LOCKTON COMPANIES LLP

Insurance Market Update

H2 2023

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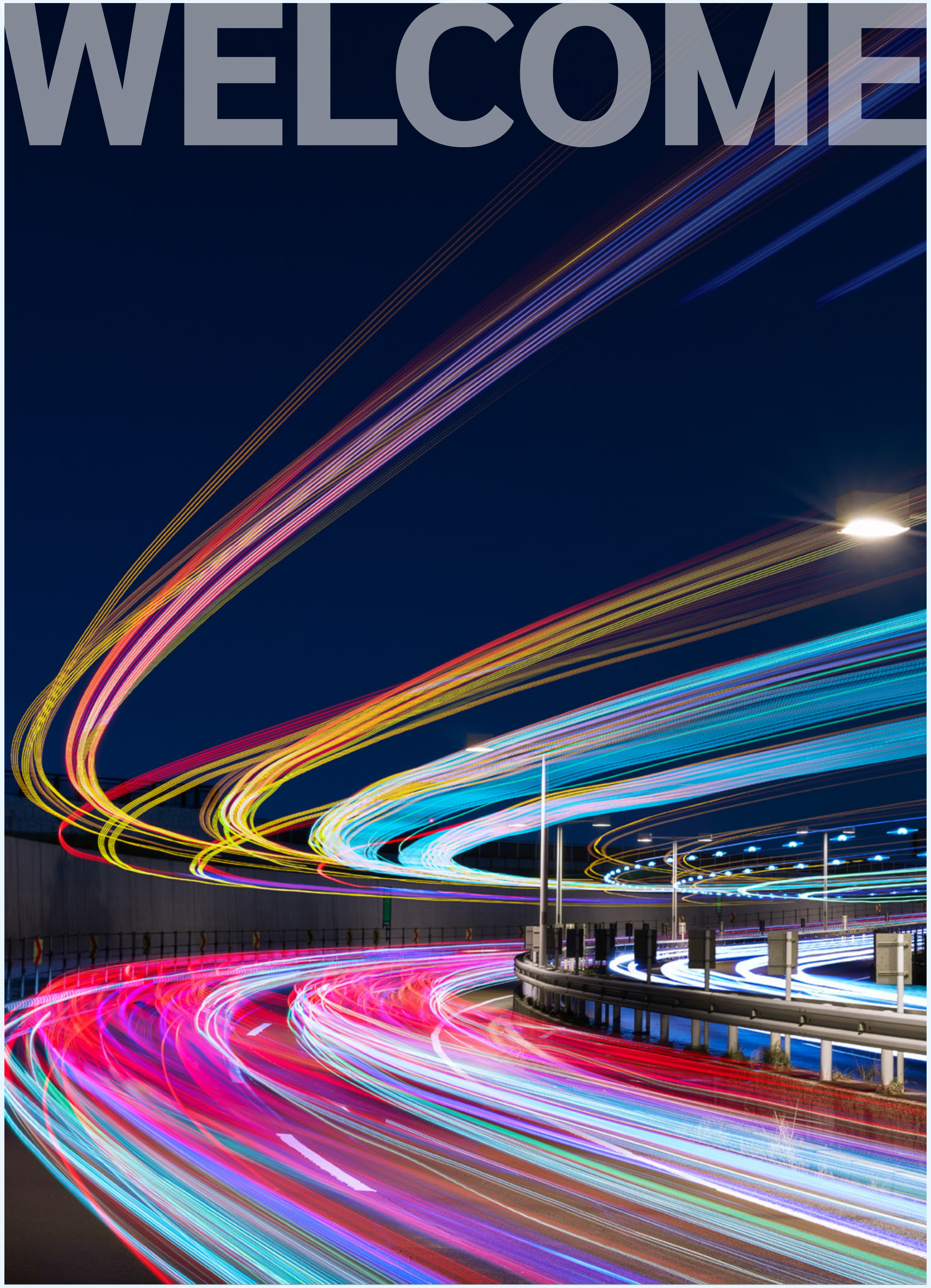

FOREWORD

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We are pleased to share the Lockton H2 2023 Insurance Market Update

This issue provides insights across 17 business segments. It also includes a spotlight feature on our US operations and the local trends in that insurance market. The intention of this update is to keep you up to speed with underwriting and risk trends from a London Market perspective.

The economic environment has a significant effect on insurers' strategies as it affects their investment and underwriting performance, and the global outlook is slowly improving. Inflation is coming down from the record highs seen in the last year, suggesting that the interest rate hike series seen recently in many economies is coming to an end. While high interest rates may benefit insurers' investment income, recent increases should provide a respite for investors and consumers, supporting economic activity.

Nevertheless, recent price increases for raw materials, labour and energy continue to impact the financial performance of businesses in many sectors. Inflation is increasing claims costs for insurers, which is why it remains a major topic at renewals for property risks. Likewise, an increase in claims costs from natural catastrophes is adding to the pressure insurers are exerting on pricing for property risks. While this is mostly affecting the US market, predicated on a record year for catastrophic events with the number of billion-dollar events increasing to an average of over 8 per annum, the effects are spilling over to other jurisdictions via reinsurance agreements.

Casualty insurers and reinsurers continue to raise concerns over the impact of inflation, the rate of adverse loss development and the continued challenges of litigation funding.

Once seen as a phenomenon for US domestic risks, the increase in lawyers being remunerated by financial outcomes is showing signs of impacting insurers with large international books that have significant US exposures.

In other insurance areas such as Directors' and Officers' Liability or Cyber, our specialists are noticing shifts in underwriters' approaches that may benefit insurance buyers. This is mainly driven by an increase in capacity following years of rate hardening. The insurance market has seen greater competitive opportunities for buyers in a wide range of risk areas. As always, businesses with well-managed risks and a compelling narrative around environmental, social and governance (ESG), strong risk management, and good claims profiles, are set to benefit most.

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

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

EXECUTIVE SUMMARY

This year marked record levels of inflation for much of the globe, driving increases in the cost of claims, values insured and, accordingly, the price of insurance. Now into the second half of 2023, and there are signs that pressure is beginning to ease, largely thanks to the efforts of central banks.

This is welcome news for businesses, yet challenges remain. Economic recovery is slow, with post-pandemic supply chain challenges and geopolitical uncertain continuing to hinder growth. Within the insurance market, reinsurance rates remain high – a consequence of climate change, with a growing number of national catastrophe losses. Much of these are being passed on to buyers. Insurers are also working to offset inflation-driven claims costs.

Despite these factors, there is a general theme of optimism within the market. New entrants, often with a broader risk appetite, are driving strong competition for business and forcing existing insurers to limit their desired increases. As a result, businesses across most sectors are finding sufficient capacity and a favourable environment at renewal. Flat rates or rate reductions are now common for well-managed risks.

As ever, exceptions apply. Higher-risk sectors continue to be met with caution from insurers, particularly those affected by insolvencies, natural perils, or political instability. Underwriters remain selective in their approach to these risks, and continue to seek assurances as to businesses' mitigation efforts. With these trends set to remain, the focus for firms will be on preparing effectively for renewal.

The following is a high-level summary of the key findings from Lockton's H2 2023 Insurance Market Update.

Key findings:

1. Improving conditions define much of the current market. Insurers have benefited from healthy profits in 2022, and are now displaying a healthy risk appetite. At the same time, new capacity is entering many markets, driving competition for premium and market share. Rate reductions are becoming more regular, with some negotiation available for existing placements. That said, a hard market persists for sectors with risk greater exposure, such as property. As a general rule, insurers remain cautious around risk, and will seek assurances before committing their capacity.

2. Reinsurance rates are trending high, despite past hard market conditions driving reinsurers' profitability. This is due partly to reinsurers' high exposure to natural catastrophe losses; the first half of 2023 saw a high frequency of extreme weather events across the globe, including heatwaves, droughts, severe wildfires, floods, and extreme precipitation. With these trends anticipated to continue, and the need to compensate for previous losses, reinsurers are reluctant to reduce rates. At the insurer level, this in turn is fuelling hesitancy with regards to longer-term risks.

3. Environmental, social, and governance (ESG) has become paramount to discussions around risk, with markets pushing to see corporate statements as part of renewal submissions. Insurers may reduce capacity on a placement, withdraw from certain sectors, or decline risks which are perceived as "moral hazards". For clients, focus is on demonstrating ESG compliance. Board papers, corporate statements, and wider commentary around ESG implementation will all form part of a robust renewal submission. At the same time, new markets are emerging to cater for favourable risks, such as renewable energy. Insurers are now scaling their underwriting teams to meet customer demand.

4. Political volatility remains high. The fallout from the Russia-Ukraine war is sowing uncertainty across sectors, including financial institutions, aviation, marine, transportation, and others. Although the initial invasion prompted markets to harden, insurers now have clearer visibility into the relevant risks, and many have reduced their exposure to Russia and Ukraine. Nevertheless, this and other conflicts remain under review, including simmering tensions between China and Taiwan.

5. Preparation is key when it comes to client renewals. Early engagement with brokers and insurers remains vital, with the latter remaining selective in their underwriting approach. This is particularly true for complex accounts, where insurers value open and transparent communication. When presenting, it is essential to differentiate risks where possible to make them more attractive. Firms with the best evidence of well-managed risks, including articulating previous lessons learned, and demonstrating the mitigation measures that have been implemented, will achieve the best outcomes.

