositary receipt (ADR) programmes, which have previously been viewed as lower risk).

Outlook

The additional market capacity is set to help fill gaps in programmes in the second half of 2021, removing the need to pay disproportionately high premiums. Premium increases will continue to slow during the same period, in contrast to the volatile and unpredictable pricing that we saw through 2020. In order to secure the most favourable outcomes and sufficient capacity to complete D&O programmes in a hard market, policyholders should pay particular attention to certain risks.

Insurers will be asking specific questions around financial resilience and Covid impact, diversity and inclusion, ESG and CSR, cyber network security, employment practices and similar emerging areas of directors' risk. In preparing for these questions, policyholders will attract the maximum number of insurers, aiding the chances of completion and perhaps even driving some competitive tension to control premium increases.

Insurers will be asking specific questions around financial resilience and Covid impact, diversity and inclusion, ESG and CSR, cyber network security, employment practices and similar emerging areas of directors' risk.

9. CONSTRUCTION INSURANCE MARKET

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Rates are starting to plateau in some areas

The rates in the construction insurance market continue to harden gradually. However, prices have plateaued to some extent in certain areas, creating an environment that we expect to become "the new normal".

A number of key insurers are still feeling the effects of a number of high-profile losses and a couple of very difficult treaty renewal seasons. Capacity has greatly diminished in the last 18–24 months, following an unprecedented prolonged soft market cycle that has transformed the operating environment. In many respects, the construction insurance market is now generally settled, compared to the chaos we saw 12 months ago. This is true for both projects and annuals in the UK, Ireland and overseas.

For projects, we now have far fewer options in terms of lead insurers, but rates appears to be at an acceptable level. This is creating greater consistency and attracting a newly established follow market. This is particularly the case with regard to new build projects.

When it comes to annuals, insurers are looking to increase rates nominally if the account has performed well, and circa 20% for underperforming accounts.

Excess levels are now fairly standardised, following recent hikes in water damage. While our broad form wording is being amended universally for Covid-19, cyber and heat works – to name a few – the market is focusing on the reduction of inner limits, rather than wholesale changes within our wording.

Pressure points

1. **Refurbishment projects:** while there is a significant increase in the number of inner city refurbishment projects, insurers are showing a decline in appetite for such risks, owing to the complexity and perceived heightened exposure related to these projects. Lead insurer options and follow capacity are often limited, with underwriters not keen to cover an existing building or structure at a value over 40% of the build cost, especially when additional cover such as "delay in completion" and "third party covers" are also needed. Insurers are more interested in deploying capacity on new builds.
2. **Timber frame construction:** this type of risk continues to be a challenge, both in the UK and the US. This situation is likely to continue for the foreseeable future, unless new capacity enters the market. Lockton has undertaken a market review and we have found that a few insurers are prepared to offer a solution to our clients, if projects are single dwellings and have a maximum of three storeys, or are part of a larger portfolio.
3. **Existing projects:** perhaps the most difficult task is the arranging of period extensions to existing project polices. Many of these projects feature insurers in full run-off or just not enthused about extending under existing "soft market" conditions, notwithstanding contract conditions. Securing such extensions can turn, at times, into a real battle.
4. **Insurer service:** The reduction in lead capacity has placed tremendous pressure on markets still operating in this field. Underwriters are very selective and insurers have tightened internal procedures and sign-off, creating a bottleneck and extending turnaround times on average to around two weeks.

These challenges require a very professional and timely renewal preparation, preempting insurer questions, providing comprehensive information from the outset, and engaging with the market as early as possible. With the market continually inundated with new enquiries, it's vital to present the risk in the best possible light from the start, and to differentiate it from the competition. As the market returns to face-to-face negotiations, we are optimistic that the process will become a little easier.

Outlook

While insurers are likely to continue to push for rating increases, this further hardening is likely to tempt some carriers back into the market. The additional competition will help stabilise the construction insurance market.

With a dearth of capacity and appetite, there will be continued challenges around refurbishment projects and timber frame.

There will likely be more pressure on terms and conditions for treaty renewal as we move into 2022.

Vertical/ split placement solutions are likely only to feature on the most distressed placements, as the market settles.

10. REAL ESTATE INSURANCE MARKET

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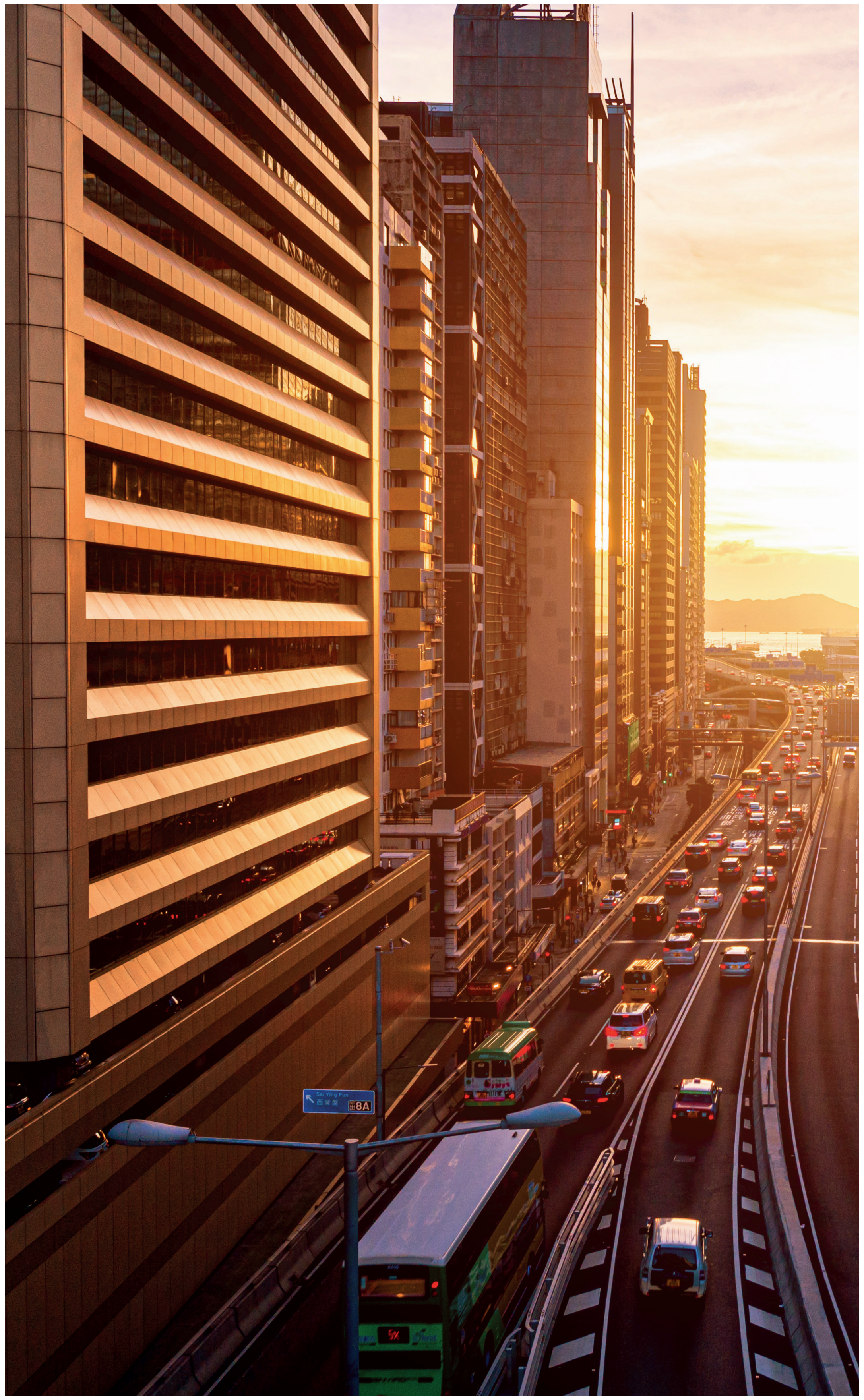
Real estate insurance market shows signs of recovery

The real estate insurance market is showing signs of stabilisation, following turbulent conditions throughout 2020 and early 2021.