MACRO-ECONOMIC INSURANCE ENVIRONMENT

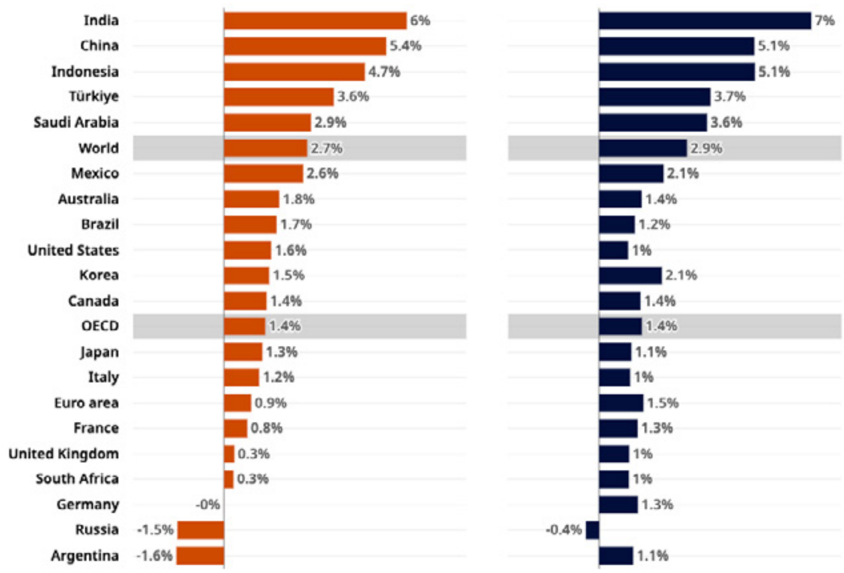
Christian Wuestner
Head of Content

A brighter economic outlook for the global economy

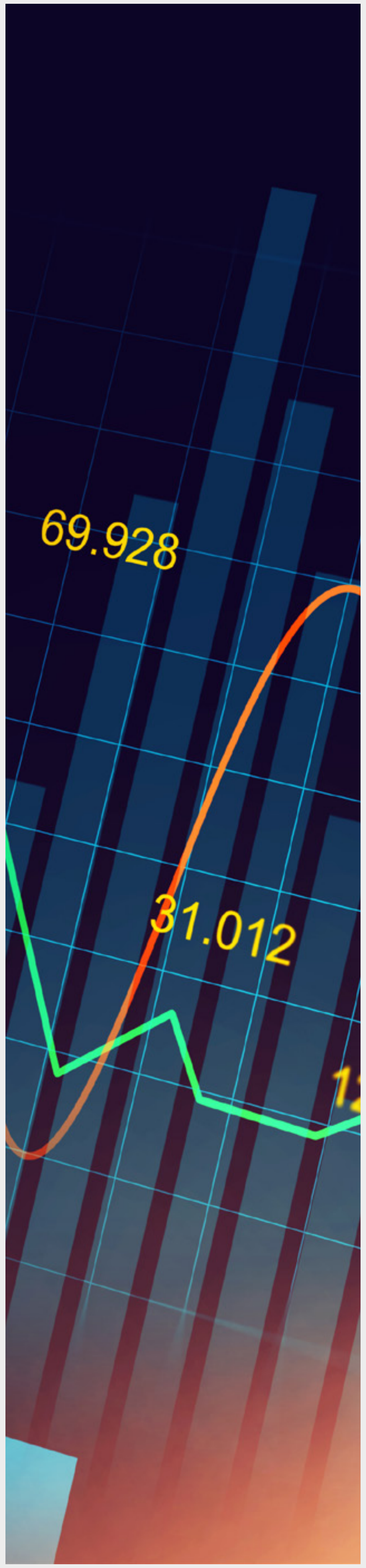
Global economic growth is improving but at a relatively slow pace, according to the OECD's latest [Economic Outlook](). After slowing down from 3.3% in 2022 to 2.7% in 2023, the global economy is expected to pick up to 2.9% in 2024.

This expansion is mainly led by developing countries which are expected to grow significantly faster than the average.

REAL GDP GROWTH PROJECTIONS FOR 2023 AND 2024

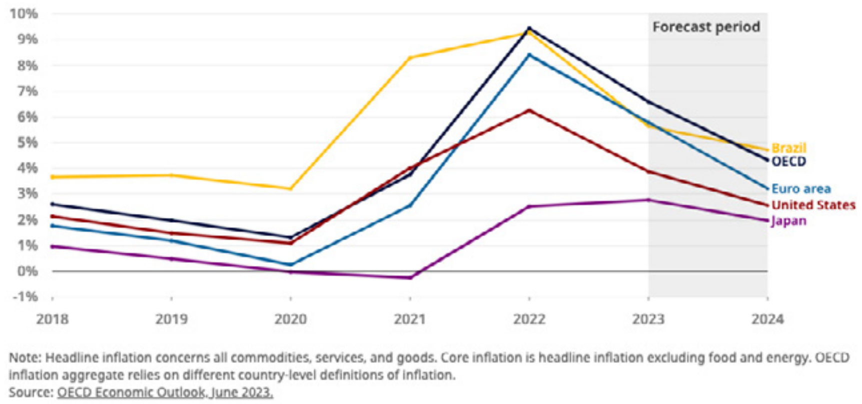


Source: OECD Economic Outlook, Report June 2023



High inflation has hit households hard in the past year, negatively impacting consumer sentiment as household incomes failed to keep pace. Pressure from inflation is now easing – the OECD is projecting headline inflation to fall from 6.6% in 2023 to 4.3% in 2024.

REAL GDP GROWTH PROJECTIONS FOR 2023 AND 2024



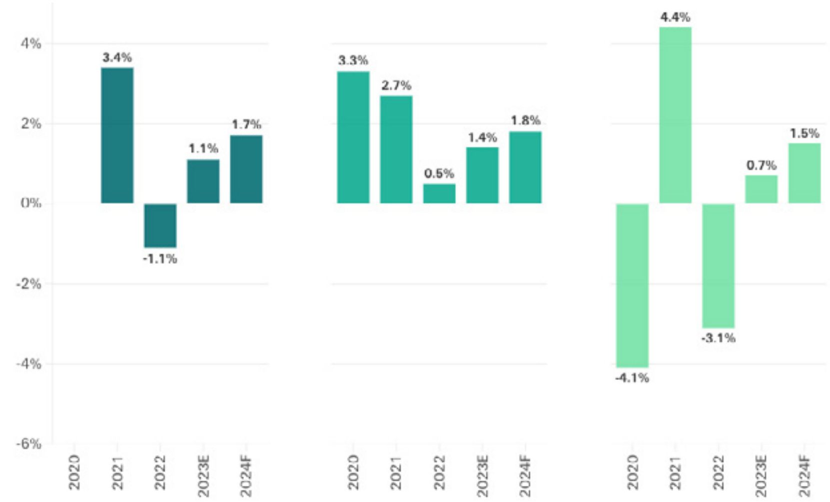
Source: OECD

The decline in inflation is mainly due to tighter monetary policy taking effect. To bring down inflation, central banks across the world have increased interest rates, making loans more expensive and therefore reducing the spending power of households and investors. As a side effect, the central banks' actions have also pushed growth prospects lower. However, since energy and food prices as well as supply bottlenecks have been declining, central banks are likely to require less monetary tightening in the near future. This is set to positively impact consumer and investor sentiment and, consequently, the global growth outlook. Lower energy prices are already easing the strain on household budgets, and business and consumer sentiment is recovering, albeit from low levels. The re-opening of China's economy following the Covid-19 pandemic has also provided a boost to global activity.

SUBDUED INSURANCE PREMIUM GROWTH

Global insurance premium volumes (non-life and life) will grow by 1.1% in 2023 and by 1.7% in 2024 in real terms (both below the 10-year trend of 2.6%), after a 1.1% decline in 2022, according to Swiss Re estimates.

REAL PREMIUM GROWTH, 2020–2024F



Source: Swiss Re Institute

The main driver of the premium growth for non-life insurance is being driven by a general market hardening in commercial and, more recently, personal lines. Insurers have been raising premium prices to offset inflation-driven claims costs.

REINSURANCE RATES TRENDING HIGHER

Reinsurers have been benefitting from investment recoveries steadying capital levels, while top-line earnings were boosted by further pricing improvements as hard market conditions continued through 2023 renewals.

Elevated frequency and severity of natural catastrophes have strengthened reinsurers' resolve to charge higher rates and protect profitability. Changes to terms and conditions such as higher attachment points, coupled with a continued withdrawal from aggregate covers, have helped protecting profitability.

While the reinsurance market may deliver returns on equity in the teens this year, it is still considered "stressed" as it faces a dearth of external capital willing to contemplate a move into the sector. Reinsurers continue to be concerned about the impact of climate change, the hostile US tort environment and enhanced geopolitical risk.

This is leaving cedants having to deal with elevated attritional catastrophe losses, with less reinsurance support coming at a much higher cost. This may have consequences for non-life insurance buyers, particularly if they have property exposure in the US where re/insurers are particularly concerned about natural catastrophe activity.

Pressure from inflation is now easing – the OECD is projecting headline inflation to fall from 6.6% in 2023 to 4.3% in 2024.

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1.

PROPERTY

UK

Jim McDowall

Catherine Willsmer

A better-than-expected environment for buyers

The UK Property market has performed better for buyers in 2023 than originally predicted, due to insurers' healthy risk appetite. Factors such as high inflation, increased catastrophe (CAT) reinsurance costs and tighter underwriting controls have threatened to send the market into a period of hardening rates. However, the impact of healthy underwriting profits achieved in 2022, as well as new entrants to the market, have resulted in strong competition for new business. This has been supported by stabilising inflation and the absence of large CAT events, such as storms and floods. As such, the UK market experienced a further reduction in the average rate increases from 6% in Q1 2023 to 4% in Q2.

The benign property insurance environment in the UK has generated broad support for long-term agreements from insurers. Deal parameters have improved with insurers offering, in some cases, three-year agreements, with flat rating at the end of the first year and small increases at the end of the second (between 2.5–5%).

The UK situation contrasts sharply with the US, where rate increases averaged 19% in Q2 2023. US buyers have therefore turned to the London market in search for more favourable terms. Such moves can benefit some accounts, but those with critical CAT exposures in the US continue to see significant price increases. This is used to offset the insurer's higher reinsurance costs.

The expectation for the remainder of 2023 and beginning of 2024 for the UK property market, is that it will remain stable. This is due to continued competition and insurer investment, coupled with the stabilising inflation enviroment and comparatively benign weather. Many carriers are keen to maintain their share in current risk portfolios, especially in business with controlled CAT exposure. This trend is likely to persist over the next four to six months. However, the volatility of the US wind season will influence the profitability of treaty reinsurers, potentially triggering a push for further restrictions in CAT terms. Consequently, insurers may pass these on to buyers, along with any potential increases in pricing for business of this risk profile.

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PROPERTY

NORTH AMERICA

Mike Barrett

The hard market persists

The North American Property market continues to be a challenging area for clients and brokers. Following a rapid hardening of the reinsurance market at January renewals, insurers have passed those costs on to insurance buyers, resulting in some significant increases to secure expiring limits of coverage. Within the property market, there are still concerns around replacement cost valuations and inflation. Whilst it was welcome news that the US inflation rate slowed to 3% in June 2023, there remain difficulties in some supply chains. As a result, the period for reconstruction after a loss event can be lengthy, adding cost from both the rebuilding and the business interruption.

THE INSURANCE PERSPECTIVE

Climate change is creating new challenges for insurers as they are unable to rely as much on historical performance to determine future losses as they did in the past. In the US, a series of severe thunderstorms prompted insured losses of USD 34 billion in the first half of 2023, the highest ever insured losses in a six-month period, according to Swiss Re. The amount of capital and capacity in North American Property remains unbalanced with no significant entrants in either the direct or reinsurance market. Without major new entrants or aggressive growth from some of the market leaders, that supply will continue to lag demand.

> Within the property market, there are still concerns around replacement cost valuations and inflation. Whilst it was welcome news that the US inflation rate slowed to 3% in June 2023, there remain difficulties in some supply chains.

MARKET DYNAMICS

The current market conditions have empowered insurers to be more selective in their underwriting approach, in what they view as a very buoyant rating environment. Nevertheless, the majority of the London market carriers have taken a softer approach to longer term clients and have endorsed the rationale of long-term stable partnerships. However, valuation clauses are currently a central topic in the property market. Insurers are extremely focused on the adequacy of the declared replacement cost, although they are generally more flexible with longer term clients and those that have a strong understanding of their values.

OUTLOOK

The Atlantic Hurricane season will be closely observed. If there are no major named windstorm events, this could deliver a ceiling in terms of pricing. Insurers have been very vocal about how positive the pricing environment is, and in time that should encourage greater competition and more options for clients. Meanwhile, clients need to continue working hard on differentiating their risk and making it more attractive to insurers, as these will continue to challenge clients and hold them to account on how they are managing risk. The market remains extremely disciplined on retentions, and clients are regularly being asked to retain a greater amount of risk.

RECOMMENDATIONS

It's vitally important that clients provide quality information well in advance of their renewal date. That includes areas such as values narrative, responses to engineering recommendations, and business interruption worksheets. Insurers have generally shown a positive attitude to clients who are engaged in this process, and who view their property insurance programme as a partnership. Having appropriate lead time also allows brokers to explore alternative options. Clients have an increasing range of choices via alternative risk transfer solutions, such as parametric products. This alongside the increasing use of captives, is a way to both offset cost and participate directly in the risk coverage. Lockton continues to advocate for early engagement in the renewal process, to allow all options to be carefully considered.

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PROPERTY

INTERNATIONAL

Roland Haiser

No respite to the current hard market

The first half of 2023 has seen an increase in secondary peril weather such as heatwaves, droughts, severe wildfires, floods and extreme precipitation. In June, average global temperatures were up by more than 1.2°C compared to pre-industrial times, and the warmest ever recorded.

- At over USD 53 billion H1 2023 has seen significantly higher losses than the 10 year average (USD 34 billion) with at least 25 individual billion dollar economic loss events (all but one being weather related). Most recently wildfires in Hawaii are estimated at over USD 4 billion with insured losses with Hurricane Idalia at circa USD 2.2 billion.
- Secondary peril convective storms (thunder, lightning, heavy rain, hail, strong winds and sudden temperature changes), mostly in the US, have caused over USD 30 billion (circa 70%) of insured losses. According to Swiss Re, secondary perils have contributed to above average losses and a 5%–7% annual growth trend in insured losses.
- The February 2023 Turkish earthquake has been the largest individual loss at USD 5 billion with economic losses being closer to USD 40 billion, suggesting potential insurance gaps.
- New Zealand was also hit by the two costliest weather-related insured events since 1970 – flooding and Cyclone Gabrielle.
- Europe has also been impacted with heavy rainfall losses estimated at USD 10 billion economic losses and USD 1.1bn insured losses.

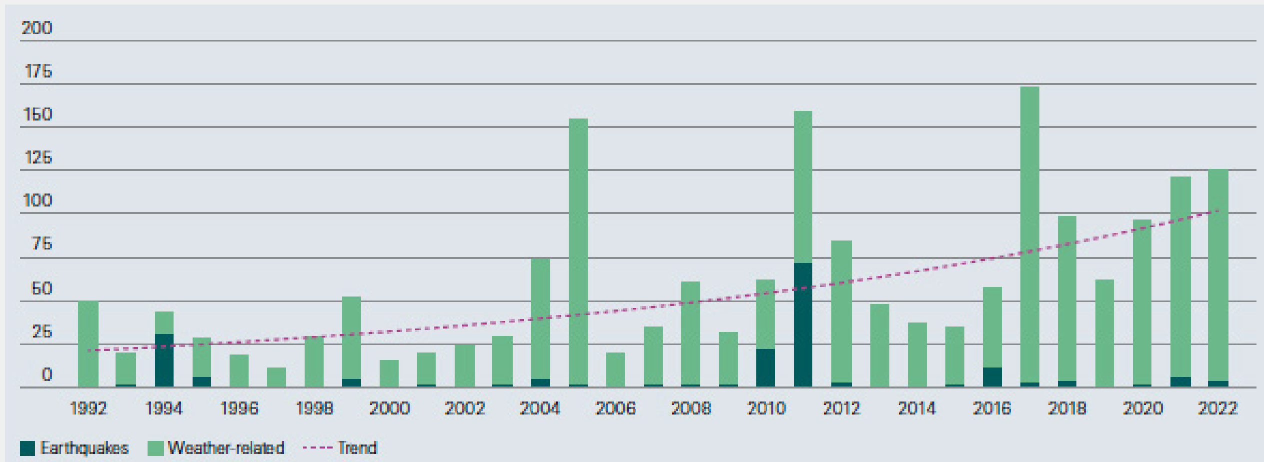
THE FIVE LARGEST NATURAL DISASTERS IN THE FIRST HALF OF 2023

RANKING BY OVERALL LOSSES

Date	Country/Region	Event	Fatalities (approx.)	Overall losses US$ bn	Insured losses US$ bn
6.2.2023	Turkey, Syria[2]	Earthquake	58,000	40	5.0
12–23.5.2023	Italy, Croatia, Austria, Bosnia and Herzegovina	Flood, severe storm	15	10	1.1
10–17.6.2023	United States	Severe storm, tornado series	4	8.4	7.0
1–4.3.2023	United States	Severe storm	13	6.0	4.0
30.3–1.4.2023	United States	Severe storm, tornado series	33	5.4	3.9

Source: Munich Re NatCatSERVICE

GROWTH TRAJECTORY OF GLOBAL NATURAL CATASTROPHE INSURED LOSSES (IN USD BILLION)



Source Swiss Re

CAPACITY

- Although D&F underwriters have generally avoided significant losses for both primary and secondary perils Capital remains constrained with limited signs of new capacity entering the Market.
- Supply/demand dynamics are still finely balanced but overall clients continue to secure sufficient capacity.
- Mid-year D&F Treaty renewals continue to see a significant increase in retentions with pricing uplifts between 25%–50% and consequential impact obn D&F offerings.
- Markets continue to focus on key catastrophe aggregates and de-risking of portfolios.
- Heighted risk selection with occupancies such as metals, mining and power continue to prove challenging – with capacity restrictions and application of key sublimits (e.g. Tailing Storage facilities) imposed.