During this difficult time, insurers applied significant premium increases to most risks, alongside numerous amendments to policy wordings.

While insurers are still seeking a certain degree of rate strengthening, it is now possible to negotiate single digit percentage increases to premiums, with insurers also entertaining discussions around long-term agreements / rate stability agreements.

In another positive development, we are seeing a number of new carriers keen to transact business with Lockton and a number of existing markets actively looking to grow their books, albeit in a targeted fashion. Increased capacity is a strong indicator that the market is stabilising and new entrants to the market will eventually create the competition required between insurers to take pressure off premium rates.



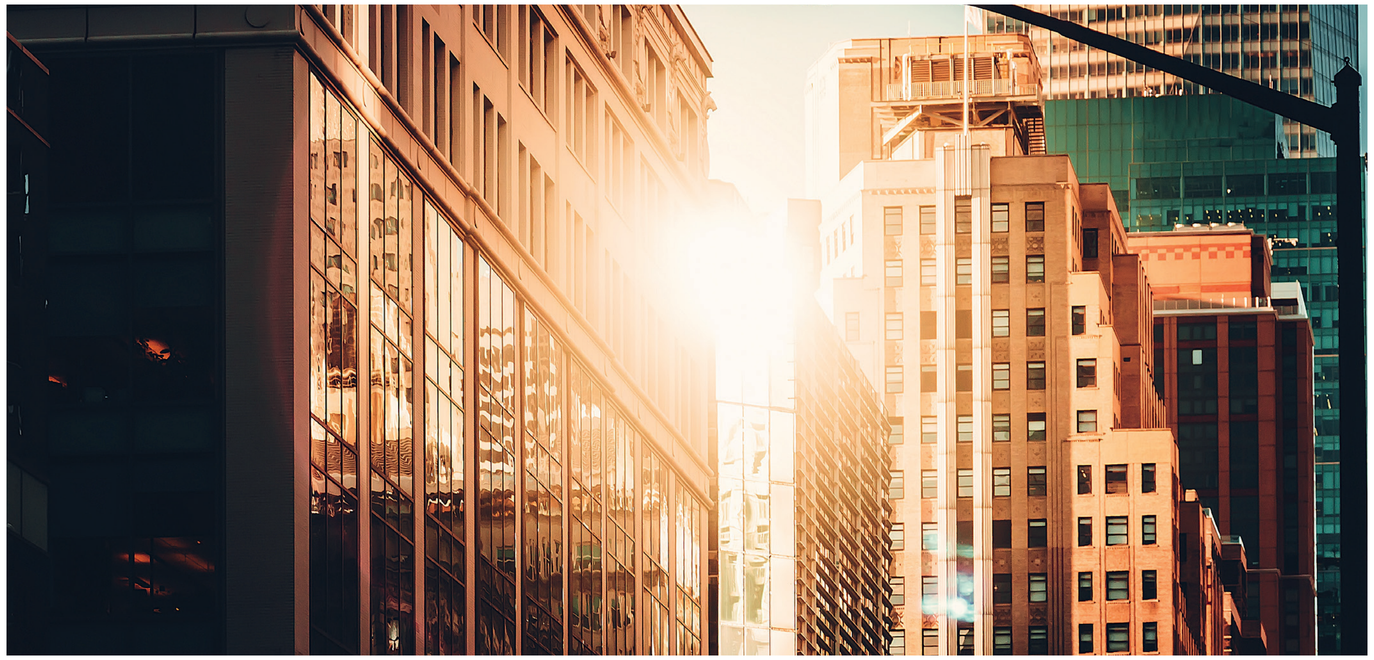
Whilst these are promising signs, it should be noted that the experience here is very much risk specific, with insurers heavily favouring clients with good, active involvement in robust risk management practices; exceptional loss records; or premium rates that have been through corrective action over the past renewal cycle. Similarly, insurers' appetite for risk remains focused on a narrow section of commercial asset classes, such as offices, retail and light industrial. Challenges therefore remain with regard to insurance for properties that sit outside of this appetite, such as residential and heavy industrial assets.

Clients exiting long-term agreements negotiated in softer market conditions are likely to face material change to their premiums and terms of cover, as insurers seek corrective action that reflects the new market norms.

While the rate of change in the real estate insurance market is slowing and more consistency is returning to the approach that underwriters are taking, we do not expect to see the changes of the past 12 months being reversed for the foreseeable future. As the corrections to insurers' real estate books take effect, it is more likely that a new norm will be established, in terms of how real estate risks are underwritten. This will include much greater emphasis on underwriting accuracy (through a focus on the provision of more detailed risk information) for longer term profitability.

Areas of concern for real estate insurers:

- Capacity is at a premium in the market, due to a number of issues such as an increasing number of large losses; more scrutiny in respect of reinsurance treaty agreements; and an increase in reinsurance rates. As a result, insurers are unable to provide the line sizes previously available and placements with large sums insured or a complex/undesirable risk structure are likely to require the involvement of several insurers.
- An increasing number of co-insurance and co-reinsurance placements has made it more complicated to reach an agreement on premiums. It also requires careful negotiation in light of the market-wide policy wording changes that have taken place over the last 12 months. Many insurers are now reluctant to automatically agree on each other's positions on disease and non-damage business interruption extensions.
- Insurers remain concerned about properties with composite cladding, and premium rates continue to increase substantially as insurers look to reduce their exposure to these types of assets. Lockton is working closely with all carriers, to ensure there is consistency in their message regarding premium rating, capacity and cover provided.
- Insurers remain cautious about industrial portfolios, particularly when these properties show a lack of separation; when they include cladding; when they
- involve high-risk operational processes; or where they are ultra-large logistics assets.
- Flood risk is once again climbing the insurers' agenda. In addition to the losses insurers will incur following the unprecedented storm events in continental Europe, a number of insurers have also suffered significant losses due to the recent flash flood events that occurred in the UK. Some of the most notable losses in London have been driven by an increased prevalence of basements within prime real estate areas. This will not only sharpen insurers' focus on the impact of climate change, but is also likely to influence their appetite to write exposures in certain areas going forward.
- Many of the larger composite insurers have reassessed their view of listed buildings, following some relatively large claims in this asset class. They are now limiting their exposure to portfolios that are heavily composed of listed properties. As a result, there remains capacity for these assets, but a reduced number of insurers willing to take on these risks, which can negatively affect premiums.



Outlook

We believe there will be further stabilisation of the market for clients with well-managed real estate portfolios that sit within insurers' appetites. However, conditions will remain challenging for those with risks that sit outside of this appetite or whose policies do not perform well. Insurers are more focused than ever on maintaining profitability and there is no indication that carriers will veer off their new disciplined underwriting approach to boost revenues. Insurers are now more likely to analyse real estate portfolios based on losses/perceived losses, plus administration costs against the net premium received, and not the gross written premium traditionally recovered from tenants. Even though insurers will attempt to carry further premium rate increases in the current climate, there is hope that market corrections may entice other carriers to be more competitive and actively attempt to grow their books with Lockton.

> We believe there will be further stabilisation of the market for clients with well-managed real estate portfolios that sit within insurers' appetites.

11.

CONTINGENCY INSURANCE MARKET

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Waking up from slumber

After the pandemic caused a devastating impact on the contingency insurance segment, there are now signs that the market is beginning to wake up from slumber.

Covid-19 has hit the contingency market particularly hard. A vast number of events had to be either cancelled, postponed or rescheduled in 2020. Without any assistance from the UK government regarding "live events", organisers were unable to obtain cancellation coverage. A survey by the Association of Independent Festivals (AIF) found that 92.5% of its members felt that insurance was a prerequisite for their events going ahead. In spite of a relaxation of Covid-19 rules in the UK, the AIF has estimated that 51% of all UK festivals with 5,000+ capacity had been cancelled in 2021, as of June-end.

Optimism is returning in the events' business. The number of enquiries from the US concerning 'live events' and conferences is rising. In Europe, enquiry volumes are lower, mostly due to travel restrictions in place for European destinations.

The vaccination rollout does make society more resilient but the pandemic is not over yet. To support the events sector, Lloyd's and the UK Government have partnered on a £750m "live event" sector reinsurance backstop.

The scheme is designed to cover costs incurred in the event of cancellation, due to the event being legally unable to happen because of government-enforced Covid-19 restrictions.

Coverage cannot be purchased as a standalone placement, but only obtained from underwriters who have signed up to the scheme, in addition to a "cancellation" policy. Coverage only protects against costs/expenses and there is no option to consider gross revenues. The scheme is due to run for 12 months, from September 2021 until September 2022.

Covid-19 has reshaped the underwriting process for contingency risks:

- Underwriters require more detailed information of an event, including but not limited to: proposal forms; complete budgets; disaster/recovery plans (emergency plans); and site plans (for outdoor events).
- Underwriters' appetite/participation on risks has shifted and they are more selective in their approach.
- Premiums are increasing and in some cases, rates have doubled compared to pre-pandemic levels.
- Underwriters are looking to apply deductibles on smaller production tours.
- The market is continuing to exclude communicable disease and coronavirus coverage from their products.

> Optimism is returning in the events' business. The number of enquiries from the US concerning 'live events' and conferences is rising.

12. MARINE INSURANCE MARKET

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Falling hull casualties helps reduce upward pressure on rates

Declining numbers of marine hull casualties per annum, on the back of rising insurance rates, is benefitting insurance buyers at renewal.

The annual number of total hull losses has declined by as much as 50% over the last ten years, according to the AGCS Safety and Shipping Review 2021. General Shipping claims are also down a further 4% year-on-year in 2020, suggesting that there is a sustainable improvement in the quality of ships, ships crews and ship management. The substantial price rises that insurers have been able to impose in recent years, in conjunction with the continued capital available to the insurance world, mean that the upward pressure on premium in the market is reducing.

Background

Hull & machinery (marine risks)

The global marine insurance market has struggled with profitability for many years. It's clear that consistent high-profile losses, combined with growing risks from ever-larger modern tonnage – particularly in container and cruise ships – have weighed on insurers' results. These factors, combined with an already low premium base and following years of cut-throat competition due to overcapacity, has left insurers' loss ratios at unsustainable levels.

A series of severe windstorm losses in 2017, followed by a major shipyard fire in Germany in 2018, triggered a severe market reaction – initially in the London Market. At the same time, a drastic withdrawal of underperforming syndicates writing marine business at Lloyd's, triggered an appreciable contraction in global capacity. In Lloyd's alone, this resulted in over $250m of lost marine capacity.

This contraction was followed more slowly in other global markets. However, it has recently become increasingly noticeable in Asia (especially Singapore), Europe, and the US.

The most notable exception has been the Scandinavian market, where the appetite for business and the underwriting approach has remained consistent.

Consequently, insurers have been able to impose premium increases year-on-year, throughout 2020 and into 2021. While rate increases have been slowing down, in early 2021 rates on average climbed by 10% for loss-free business after 15% in 2020. The full year 2021 could close out at an average of plus 5% for loss-free business. Renewal outcomes look very different for fleets with unsatisfactory loss records, as insurers issue heavy penalties or in many cases, even refuse to renew the business.

The growing risk of large container vessels

Underwriters have long been concerned about the growing size of vessels and container vessels in particular. The blocking of the Suez Canal by the Ever Given in March 2021, has also reinforced insurers' concerns.

High-profile incidents involving large containerships are highlighting the enhanced exposures these vessels face, across multiple lines of marine business (hull, cargo and P&I/liabilities). In recent years, major fires on container ships have provided the most significant hazards for the global shipping industry and their insurers. Among these high-profile fires: MSC Flaminia (6,750 TEU), Maersk Honam (15,000 TEU), MSC Daniela (13,800 TEU) and CCNI Arauco (9,000 TEU).

A catastrophic fire that lasted nearly two weeks on the X-Press Pearl (2,700 TEU) that resulted in the sinking of the ship, prompted an insurance loss expected to be in the hundreds of millions.

Many other accidents have not proved as catastrophic – but have still resulted in significant industry losses. Gard noted in its November 2020 report that on average during the past 12 months, a fire erupted on a container ship every two weeks.

The Northern Hemisphere winter saw many examples of stacks of containers lost overboard which added up to 3,000 containers between November 2020 and March 2021 alone. The worst incident took place on the ONE Apus which lost 1,800 containers following a stack collapse in the Pacific Ocean.

The grounding of the Ever Given in March 2021, in the Suez Canal, illustrated the difficulties of salvaging such large ships. It also highlighted the world's reliance upon them for maintaining global supply chains.

These container ship events serve to keep container ship exposures in the forefront of insurers' minds. The accumulated exposure from hull, cargo and protection & indemnity (P&I) creates some of the largest combined exposures that a marine insurer is likely to face. As a result, insurers are in the process of pricing in the cumulative effects of these risks.

Insurers are concerned about:

- the size of vessels
- stowage plans and their impact on vessel stability
- hazard goods not being properly declared and that are beyond the control of the vessel's operators.

Many insurers have withdrawn from underwriting container shipping completely, due to these concerns. And if they haven't withdrawn, they have certainly tightened their underwriting approach. This is particularly prevalent in London and Continental Europe markets, less so with some Scandinavian and Asian insurers, who focus on specific clients.