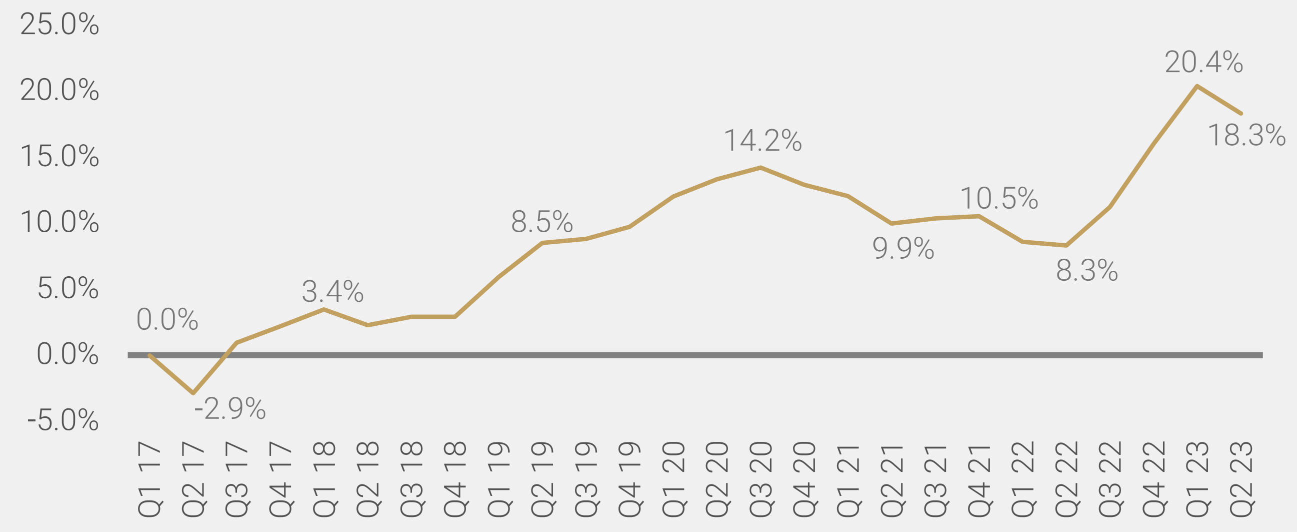
KEY UNDERWRITING TERMS & CONDITIONS

- Reinsurers continue to hold firm on both wordings and general terms and conditions with exclusions around communicable diseases, cyber and strikes, riots and civil commotion limiting unpriced losses.
- Pressure on underlying deductible levels is now reducing attritional losses.
- Strict requirement for updated valuations and methodology are seen as a necessity to avoid margin clauses.
- Impact of inflation/loss inflation and a cooling global economy are leading to increased claims frequency and losses.
- Updated LMA 5583A territorial exclusion for Belarus, Russia and Ukraine now being applied across the majority of renewal and new accounts.
- Increased information requirements with respect to environmental, social and governance (ESG) required from clients.

PRICING

H1 2023 has seen a continuation of the extended hard market (although rate increases are now starting to slow). This is the result of a combination of different factors including geopolitical conflicts, macroeconomic shocks, a disrupted energy market, high inflation, the Covid-19 pandemic, interest rate hikes, depleted capital and historically high natural catastrophe events.

RATE MOVEMENT



Source CIAB

- D&F property underwriters are generally achieving risk-adjusted rate increases in the 5.00% to 15.00% range for clean accounts (higher in the US), although this varies significantly by territory, occupancy and loss experience.
- Accounts with a significant catastrophe footprint are seeing 15%–25% plus increases and constraints in cover for critical earthquake, wind and flood capacity.
- Rates are likely to continue to increase for the remainder of the year, despite nearly six years of hardening rates with pricing levels last seen in 2006, following Hurricane Katrina.
- Assuming no market changing events, D&F profitability is now starting to return, despite heightened loss activity.

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2.

CASUALTY

UK

Kate Underwood

Aemilia Guest

Competition slows rate increases

New capacity entering the market is increasing competition and forcing insurers to rethink and moderate their desired rate increases. The market continues to push for rate increases, even with clients evidencing good loss experiences and well-managed risk. This is driven by concerns around changing litigation, the rise in nuclear verdicts/class actions in the US, and ever-increasing social inflation.

COVERAGE

Over the last two quarters, liability carriers continue to challenge cover due to ever-growing environmental, social, and governance (ESG) pressures. In addition, the development of Protect Duty/Martyn's Law establishes a new legal bar for negligence in the management of terrorism risk, creating uncertainty around the defensibility of claims.

Lockton is monitoring emerging challenges to cover, so as to effectively prepare clients for any potential restrictions. Whilst most markets demonstrate flexibility in amending coverage to reflect exposure, we remain vigilant in our approach to the scrutiny of coverage changes.

MARTYN'S LAW

The Protect Duty legislation is creating additional roles and responsibilities for publicly accessible premises. Clients in affected sectors, such as cinemas groups, music venues and shopping centres, are already expected to demonstrate how they will comply with the pending legislation in order to provide comfort around claims defensibility. We are beginning to see consideration given to limits and pricing for terrorism extensions under general liability policies. As a result, the redefined scope of duty of care is central to discussions on core retail and hospitality exposures.

BODILY INJURY DEFINITION

The narrowing of the bodily injury definition first emerged in the casualty space in the early quarters of 2021. In recent months, we have seen a significant increase in the number of markets amending their bodily injury definition to provide resultant mental injury. This affords cover for mental injury, mental anguish and nervous shock only when resultant from physical bodily injury. Insurers continue to drive to narrow key policy definitions such as this, and evidence little flexibility when challenged. These narrower definitions are becoming market standard in efforts to counteract competitive rating measures.

ESG

Over the last six months, conversations on ESG have become paramount to discussions around risk. Markets are pushing to see corporate statements as part of renewal submissions, with some higher risk sectors requiring full ESG reports. Whilst the environmental aspect remains a key pillar in the underwriters' strategy, recently we have seen an increased focus on social and governence aspects. This has led insurers to reduce capacity on a placement, withdraw from a specific sector, or to decline risks which are perceived as a "moral hazard".

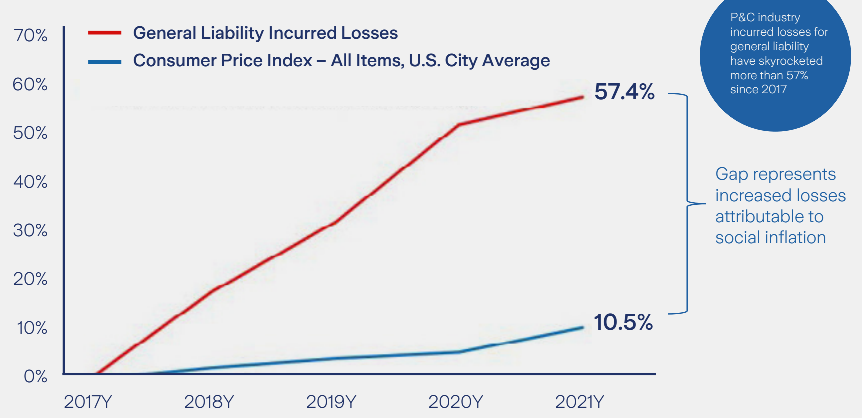
RATES AND CAPACITY

Primary Market competition remains strong, and clients who can evidence wellmanaged risk are rewarded with favourable rate increases. However, insurers continue to remain vigilant around US exposures, and higher risk sectors continue to see corrective rating measures. The rise in class actions and nuclear verdicts in the US, is placing pressure on insurers to realign their book. This is necessary to avoid being stung by the litigious nature of the US judicial landscape and also to meet weighty ESG commitments.

> Due to the rising cost of care and claims inflation in conjunction with the long-tail exposures of liability, flat-rate renewals across most sectors remain few and far between.

Insurers continue to push for rate increases to reflect social inflation, particularly where there is US exposure. With little change over the last two quarters, primary general liability (GL) rate change remains higher than in other lines at +7%, with employer's liability (EL) reducing to +3–5%. With ever-growing gross written premium (GWP) targets, carriers are under pressure to both win and retain business, and are demonstrating greater rating flexibility as a result (on a case-by-case basis). We have recently seen some flat rates offered across both EL and GL primary and excess of loss (XOL) in sectors where insurers are feeling the pressure from heavy market competition. However, due to the rising cost of care and claims inflation in conjunction with the long-tail exposures of liability, flat-rate renewals across most sectors remain few and far between. To maintain rates whilst competing with new capacity in the market, we are seeing a rise in three-year long term agreements. Notably, these are only afforded to clients who can evidence robust risk management and a healthy loss ratio.