Covid-19

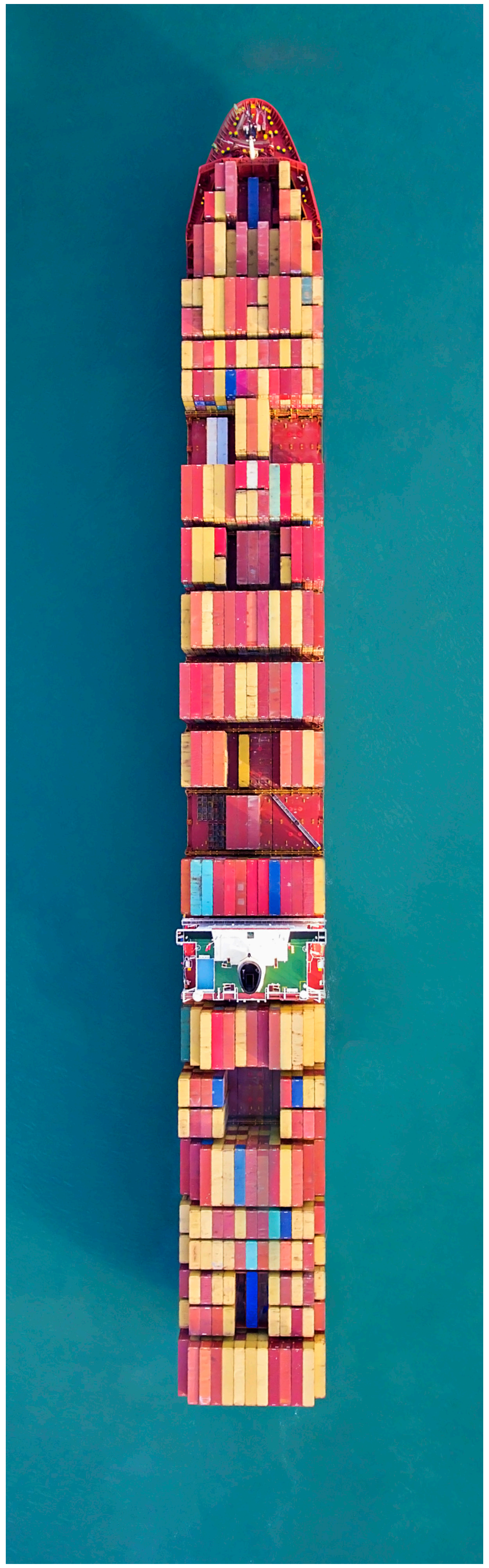
The coronavirus pandemic has added new challenges to the whole maritime, slowing down processes and increasing running costs at a time when insurers were seeking enhanced premium levels. However, many vessels are now returning to normal trade patterns and in some cases, trade levels have risen strongly following a rise in demand, particularly for container shipping. While the cargo carrying markets have recovered relatively quickly, Covid-19 continues to affect the cruise industry and car carrier segments. It's clear that a specific insurance solution is needed for vessel owners and operators, so as to protect them in the event of another pandemic disrupting the world in future.

Environmental pressures

The 0.5% sulphur cap to reduce emissions came into force on 1st January 2020 and the transition has been much smoother than anticipated, although this has of course resulted in some machinery damage claims, particularly around "scrubbers". Arctic shipping continues to gather pace and cargo traffic along the Northern Sea route is increasing, bringing both environmental concerns and enhanced navigation risks with it.

Market capacity outlook

After insurers re-evaluated their business portfolios and enforced some closures, there are signs of new capacity appearing for certain insurance classes. Higher rates have enabled insurers to return to profitability, attracting new investors, as well as some that have previously withdrawn. In most areas, the severity and frequency of shipping losses continue to trend downwards (AGCS Safety & Shipping Review, 2020) and there are signs of expansion from some existing established carriers. Newer entrants to the market such as Lancashire, Convex and Fidelis are seeking rapid growth and have sizeable capacity for certain risks. Additionally, for 2021 new marine and energy capacity has emerged with Navium Marine writing on behalf of Fidelis. Inigo and Aqualine-backed ERS are also initiating underwriting this year. While marine insurance capacity is finally seeing some growth, container vessels are unlikely to derive much benefit at this stage.



Hull & machinery (war risks)

The war risk insurance market is becoming increasingly competitive, as insurers are keen to grow in this area. While a spike in rates around hotspots in the Red Sea have pushed up additional premiums to Jeddah in particular, breach rates globally are generally lower now than in previous years.

New MGAs such as Navium (run by the former Beazley marine head), Vessel Protect and Optio, who offer a kidnap & ransom (K&R) solution in addition to the war coverage are challenging traditional Lloyd's leaders.

Most recently, there has been noise around the formation and launch of another specialist war risks MGA, referred to as KEEL and backed by BRIT and the Fairfax Group. Keel will offer up to $152.2mn of capacity per risk in marine war and breach call coverage. Brit suggested that the consortium will provide instant quotes that are fully sanction-screened.

Marine port & terminal/marine liability market

After an exodus of capacity and a more rigorous underwriting approach, leading to rate increases, competition for new business is slowly coming back. This is in spite of the prevalence of new losses and deteriorations. Following the Lloyd's profitability review and the consequent capacity reductions, some syndicates are now lobbying the market, to allow them to grow into what is now an increasingly profitable line. However, despite these improving market conditions, an early release of high-quality submissions is crucial to secure optimal renewal outcomes.

Rate predictions

Marine liability (new business)	+10% to +15%
Marine liability (renewal)	+10% to +15%
Excess liability	+10% to +20%
Clean Marine Property non-Cat	+10% to +20%
Clean Marine Property Cat	~ +20% (very location specific)

Many insurers have recently posted overall positive results. While we expect further rating correction in the P&T class following a spout of significant losses, a continuation of strong results could see a plateauing of the rating momentum seen in the last 24 months.

Renewal recommendations

- Extend the renewal timeline cycle to three to four months ahead
- Engage incumbent insurer early with professional presentations
- Challenge reserves
- Follow up on survey recommendations (improved return on CapEx in a hard market)
- Sound out alternative markets to obtain options – consideration should be made to breaking long-term relationships if pricing is the key renewal driver
- Pandemic lessons for ports and terminals operators
- Seek alternative storage options for when bottlenecks occur at their own locations.
- Understand which contracts impose performance standards on the contractual risk management. Aim to ensure that excessive penalties for failure to perform are avoided when major events occur
- Make sure effective health care systems/ insurance are in place for the workforce to help maintain the level of pool workers. Understand how insurance policies will respond to critical issues highlighted by a risk map. Insurers' policy language should be made as clear as possible
- Revise and optimise business continuity plans.

Recent Market losses

The severity of losses has recently increased in all areas. The loss events set out below have been absorbed by the market in the last 12 months and are in addition to sizeable losses in 2019, including ITC Deer Park USD175m and NuStar's San Francisco fire (USD75m).

- US Port: Hurricane Laura circa USD150m damage. 100% placed in London
- UK Terminal: explosion in a grain silo. Estimated loss circa USD75m. 100% Lloyd's
- Middle East Port: explosion estimated at USD22.5m. 100% placed in London
- UK Terminals : two separate incidents ~ USD15m & USD8m. 100% Lloyd's
- Various vessel allision incidents, ranging from USD20m to USD60m each
- Q2 '21 Indian storm ~ USD25m
- Ever Given – Suez blockage
- Golden Ray deteriorating to USD788mn
- ONE Apus and Maersk Essen containership accidents

Lloyd's has seen several syndicates cease underwriting of certain marine lines, reducing the available capacity in the market. The remaining syndicates are adapting their underwriting strategies.

- "Light touch" syndicates are benefiting from their increased stamp capacity for 2021 (e.g. Ascot, Beazley, Munich Re Syndicate and Aegis)
- "Heavy-touch" syndicates are having to allocate their reduced capacity more intelligently
- Axis is the latest Lloyd's insurer to close its Miami office following similar moves in 2020 by Brit and Argo
- These developments are expected to result in a further tightening of pricing and perhaps an extension of the gap between the top and bottom performers.

Hard markets raise profitability for insurers operating in the segment, enticing capital raises by incumbents and attracting new entrants. Eventually, this will benefit insurance buyers as it boosts competition. The following players have recently entered the segment and are likely to take some of the fizz out of the current hard market.

- Fidelis & Convex's growth continues at pace
- Brit's full-follow Ki 1618 syndicate fully operational
- Inigo – a USD400m stamp capacity start-up
- ERS
- Navium – USD100m capacity Marine MGA backed by Fidelis' Pine Walk vehicle
- Lancashire revitalised with the hire of Stella Tomlin.

Although the capacity in the marine liability market has fallen recently, it is still generally deemed adequate.

- There is cautious competition for new business – markets will trade coverage to ameliorate their initial rating requirements.
- In H1 ’21, “as before” renewals were unachievable in the commercial market, even for those with perfect loss records. It is expected that this trend will continue in H2 ’22 and beyond, as the live catastrophe event that is Covid-19 concludes.
- Markets are continuing to review the capacity they deploy, with reduced line participation, especially on excess layers.

Pricing challenges

While scrutiny by their senior management leads underwriters to be more conservative in their underwriting approach, we are starting to see more desire to win back business insurers lost due to knee-jerk reactions in 2020. We therefore expect more buyer-friendly trends during the second half of 2021.

Marine liability

- Insurers have achieved renewal rate hikes of as much as 15% on flat, clean exposures during H1 ’21. This compares with minimum rate increases of at least 15%–20% in H2 ’20.
- Carriers continue to distinguish between 1st excess liability policies that are considered “working layers”, and high excess capacity risks.
- Focus continues on what is regarded as the minimum price for capacity (or indeed for a line). The lack of recent inflationary rises on long, high-excess layer stretches has created the perception that they are under-priced.

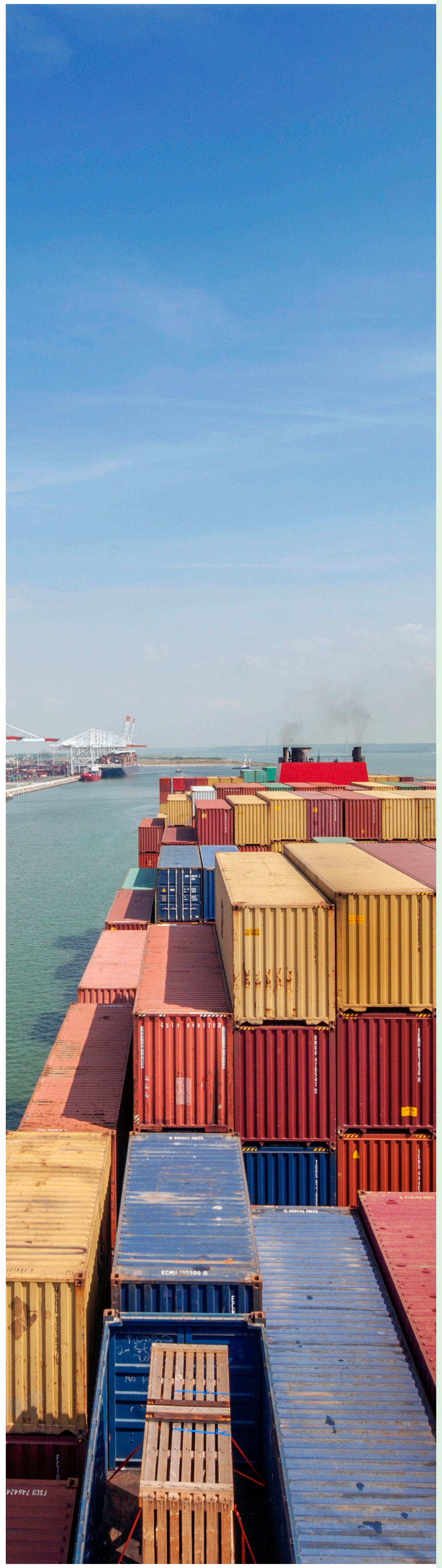
Marine property

- Accounts deemed to have been written at unrealistic rates, or located where there is stiff competition for limited aggregate capacity, are being re-rated.
- Wet bulk and grain terminals are being penalised more than others.
- Over-demand and under-supply of lead capacity is creating a very diverse set of renewal terms.
- A general retrenchment from domestic and London property carriers has resulted in a greater number of placements being verticalised, with insurers participating at different price levels to bring placements to completion.

Pressure points

- Five “massive storm clouds” hanging over the sector:
  - Climate change: cat frequency and severity is rising
  - Covid-19: the loss is not over – many property BI claims are not paid and have on-going litigation
  - Casualty: reserving is deficient across policy years 2013–19
  - Cost inflation: real inflation (e.g. lumber prices) is causing loss creep
  - Cyber: ransomware attacks have risen exponentially – does the market understand its aggregations?
- General market consensus to include a malicious cyber exclusion and a communicable disease exclusion clause.
- The largest rate increases are seen where the incumbent markets have withdrawn from the class and capacity has had to be replaced. Such renewal under-pricing by weaker performers was the fundamental reason why there was such a disparity between the top and bottom performing quartiles in the Lloyd’s market.
- ESG requirements are central to how markets are now trading.

Lloyd’s has consistently warned under-performing syndicates that they can expect even more muscular supervision as the market looks to accelerate the shift to a differentiated oversight. Light-touch syndicates delivered an average “normalised” combined ratio of 90% in 2020, compared to 104% for the “poor performers” – underscoring the view that a number of weak syndicates were holding back the market as a whole.



13. CARGO AND LOGISTICS MARKET

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Increased capacity stabilises the cargo insurance market

Following several years of sharp rate corrections, additional market capacity is helping to stabilise the cargo insurance market.

Drivers of optimism

After insurers adjusted rates to better reflect the risk exposure in the cargo market, an influx of new capacity has emerged from both existing insurers and new entrants across the London market, lifting total capacity to an estimated USD1bn. Further insurers have confirmed that they plan to start underwriting cargo risks later this year and into 2022.

New capacity

- Navium – Henry Maughan and Emma Roadnight will shortly join Clive Washbourn
- IQUW have appointed Scott Heeley
- Rokstone have appointed Robert Birchard
- Starr have appointed John O'Brien
- Alasdair Butler and Lee Aspinall have started Ocean Underwriting
- Antares have appointed Alex Harris
- Arch continue to grow under Steve O'Gorman.

Outlook

The cargo insurance market is displaying a sense of creativity to offer solutions for challenging risks, demonstrating strong capabilities and renewed optimism for the future. Despite the difficulties caused by Covid-19, the market is offering significant vertical limits and Lockton has successfully worked across its global network to maximise such opportunities, including those with primary domestic placements.

While the market continues to push for largely single rate rises where risk exposure or historic performance dictate it, competition will ensure that solutions remain appropriately priced.