GENERAL LIABILITY INCURRED LOSSES AND CONSUMER PRICE INDEX (PERCENTAGE CHANGE SINCE 2017)

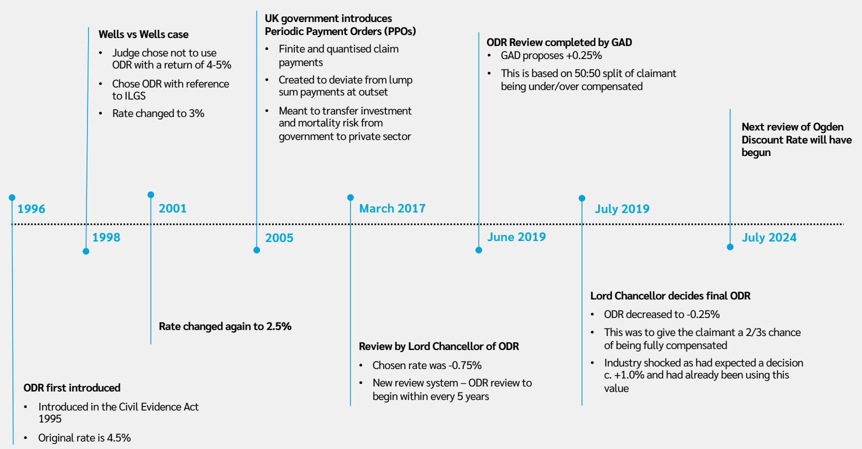


Source: Zurich: Customer and Broker Webinars 2023

Ogden Rate Review (ORR)

The outcome of the ongoing review of the personal injury "Ogden" discount rate is expected in the next 12 months. This will determine how long-term severity claims will be settled as a lump sum amount at "today's monetary value". It currently sits at -0.25% for England and Wales with EL and GL the main classes of business affected. Reviews in recent years have brought some material impact to the liability market, most notably when the Ogden rate went from 2.5% to -0.75% in 2017. This was then amended to -0.25 in 2019. In practice, there is little direct impact on the rating decisions undertaken by insurers as a result, however, clients should be aware of how the ORR will impact reserving of future losses in sectors where claims of long-term injury may occur, such as heavy industry or healthcare.

TIMELINE



Source: Introduction to Ogden Discount Rate

EXCESS OF LOSS

Insurers are pushing for notable increases in excess of loss (XOL) pricing. This is primarily driven by years of insurer neglect. However, the spike in multi-million-dollar court settlements in the US is putting greater pressure on markets to achieve a minimum price where there are US exposures. As the attitudes of the US judicial system pull through to the UK market, US only nuclear verdicts may be a thing of the past. This year has seen the largest ever settlement in a UK court with a multi-billion-pound class action settlement against a UK domiciled parent company for the collapse of the Fundão Dam in 2015.

Whilst many insurers are agreeable in implementing sustainable increases, and avoiding knee-jerk reactions, underwriters remain vigilant on the impact of US settlements, and the follow through of this litigious approach into the UK market.

US LARGE LOSS PROFILE BY INDUSTRY SECTOR IN 2022

Sector	Settlement (Millions)
Life Science	$272
Healthcare	$97.4
Consumer Products	$52.1
Hospitality	$95.5
Road Transport	$25
Rail Transport	$21
Construction	$48
Manufacturing	$1720
Oil & Gas	$150
Utilities	$14
Chemical	$56.3

Source: Chubb Limit Liability Benchmark & Large Loss Profile by Industry Sector 2023

RECOMMENDATIONS

In order to capitalise on the increased market competition and favourable rates, it is essential that clients effectively prepare for renewal.

Timing: As a result of the increased caution around US exposures, markets are taking longer to review multinational propositions where US local policies are required. It is essential that, in order to benefit from increased competition, clients are presenting renewal information early.

This includes robust risk mitigation evidence. Clients and brokers alike should make use of expiring renewal information to determine market appetite well in advance of renewal when conducting a broad remarketing exercise.

Market presence: In postpandemic flexible working, we are seeing the return of market presentation days and face-to-face meetings between underwriters and clients. We strongly encourage clients to grow their relationships with their underwriter, supported by Lockton, and to attend face to face meetings. When remarketing, presenting to insurers or holding 1-2-1 meetings with prospective markets evidences confidence in a client's risk management approach. This in turn drives market appetite for the risk. This can be particularly beneficial for clients in higher risk sectors, or those with a challenged loss history who can demonstrate lessons learnt.

> This year has seen the largest ever settlement in a UK court with a multi-billion-pound class action settlement against a UK domiciled parent company for the collapse of the Fundão Dam in 2015.

Coverage: As insurers continue to challenge cover, it is essential that clients review their policy wordings, with the support of their accounts team and liability placement broker, to ensure coverage remains best in class. As emerging risks shift insurer positions on long-standing definitions and clauses, clients should be aware of how this will impact their policies. Examples of such include the aforementioned amendment to the bodily injury definition to afford cover for mental injury, mental anguish and nervous shock only when resultant from physical bodily injury.

ESG: With the ever-growing focus on ESG, it is essential that clients do everything they can to demonstrate their drive to comply with ESG commitments. This includes presenting board papers, ESG reports, corporate statements, and any commentary on the implementation ESG philosophies into the wider business framework.

This is essential to ensuring that markets are comfortable, particularly in higher risk sectors.

As emerging risks shift insurer positions on long-standing definitions and clauses, clients should be aware of how this will impact their policies. Examples of such include the aforementioned amendment to the bodily injury definition to afford cover for mental injury, mental anguish and nervous shock only when resultant from physical bodily injury.

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CASUALTY

US

Declan Durkan

Market splits according to industries

For the first part of 2023, we have continued to see an upward trend in pricing. This is stabilising from the height of the hard market in 2019. However, pricing is not indicative of rate trends across the board. The current state of market is complex, and there is significant difference depending on industry sectors.

Excess Liability insurance market conditions in the first quarter of 2023 didn't change much from what we saw at the end of 2022. What did change were the increasing concerns from carriers about what lies ahead. Pricing has been impacted by inflation and/or exposure growth post Covid-19. Further, a lack of rate adequacy and in particular prior year loss deterioration, have caused continued carrier remediation.

Loss costs continue to increase and, broadly speaking, carriers won't be able to get enough rate to keep up step-for-step with loss costs.

NUCLEAR VERDICTS AND SOCIAL INFLATION

Over the last few years, buzzwords like "nuclear verdict" and "social inflation" (used interchangeably) have been thrown around, and we'd like to share some statistics related to these buzzwords, to demonstrate their impact on the marketplace.

Nuclear verdicts are verdicts with awards that surpass $10 million. In 2022, the awards from nuclear verdicts were in excess of $18 billion, compared to $9.1 billion in 2021 and $4.9 billion in 2020. The most common losses were from auto claims, product liability, patent infringement and — increasingly — in the construction space.

Just a few years ago, a claim with a single claimant would typically be contained in the primary or lead excess layer. Multiple claimants would be needed for an award to exceed $10 million. Social inflation has changed all of this, with single-claimant awards setting record after record. Most recently, a single-claimant loss in the oil and gas sector reached a $100 million award.

TORT REFORM

It's been evident for many years that the US urgently needs tort reform. The plaintiff bar in the US is extremely well funded. This situation is exacerbated by plaintiff lobbying groups and the emergence of nuclear verdicts, as outlined above.

February 15, 2023 saw the introduction of Bill HB 837 in Florida, which proposed dramatic changes to the civil litigation landscape in the state. Governor Ron DeSantis signed the bill into action March 24, ruffling the feathers of some of the larger personal injury attorneys in the state.

While the immediate impact of the Bill's passing is yet to be determined, the highlights below set out some of the changes it introduced:

- "Pure" comparative negligence changes to "modified" comparative negligence. Under the new modified system, if a plaintiff is more negligent than the defendant, the plaintiff cannot recover damages.
- Two-year statute of limitation for general negligence claims. HB 837 amends Section 95.11 of the Florida statutes to reduce the statute of limitations for general negligence claims from four years to two years. This change could allow evidence to be obtained closer to the time of the alleged incident. Earlier settlement and resolution of claims may see a quickened timeline as well.
- Adjustment of attorney fees. One-way attorneys' fees in insurance cases now only apply to declaratory judgement actions for the determination of insurance coverage against an insurer after a denial of coverage of a claim, which doesn't include a defence under a reservation of rights. If a declaratory judgment is granted in favour of the insured against the insurer, the court shall award reasonable attorneys' fees, which are limited to those incurred in the action.

Whilst this is just one State, it has raised awareness of judicial "hellholes", in particular certain counties in Texas, Georgia, California, Florida, and Illinois, and the effect these huge awards have on key industries in the US. Whilst an extremely politically driven discussion, it is seen as a positive movement designed to protect businesses and create an element of fairness in demands and awards.

TREATY RENEWALS

While the challenges on the casualty side might not be as bad as on the property side, there are still significant issues that will impact the marketplace.

Because of the loss trends shared above, hedge fund money has started to leave the reinsurance space for higher returns in equity markets. Reinsurers have been pushing ceding commissions down by 1-2 percentage points for high-performing books of business, to several percentage points for not-so-great performing books of business.

MARKET SPLIT

Carriers continue to analyse and re-evaluate their books in challenging classes and venues, and they are altering terms, adjusting rate, or exiting classes entirely. New carriers are not eager to move into these spaces, which results in less capacity at higher rates. Conversely, in less challenged classes and locations, more capacity has entered the market, resulting in a more competitive rate environment.

The excess space continues to be very active with moderate rate increases anywhere from flat to 15%, depending on account size, losses, and risk exposure. Now that the market has settled somewhat, carriers are focusing on growth and want to add new business to their books. In London, the focus is on commercial construction, product manufacturers, and rail transportation. There is still significant capacity in the Bermuda market with new markets deploying attachments as low as $5M to $10M with attractive pricing, terms, and conditions. There has also been increased interest in alternative risk transfer solutions, such as captives and structured deals, particularly in the transportation space.

OUTLOOK

While market conditions in the excess casualty space have remained relatively consistent over the past couple of quarters, several emerging conversations could influence a change in how the market reacts through the second half of the year and onwards. Will the treaty renewals be challenging enough to have a broad impact on pricing and capacity? Will incurred losses continue to increase at the same rapid pace? Will other states look at tort reform similarly to Florida? And — probably the question that could have the biggest overall impact on losses — how much further will the plaintiff's bar push demands and drive ever higher awards?

All of these questions will see evolving answers over time, and all will determine how the carriers interact with each other. This will continue to impact rates and capacity the second half of 2023 and into 2024.

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CASUALTY

INTERNATIONAL

Toby Francis

Impact and consequences of the 2023 Canadian wildfires

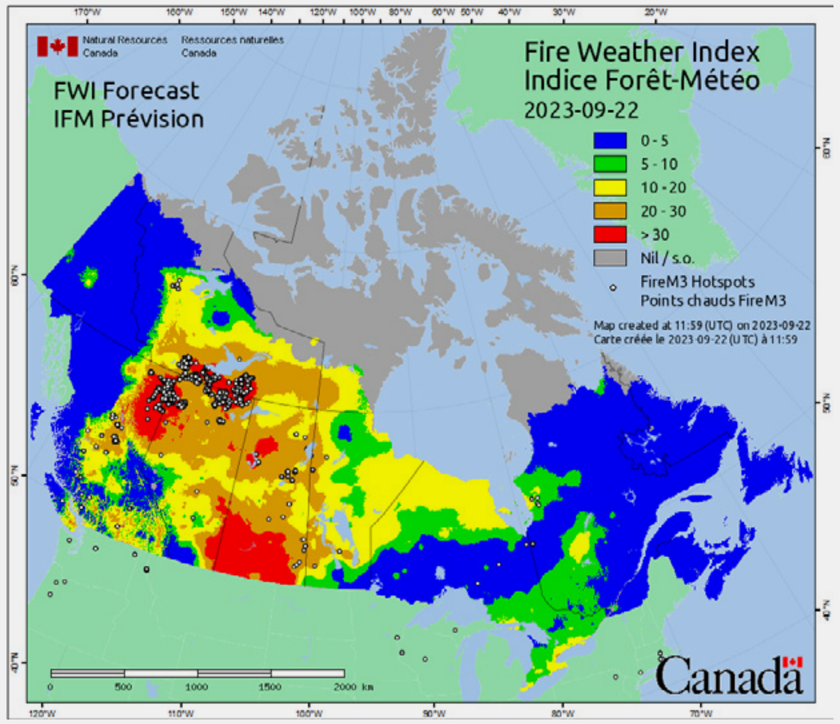
The 2023 wildfire season has seen the most area burned in Canada's recorded history, surpassing the 1989, 1995 and 2014 fire seasons. It has also set a new record in North American history, surpassing the 2020 Western US wildfire season.

Given Canada's relatively sparse population and less litigious environment, the liability losses in US wildfire have historically been substantially greater. However, this year could be setting a new norm for Canada, affecting the market from a capacity, pricing and/or coverage perspectives.

Canada has experienced substantial wildfires in all 13 provinces and territories.

The picture below is a snapshot of the situation as of August 24, 2023.

SNAPSHOT OF THE SITUATION AS OF AUGUST 24, 2023



Source - https://cwfis.cfs.nrcan.gc.ca/maps/fm3?type=fwih

On August 23 there were 1,040 wildfires active, and 660 of those were deemed "out of control".

During this season, 5,900 fires had already burned 154,074 square kilometres (59,488 sq mi; 38,073,000 acres), about 4 percent of the entire forest area of Canada. The area burned represents more than six times the long-term average of 2.50 million ha (6.2 million acres) for this time of the year.

It is undoubtable that Canadian industries with wildfire exposure will come under greater scrutiny. At the very least, this will mean that additional information is required, and risk selection will become more pertinent.

Going forward, the rising trend in global temperatures is likely to continue. Whilst in the main there is sufficient capacity for the cat liability exposures in Canada, this could change in the coming years.

If traditional insurers retract capacity, insureds will either be underinsured or look to the use of alternative risk transfer (ART) solutions. This can range from more active use of self-insured vehicles such as offshore captives, to long-term structured deals. Multi-year bushfire 'stretch aggregate' continues to be utilised in the Australian marketplace which offers certainty of cover and pricing over several years.

CHANGE IN MARKET CAPACITY

As of May 3 2023, the Catholic Church Insurance (CCI) announced its closure to its shareholders. Its portfolio is now in run-off and the carrier is not permitted to issue any new or renewal policies. The insurer noted that the significant weight of historical sexual abuse claims has not abated. As a result of the intense pressure on capital this has created, CCI can no longer operate within Australian Prudential Regulation Authority's (APRA's) regulatory requirements.

This has no impact on historic policies and claims, which will remain covered as the CCI remains solvent. However, this event does show a trend in abuse related cover. The historical claims years continue to deteriorate above their reserved amounts, and it remains an extremely difficult exposure to underwrite, with no new capacity for backdating cover for historic periods.

Whilst not all-encompassing, there are markets in London that write abuse related covers. Particularly of note is Beazley's SML product which provides cover on a claims made basis. This tends to be retro date inception and on a primary or excess basis, with duty to defend amongst other elements.

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3. GLOBAL FINANCIAL INSTITUTIONS

UK

Dominic Pilgrim

Bob Williams

Still a buyer-friendly marketplace

The landscape of the financial institutions (FI) insurance sector has changed drastically over the past quarters. The third quarter of 2023 saw further rate stabilisation, increased availability of insurer capacity, with recent entrants to the market driving competition, something we expect to continue in Q4.

With sufficient capacity available for a wide array of risks, we are now regularly seeing rate reductions, including for those client portfolios that have experienced increases at previous renewals. Retention levels have remained flat (and in some cases reduced, where new markets are taking over placements). After a couple of years of markets regularly resisting coverage enhancements, we are now able to negotiate improvements to the coverage for existing placements.

We are confident that this positive trend will continue in the short- to medium-term. Recent entrants to the financial institutions market are set to continue to challenge coverage limitations experienced during the pandemic and the resulting hard market. There are, however, wider macro-economic factors at play that must be considered in the mid- to long-term. These might have an adverse effect on the market cycle, particularly as we see the associated loss experience unfold. Inflation, a global recessionary impact, rising interest rates, the Russia-Ukraine War, and wider social unrest, are all to some extent being factored into underwriters' approach to risks. These factors will be kept under review.

EXPLORING FINTECH

The financial technology (FinTech) sub-sector has been largely underserved by financial institutions insurers for the past few years. This has resulted in limited coverage and premiums that are less competitive than those for more traditional financial institutions. With rates starting to fall on the more "vanilla" exposures, insurers are more open to expanding and diversifying their books. As such, we are seeing more capacity for writing FinTechs – notably, FinTechs with digital asset exposures. Currently premiums experienced on renewal business are typically flat (no increases) to slight increases (where there has been significant business growth). This is resulting in overall rate reductions.

INSURERS' APPROACH

Insurers remain cautious, and we have found more insurers (whether incumbent to an insurance programme, or new to it) delving even deeper into the roots of our clients' businesses before committing their capacity. For example, insurers are keen to understand what actions are being taken to adjust to increased interest rates, ESG regulation and, where applicable, the revised Consumer Duty which came into effect on July 31, 2023. Insurers are accepting of the natural movement of the market cycle with decreasing rates. However, there remains concern around claims arising from wider macroeconomic events, and also breaches of ever-increasing legal and regulatory sanctions.

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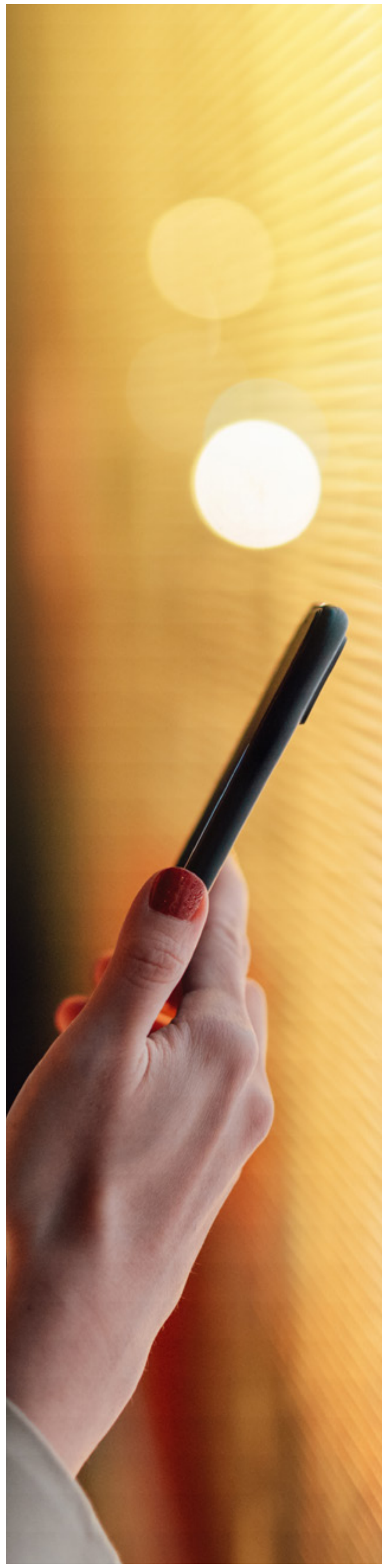

LOSS TRENDS

Losses in the financial institutions insurance market are becoming more frequent, and severity remains relatively high. This trend is driven by:

1. an evolving risk due to the widening spectrum of insureds in the sector, and
2. the increasing complexity of financial instruments and transactional processes, coupled with regulatory changes.