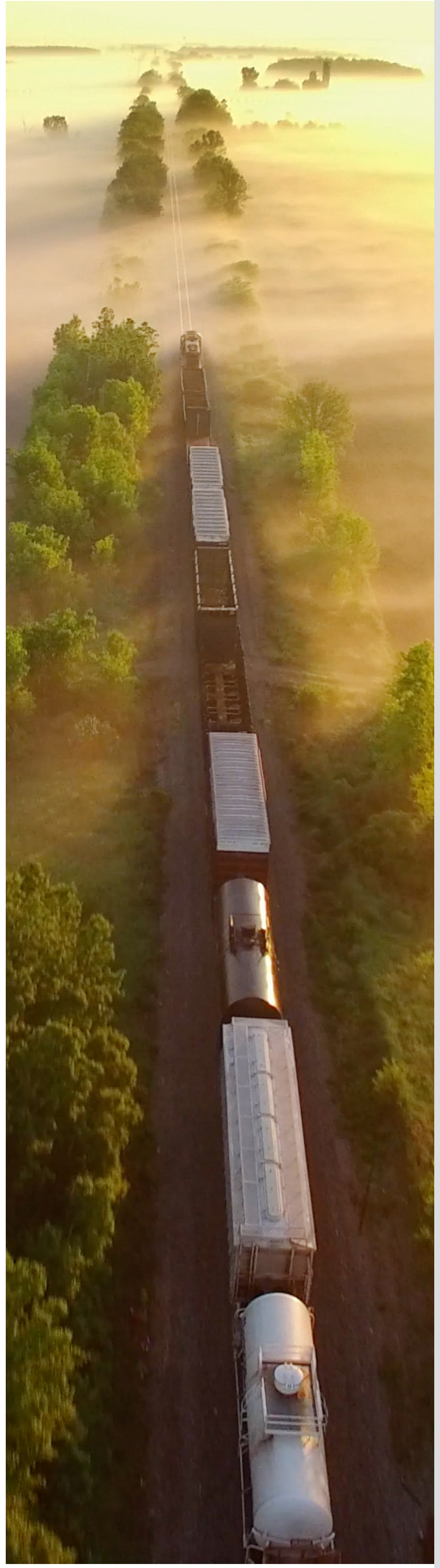
We do encourage and support existing insurer loyalty, but we also expect clients to be interested in exploring alternative market options, even if only out of curiosity. Where remediation has been achieved over recent years and the interest remains within insurers' appetites, rates may remain unchanged in conjunction with the implementation of increased retention and/or risk management.

Rise in global freight prices

While shipping lines are booming with the price of global freight at an all-time high, many cargo clients and shippers are facing significantly increased costs. These are often as high as five times what they may have paid in the past. In many cases, an average container price from Asia to North America is costing upwards of USD10,000. We understand from various sources that while demand itself is actually only up by less than 10%, the knock-on effect and spikes this is causing due to limited capacity, mean that the impact is actually considerably worse.

Consumer buying switched heavily during the last 18 months, from recreation and food/drink spending to purchasing household goods and items along with electronic goods, autos and spare parts. This in turn has caused a spike in volumes, which ultimately led to congestion in many ports, at a time when they were still heavily impacted by Covid-19 outbreaks. The Suez canal blockage by the M/V Evergiven has further disrupted the industry and exasperated the situation – with many vessels experiencing delays and congestion.

A shortage of containers meets significant demand as the peak shipping season fast approaches. Many new containers are on order, along with an unprecedented demand by shipping lines for new vessels, which often take two years to build. We should see over-supply return as we head into next year, and this will hopefully create more sustainable shipping prices for our cargo clients.



14.

TRADE CREDIT POLITICAL RISK MARKET

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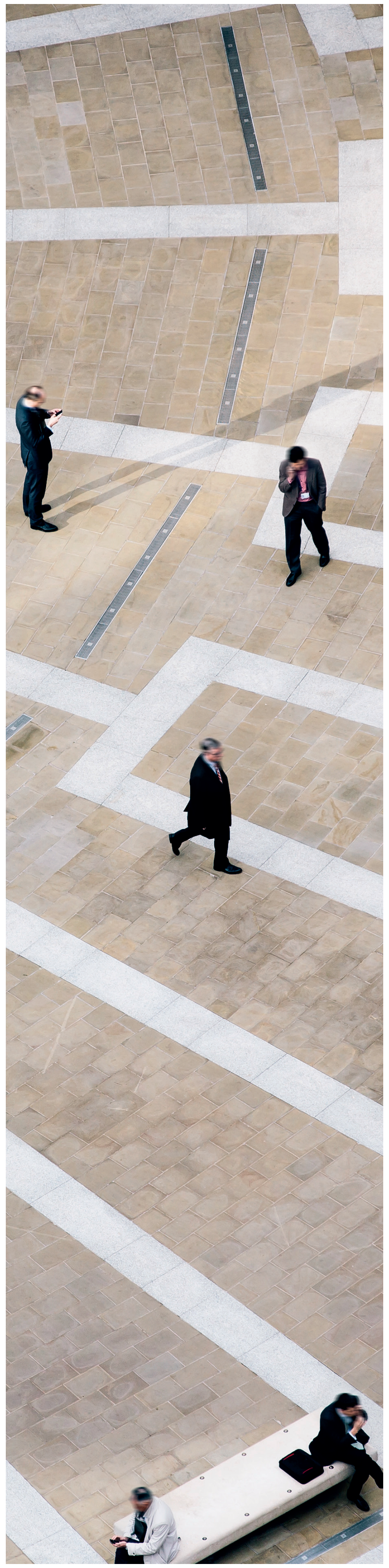
Insurers remain very selective despite unexpectedly low Covid-19 impact

Although the impact of the pandemic on losses in the trade credit and political risks market (TCPR) has been less severe than initially feared, the majority of insurers continue to take a conservative underwriting approach.

TCPR insurers are increasingly selective with who they choose to partner/insure. This is due in part, to how some parties have mis-managed default scenario situations historically. Furthermore, smaller or less well-capitalised institutions have showed limited ability to withstand payment delays. This has resulted in them claiming on their credit policies as a secondary route of repayment, rather than being able to work out a situation with their counterparty and only claiming on a policy as a last resort.

Insurers are particularly selective in the credit space – slightly less so for political risk insurance (PRI). Credit and contract frustration (government contractual default) insurers have a strong preference for multilateral institutions.



This is due to their ability to apply pressure directly to a government and also due to their preferred lender/creditor status.

Outside of multilaterals, insurers focus on banks and traders who:

- they have worked with previously
- they have had positive experience with in terms of handling difficult situations (e.g. working with their counterparties to resolve payment delays and only claiming as a matter of last resort); and
- who have a dedicated and experienced credit analysis team in place, whose due diligence and risk management approach can to a certain extent be relied upon.

Further, insurers look to cover risks where the insurance is seen as a risk partnership between the insured and insurers, and where the interests of both parties are as aligned as possible (such as higher net hold/uninsured retention).

Insurers are therefore increasingly taking a more conservative approach to certain financial institutions where the insurance is viewed more as a secondary route of repayment, or where the insured is not exposing its own balance sheet to finance a risk.

Insurers are also keeping the parameters for credit appetite that were put in place (or imposed) when the pandemic hit. The majority of credit insurers are only willing or able to cover BB- (S&P or equivalent) risks or above, and some insurers are now only considering investment grade business (i.e. minimum BBB+ S&P or equivalent). Only a small number of insurers is willing to cover slightly weaker credits (i.e. approx. single B) and only for longstanding and trusted insured (or fully secured) facilities.

As not all counterparties are rated externally by S&P, Moody's or Fitch, one of the developments we've seen recently is that of insurers increasing their analytical capabilities by hiring dedicated credit and modelling experts, to create a 'shadow' rating system. This has allowed some markets to rely on their own modelling capability vs external rating agencies.

Diverging premium trends

In terms of premium rates, the increased focus on risks higher up the credit quality curve has resulted in some downward pressure on premiums for well-rated risks. At the bottom of the credit quality curve, where there is a very limited number of insurers willing to lead a policy, the upward pressure on premiums has been considerable. As a result, in some cases we're seeing rates of more than double pre-pandemic levels. Subject to the jurisdiction, the premiums for PRI (asset risk) and CF have stayed reasonably steady throughout 2021. Nevertheless, very strong CF risks or basic PRI cover have experienced some downward pricing pressure, as insurers looked to bolster their premium income following a reduced credit book.