In terms of types of losses, social engineering events and trade errors remain prevalent, and we are seeing increased regulatory interaction across our client base. This means that broad-ranging cover with early triggers is key for financial institutions. Alongside these developments, the traditional barometers associated with litigation remain ever present, with this process continuing to be lengthy, complex, and increasingly expensive, due to claims inflation.

OUTLOOK

We anticipate that our clients will continue to benefit from a more buyer-friendly marketplace. Lockton will take advantage of the ever-evolving financial landscape by testing and challenging the status quo to the benefit of our clients. We predict heightened client engagement with insurers. This has already occurred to a certain extent, post Covid-19. Clients can benefit from this direct engagement, as it facilitates the exploration of alternative insurance proposals. Insurance buyers may also want to take advantage of wider coverage capabilities and recognise the benefit of alternative insurers' knowledge of the sector. A closer relationship with insurers can also lead to more engaged claims services, allowing clients to benefit from the knowledge gleaned from insurers' experience across their wider portfolio.

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GLOBAL FINANCIAL INSTITUTIONS

INTERNATIONAL

Sam Godby

Strong capacity helps to stabilise the market

Overseas Global Professional & Financial Institutions have faced relatively stable rates in the London market over the last 12 to 24 months. This follows a period of uncertainty during Covid-19 when insurers were looking to increase, or at the very least maintain rates, to guard against the losses that they expected from the pandemic. However, these losses never materialised to the extent that was expected. This, and insurers' strong appetite for risks relating to this sector, have led the market to return to more predictable patterns.

The amount of capacity for Overseas Global Professional & Financial Institutions available in the London market is the strongest we've seen for a number of years. The availability of capacity for directors' & officers' liability, professional indemnity, and crime does, however vary by class. Underwriters feel less comfortable offering the requested capacity to private equity firms, for example. Nevertheless, there is still appetite for this type of risk.

New entrants to the market such as IQUW, Mosaic, Convex and Inigo have created competitive tension and more options for insurance buyers in London who are domiciled overseas. New entrants, coupled with the inactivity in the mergers and acquisitions (M&A) market due to macro-economic factors, have meant there has not been as much premium available for insurers from SPACS/DeSPACS and initial public offerings (IPOs). As a result, insurers have an increased interest in acquiring new business and maintaining their existing portfolios, even if that means reducing rates and therefore premium income.

For insurance buyers this is good news, as it creates favourable environment at renewal. Flat to small reductions are achievable for companies that have not materially changed their risk profile from the prior year. Further reductions may be available if the insured shrunk the business or improved their risk profiles. Nevertheless, rate increases can be expected if the insured has expanded the business in the past 12 months, or if they have suffered a claim. In such cases it is even more important to start renewal preparations early and diligently select the information for submission, with clear explanation and evidence that effective risk mitigation measures are in place. This will enable the insured to leverage the competitive tension within the market, and achieve the best possible outcome.

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4. CYBER

Jack Bassett

A shifting marketplace

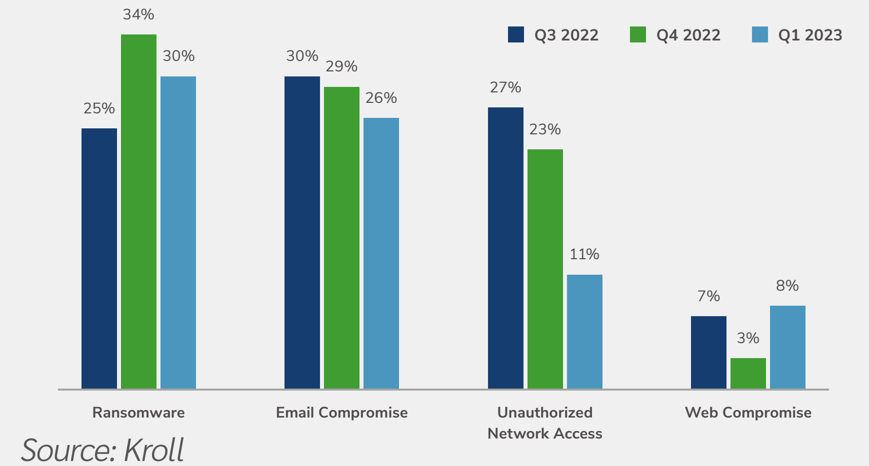
Following three years of market correction, driven by an increase in both the frequency and severity of claims as well as the changing nature of claims profiles, the cyber market seems to have reached a point of stability. With insurers taking the view that necessary changes to policy premiums and retentions are now in place, new entrants to the market have increased competition to the benefit of insureds. This competition amongst capital available alongside a marked improvement among insureds' cyber security posture has ushered in a period of relief for clients. Those with no significant change in risk can now achieve stable or reduced renewal premium rates. Best in class clients can achieve double digit YoY rate decreases.

Although this market shift has manifested quicker and more dramatically than most predicted, it is important to note that the previously subdued claims environment appears to be re-igniting. Insurers are once again reporting a rise in costly ransomware and business interruption claims. Forecasting losses accurately continues to be a challenging task, and exercising caution is crucial while assessing the current market loss ratios. Competition amongst capital available against the upcoming claims activity can cause the cyber market to find itself on unstable ground once again and 2024 could potentially bring another notable market shift. Even though minimum security standards have certainly improved, the decrease in rates is not directly tied to sustained improvements in insurers' claims ratios over an adequate duration. In a typical insurance cycle, an increase in claims would cause the withdrawal of markets and a reduction in capacity. In turn, once again, driving premiums higher as competition decreases. This being stated, insurers' high growth targets and increased cyber re-insurance capacity may keep the equilibrium between insurer claims and paid premiums in the insureds' favour for the time being.

THREAT TRENDS

In its [Q1 2023 Threat Landscape Report](), risk and financial solutions provider Kroll observed that ransomware and email compromise continue to be the most impactful threats against organisations. Kroll also noted a rise in web compromise, most typically against the retail sector, highlighting that threat actors attack for financial gain.

MOST POPULAR THREAT INCIDENT TYPES - PAST THREE QUARTERS

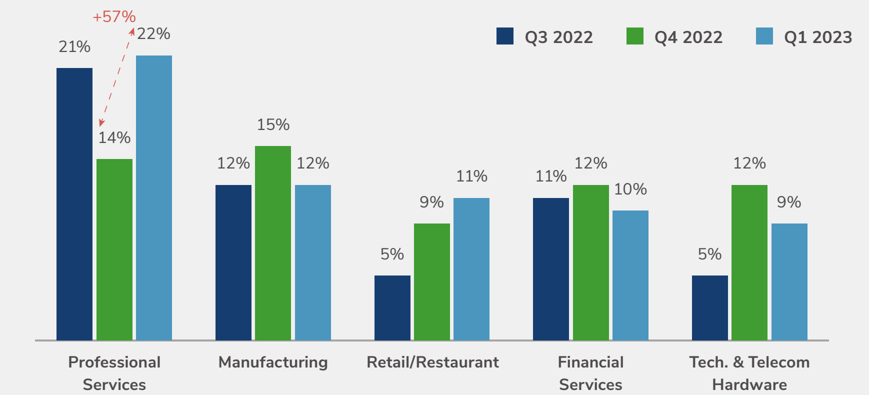


Source: Kroll

The professional services sector is, perhaps unsurprisingly due to the nature of the business, a particularly attractive target for attackers. The sector saw a 57% quarter-over-quarter increase and was the most frequent target of ransomware attacks in Q1. Many attacks against the professional services sector in Q1 impacted legal firms.

2023 CYBER TRENDS

MOST TARGETED INDUSTRY BY SECTOR - PAST THREE QUARTERS



Source: Kroll

- Ransomware attacks
  - Ransomware is likely to continue to dominate the cyber loss landscape in 2023. Following early signs that ransomware frequency was rebounding, the first five months of 2023 have seen a significant increase in attacks – and these continue to be the most prominent threat to businesses.
- Software vulnerabilities
  - Whilst 2022 saw a decrease in exploited zero days – a cyber-attack targeting a software vulnerability which is unknown to the software vendor or to antivirus vendors – a large number of critical vulnerabilities continue to be seen in 2023.
- Supply chain attacks
  - The digital supply chain is invisible, operating in the background but essential to day-to-day functionality. As data is increasingly transferred through extended global supply chains, threat actors look to exploit vulnerabilities through single entry points. It's clear that businesses need to measure, manage and mitigate exposures in a fast-moving risk landscape.