Energy and metals

The upstream oil market has recovered significantly over the last 12 months. There's an expectation that demand will bounce back to pre-crisis levels by the end of 2022, supporting the current (or maybe slightly lower than current) Brent price. This price trend is encouraging insurers to cover upstream producers.

The outlook for the refining market is not as positive; margins have recovered from the depths of the last year but they are still very low – and the recovery has not been even across all products. This applies particularly to jet fuel, where demand is still well below pre-pandemic levels. New refineries are also expected to come online over the course of the next year, which is expected to inhibit the recovery of the refining margins over the next year, As a result, insurers are taking a selective approach to covering medium-term oil refining risk.

The electrification of the transportation sector poses a major long-term threat to upstream oil business and the refining market. At the same time, it is benefitting the metals sector – especially for battery metals (nickel, copper and cobalt). The copper price in particular has enjoyed near record 10-year prices, a big change compared to last year and 2016, when prices were as low as half today's value.

It is worth noting that higher commodity prices don't always translate into high profits for metal refineries, unless they have their own integrated production of raw material. Limits to the supply of metal concentrates, combined with an oversupply of refining capacity in some sectors, has put considerable downward pressure on treatment and refining margins and, in turn, in refining operations' profitability.

Over the last few years, there has been some market consolidation, as well as a number of insurers exiting the TCPR market, following several years of poor results.

While losses have increased over recent years, they have not been extensive and the poor loss ratios are generally considered to be caused by the under-pricing of risks, particularly credit business. A rate correction was therefore due even before the pandemic hit. There have been some new entrants to the TCPR market but these are largely focusing on PRI, CF and very conservative credit business. As a result, we do not expect this new capacity to relieve the upward pressure on the more difficult credits.

Market confidence has improved, to a certain extent, but rates for more challenging risks are unlikely to fall in the near future. Response times have also increased with a number of insurers now underwriting on a committee basis, rather than making a decision on the trading floor or in Lloyd's.

Recommendations

Despite several of the comments above, insurers are still very much open for business from new clients across PRI, CF and credit. In order to help ensure the best possible results for any new enquiries, we would recommend that new clients approach us to arrange a presentation on their business and their risk management strategy. If this is the case, the insured should also stress that they intend to be long-term partners of the market with a diversified book of risk, as opposed to occasionally 'cherry-picking' their poorest risks for insurance.

Not only will this help new submissions to be viewed more favourably, but it will also help with rate negotiations. Any new submissions should also include the full details of the transaction, details of the insured's experience in the county/sector and with the counterparty for credit and CF risks. Any credit submissions should also include the counterparties' latest audited financials and ideally, a credit write-up from their analyst/ credit team.

> The upstream oil market has recovered significantly over the last 12 months. There's an expectation that demand will bounce back to pre-crisis levels by the end of 2022, supporting the current Brent price.

15.

P&C REINSURANCE MARKET

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Differentiation is key in hardening market

Continued uncertainty around Covid-19 losses, inflation and ransomware exposures, has led to reinsurance rates continuing to harden through 2021. To secure a satisfactory deal at renewal, differentiation through a clear loss history and data is key. In today's market, it pays off to be early, transparent, and detailed in your approach in order to secure the best capacity.

International casualty trends

Within the international casualty space, a generally cautious approach to reinsurance underwriting is prevalent. Reinsurers have focussed on understanding Covid-19 and ransomware accumulations and there is a considered emphasis on cedants' underwriting practices. The result of this is clear differentiation of terms by client, with those that provide better information earlier, generally seeing the best results.

Reinsurers continue to support existing treaties, however, new business capacity is more difficult to secure, requiring an even longer lead-time. Cyber and clash treaties have struggled to secure capacity at terms acceptable to reinsureds and, as a consequence, insurers have started to rethink their strategy in these areas.

At January 1, 2021 renewals, reinsurers' general approach was to, "hold breath, maintain market share and reassess in 2021", in tandem. Reinsurance buyers' approach was to minimise structural changes where possible. Casualty/long tail portfolios were in the spotlight of reinsurers with a focus on:

1. uncertainty with respect to direct Covid-19 losses
2. uncertainty with respect to indirect Covid-19 losses (i.e. recession impacted lines); and
3. reserve deterioration and investment uncertainty.

Conversations at renewal focussed on fully understanding risk appetite and the approach going forward, so that every aspect of a renewal or placement took considerably longer.

At mid-year renewal, reinsurers' general approach was to, "look to grow in lines of business carrying significant rate and where potential return could be made", while continuing to remain cautious in areas seeing significant loss activity or less buoyant rates.

Reinsurance buyers started to make structural enhancements in the context of the current market conditions – looking to gain from the underlying rate momentum within their portfolios by retaining more net or pushing for enhanced proportional terms. Nevertheless, long-tail portfolios remained in the spotlight for reinsurers. Whilst there was more certainty with respect to direct Covid-19 losses, losses and creeping ransomware losses, were causing significant pressure on contract terms. By midyear, "ransomware" had replaced "Covid-19" as the hot topic of the renewal season. Reinsurers remained keen to fully understand cedants' risk appetite and underwriting approach and buyers grew more accustomed to this, focussing on providing detailed information early.

With regards to pricing, excess of loss treaties have seen risk-adjusted rate rises of 2.5% to 10% for loss free, and 7.5% to 15% for loss impacted treaties. On proportional treaties, ceded commissions are starting to creep up, in line with expected better performance across most casualty lines of business.

Financial lines deep dive

Within the historically troubled financial lines space, where rate rises on original business outstrip those in most other casualty lines, reinsurers are maintaining discipline and not looking to significantly expand exposures in recessionary exposed classes.

This is an area of the market where pricing among quoting reinsurers diverges significantly, with the level of rate increase on reinsurance treaties dependent on portfolio performance and geography. More than ever, it is important for cedants to continue key strategic relationships with reinsurers who are supportive long-term, and who understand the market challenges.

In terms of coverage, it is generally accepted that specific (CD) exclusionary language is difficult to carry. As a result, attention has been focused on the underwriting approach around recessionary exposures with an emphasis on specific subclasses (e.g. insurance brokers).

16.

REINSURANCE FOR MARINE, ENERGY & POLITICAL VIOLENCE

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Reinsurance rates soften since January 2021 renewal

The marine, energy and political violence environment has remained remarkably predictable during widespread uncertainty driven by the pandemic.

Despite a concerted effort from clients to provide data and start negotiations earlier, the 1st January 2021 renewal season was characteristically late and offered opportunities for reinsurers to improve contract terms. The overarching focus was on coverage and clauses for cyber and communicable disease.

As 2021 progressed, we have seen a softening/deceleration in the pricing environment, to low single digit rate rises.

Key considerations for buyers

Aside from a customary nod to the potential for an active North Atlantic windstorm season to alter dynamics back into reinsurers' favour, we expect underwriters to focus on a few specific areas as we head into 2022.

Underlying rate momentum

- Supply of proportional capacity has grown, as reinsurers have sought to take advantage of the hardening direct market, following a contraction in capacity in several key segments.
- Many long-suffering classes, particularly hull, cargo and downstream energy, have benefited from year-on-year compound rate rises coupled with coverage restrictions. Momentum for upstream energy has been somewhat lacklustre in comparison, in what is still a volatile class, but has performed well in recent years.
- We expect reinsurers to focus more on assessing underlying rate adequacy, with the pace of original rate rises starting to decelerate.

International Group of P&I Clubs

Each of the last three years has produced headline-grabbing loss events:

- MSC Gayene (June 2019) $1bn cocaine drugs bust and MV Golden Ray (September 2019) car carrier that capsized in St. Simons Sound
- MV Wakashio (July 2020) grounding and oil spill off Mauritius
- Ever Given (March 2021) containership grounding and blockage of the Suez Canal, and X-Press Pearl (May 2021) fire and sinking while carrying chemicals off the coast of Sri Lanka.

While the Ever Given was arguably the most high-profile and economically significant loss event, with huge disruption to marine trade, it is not the most financially damaging to the re/insurance sector. However, we expect underwriters to point to "what could have been" with the increasing size of vessels a hot topic in recent years.

Ever-increasing vessel sizes has been a hot topic in recent years.

More concerning for reinsurers will be the mounting challenge of trying to quantify the cost implications of government intervention and social pressure, following pollution.

Material claims and movement to loss reserves will impact reinsurance pricing. With the IGA programme up for renewal in February 2022, coming out of a two-year deal with substantial loss activity/deterioration, a lack of certainty may complicate reinsurance renewals.

Terror and political violence

Cedants are increasingly concerned around political violence (PV) and strikes, riots and civil commotion (SRCC) events. These coverages are likely to give higher frequency/lower severity losses than the terrorism peril and as such, demand is expected to increase for aggregate covers.

Demand from existing cedants for increased PV aggregates and a raft of new entrants have challenged reinsurers' capacity.

Treaty leaders are already sensitive to SRCC with a heightened risk of civil unrest across the world and sizeable losses to SASRIA and London market facilities following the unrest in South Africa.

Outlook

We expect the marine, energy and political violence rating environment to stabilise. This is driven by growth aspirations from a number of recent entrants and some existing markets serving to suppress rate rises. Nevertheless, like-for-like reductions will remain elusive.

Dynamics are slightly different for those buying wider composite cover incorporating other classes, with more inconsistencies in pricing across the spectrum of other specialty lines.

Those buyers seeking to effect structural changes are best advised to start discussions with core partners early. Reinsurers are likely to assess renewals on their own merits, with established markets monitoring exposures and loss movements closely. They will be more likely to reject business they view as marginal, or where there is no evident increase in pricing.

17.

AUSTRALIA'S INSURANCE MARKET

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Spotlight on Australia

The Covid-19 cloud continues to hover over the country with Sydney/New South Wales only now emerging from more than 100 days in lockdown, while Melbourne, Victoria is officially the world's most locked-down city, with stay at home orders still in place (at time of writing).

This most recent outbreak has seen anxiety replace optimism, especially since the Organisation for Economic Co-operation and Development (OECD) ranked Australia 36 out of 45 countries for the number of vaccinations administered.

Australia is regarded as a 'mature' insurance zone, and like other parts of the world, there is a serious bottlenecking in the underwriting process (often involving head office sign-off as insurers become increasingly risk-cautious), adding time pressure to renewals. With brokers, clients and underwriters all working from home, the time pressures will continue, likely marvelled at in years to come. A familiar playbook to many around the world, no doubt.

Covid-19 compounded what was already a remediating insurance market, with the onset of the pandemic following hot on the heels of the devastating bushfires in 2019/20 (insured loss > $2.3 billion). Other challenging issues for the insurance industry included directors and officers

(D&O) class actions, real estate cladding and build-quality apprehension, continued sexual misconduct legal actions and the like.

That market redress has continued into 2021 but expanded to impact virtually every class of insurance which makes this "hard market" extraordinary, with a diverse set of issues driving a very cautious and fragile insurance market:

Insurance class	Key insurer concerns	Key insight
Property and business interruption	Natural catastrophe (Nat Cat) exposures Escalating replacement-cost values High hazard industries and EPS risks Retracting cover for contingent business interruption (BI) and scrutiny of supply chains Cyber and human contagious disease 'clarifications' (exclusions) BI Covid-19 concerns and volume of claims notifications	There are green shoots with a slowing of rate increases. Insurers are now starting to compete again for well-managed businesses presenting lower catastrophe exposures and high risk-quality
General Liability	Escalating defence expense and third-party medical costs Assertive pursuit of worker-to-worker recoveries by workers' compensation insurers Covid-19 concerns Reduced limits per risk	Liability premiums continue to rise and insurers are increasingly discerning about "high risk" industries – a growing list
Professional Indemnity	Ubiquitous difficulty for so many professional indemnity (PI) insurance buyers Withdrawal of capacity or retraction in cover/limits imposed by traditional PI insurers Long tail risk concerns specifically impacting a wide range of industries including financial institutions, professional services to the construction sector, valuers and financial advisors, etc.	PI challenges are impacting "business as usual" for many industry sectors – if the consultants can't procure adequate PI, the risk stays with the principal

Insurance class	Key insurer concerns	Key insight
D&O	Australian D&O was one of the first in the world to experience classic hard market conditions, following years of major losses from insurers of Australian D&O (especially so for securities (Side C) class actions). 2021 has seen a third year of remediation, albeit lower renewal premium increases helped by the introduction of new capacity. Regulatory concerns have shifted remediation focus to Sides A (cover to protect the directors and officers when they are not indemnified by the organisation) and B (cover to protect the organisation itself from the liability it faces) only programmes and across the board exclusions, relating to cyber and Covid-19 events – the focus is on liquidity, debt ratios and solvency. There is no let-up though, as insurers are now identifying increased market caps (share price recoveries/increases) as another reason to raise renewal premiums	A recent legislative announcement clarifying disclosure obligations will bring welcome relief to the insurer and insured. An interesting dynamic as new capital enters the D&O market at a time when we're likely to see D&O starting to level off
Cyber	There are global concerns around the industry losses. The escalation in ransomware and claims payouts; the raft of cyber security information now required; and insurers conducting their own penetration tests before accepting a risk have all dramatically impacted not only costs, but also added pressure to renewal timing	Companies are now seeking insurers' benchmarking on what good security looks like as cyber risk and insurance availability quickly becomes a board-level concern

Insurance class	Key insurer concerns	Key insight
Workers' Compensation	State-sponsored schemes in Victoria, New South Wales and Queensland are seeing large premium increases	Concerns persist about prolonged working from home and mental health impacts

Boardroom risks

Over the past 30 years, risk and insurance have rarely had such a high profile in the Australian boardroom.

Those companies lurching from renewal to renewal are struggling to make sense of the insurance market. Others that have a mature approach to risk, recognise that the true impact of this market is an amplification of the uninsured risk. The list of issues is long and includes BI exclusions; Nat Cat sub-limits; sharp increases in deductibles; cyber clarity (exclusions); and changes in claims made policies (such as PI).

This diverse and complex set of pressure points are forcing boards to take a deeper view of their risk registers and pay increased attention to what is and what is not insured.

Opportunities

Those companies that can articulate their risks and risk management approaches will attract insurance support. As we move from a harder market to the reintroduction of competition, insurers will still be selective regarding the risks they want to support.

Companies that embrace the concept of truly selling their risk to insurers, will find a willing market that will compete for their business. As clients, you are competing for insurers' attention and for their risk capital.

Quality of risk information remains critical with a need for insurance buyers to develop a clear insurance strategy with their broker, well ahead of time.

THANKS FOR READING

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