In 2022, the global average cost of a data breach reached $4.35 million, according to IBM's Cost of Data Breach Report 2023. That number is more than double in the US, averaging $9.44 million. These expenses can include everything from ransom payments and lost revenues to business downtime, remediation, legal fees, and audit fees.

A ransomware attack can be nothing short of devastating for a business. It can lead to lost revenue, reputational damage and in some cases, permanent data loss. The impact of ransomware on the cyber insurance market has been significant, too, as the number of claims made by organisations continues to grow. In Q1 of 2023, our security partners Kroll noted a 56% increase in the number of unique ransomware variants observed, with phishing continuing to lead the pack when it comes to initial access across all cases.

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5. MANAGEMENT LIABILITY

Mike Lea

Market conditions improve for D&O insurance buyers

The challenging directors & officers' liability (D&O) insurance market conditions which prevailed in 2019/20 and part of 2021, are well and truly over. This is despite the underlying reasons for the hardening of the market not having disappeared. Concerns remain around a global recession, high interest rates, social inflation, governance and regulatory changes, and increased geopolitical tension. However, the abundant supply of capacity has insurers, new and established, competing for premium and market share. Policyholders can look forward to more primary alternative quotations with AWAC, Beazley, Rising Edge and others ready to compete on large D&O programmes.

THE BACKGROUND

It took D&O insurers a few years to remediate their loss-making portfolios and bring rates to a level that they deem to be adequate in relation to claims costs. These conditions made it attractive for new entrants to the market who are unencumbered by legacy claims. Prior to 2019, there was a prolonged period of fierce price competition with expanding policy forms (often broker authored), and insurers deploying huge amounts of capacity for D&O risks at highly competitive premiums. This was followed by significant premium increases in 2020 and 2021, with insurers deploying reduced capacity and even declining to renew clients in challenging industries, or those who were not sufficiently financially resilient. As part of the remediation of loss-making portfolios, front line underwriters' authority was eroded to the point where most decisions on large renewals were referred to underwriting management. Brokers were struggling to provide visibility to clients in this volatile time, with each placement becoming about problem management, scrambling to fill gaps in programmes, and mitigating exclusions and subjectivities. Since then, increased D&O premiums attracted new players with aggressive premium growth targets to the market.

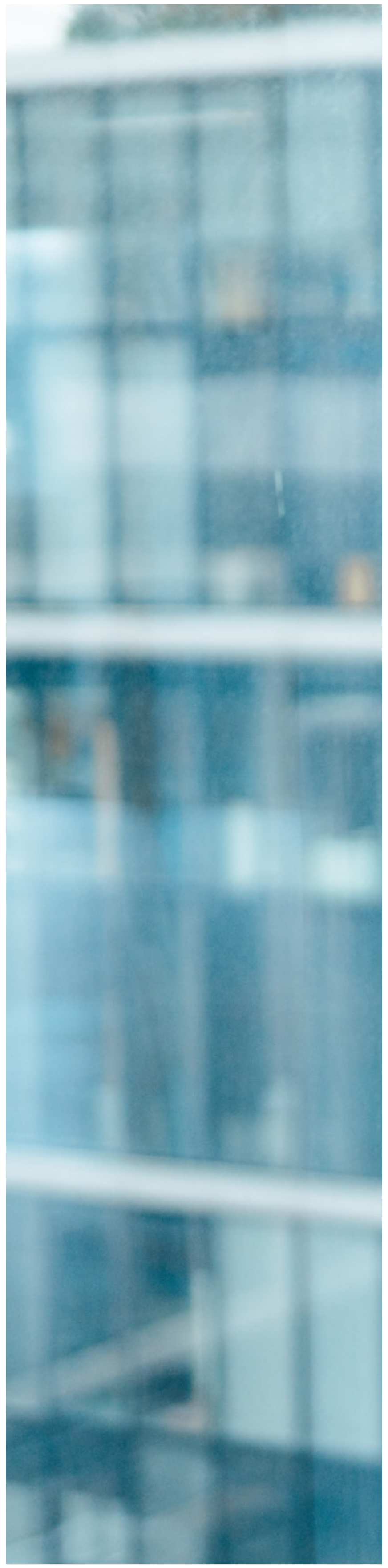
NEW ENTRANTS

New entrants are now competing with established players for market share. This is likely to continue as long as premium rates don't fall below rate adequacy. They are currently offering broader risk appetite and larger line sizes to get onto programmes, often by dislodging incumbents. This competition has become more intense, more quickly than most people anticipated. It has resulted in opportunities for significant savings for clients at renewals, especially on multi-layered programmes. The last six months have seen Hamilton, Kayzen and Westfield enter, or about to enter, the London D&O market. We have also seen the return of Volante, following issues with their capacity providers over the last couple of years. The London market is almost back to the same capacity levels available for large D&O programmes before 2019.

MARKET DYNAMICS

For brokers and clients, renewals are mostly about weighing the advantages of long-standing relationships, often cross class, against harnessing competition from new entrants, many of whom are monoline D&O or financial lines only. Primary renewal premiums are modestly decreasing, with increased limit factors reducing on excess layers – resulting in compound savings on multi-layered programmes. To become "stickier" and more relevant to their clients, D&O insurers are quoting more primaries and quoting for the ancillary lines such as Crime, Pension Trustee Liability and Employment Practices Liability Insurance. A number of these markets, including Berkshire Hathaway, Aviva, Beazley and Allied World, have strengthened their multinational programme capability to attract more primary business and challenge the more established primary insurers such as AIG, Chubb, Zurich and Allianz.

Clients will need to decide what their priorities are when faced with several competing options for their business. Are potential premium savings the number one goal, or do they wish for more stability with their established partner insurers? There may be more opportunities to negotiate coverage improvements to undo the restrictions imposed during the hard market.



Continuity is an important consideration for D&O insurance, but at what price? It is important that a clear strategy is agreed prior to commencing the renewal process, so that the optimal outcome can be achieved, and insurers' expectations managed.

TRENDS IN D&O INSURANCE

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

PREPARING FOR RENEWAL

Insurers' business plans increasingly contain restrictions for less environment, social and governance (ESG) friendly industry sectors and clients. This has become a feature of the underwriting process. Lloyd's has seen the launch of the first ESG syndicates (Beazley & Hiscox) specially funded to add capacity to those risks who have achieved the highest ESG accreditations.

To secure the most favourable outcomes and attract sufficient capacity to complete D&O programmes, policyholders should work with their brokers to identify which areas of risk should be focussed upon. This will often include some or all of the following:

- financial resilience
- ESG and corporate, social responsibility (CSR)
- cyber network security
- sanctions compliance
- employment practices
- exposures to macro-economic challenges.

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

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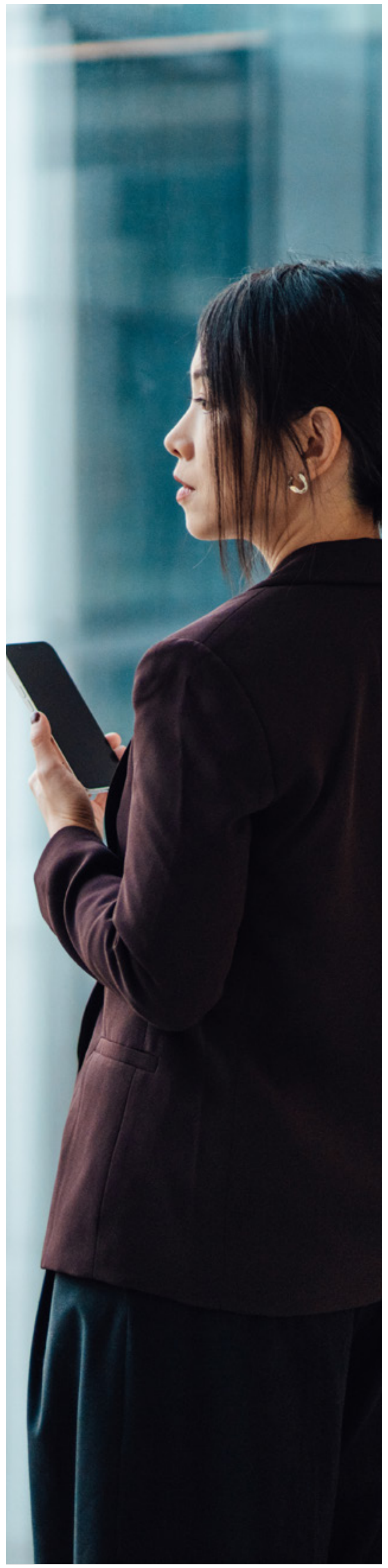

6.

UK CONSTRUCTION SURETY

Ben Milan

A regrouping period for the surety market

This year has certainly brought its challenges to sureties in the UK Construction market. A few insolvencies have caused significant losses, some of which will take years to unwind and show their full impact. These losses have started to have a knock-on effect to appetite. As a result, a few sureties are taking a moment to regroup and analyse their books of business based on current conditions. Most of these sureties continue to write business for existing clients of theirs, but with greater consideration. Others have carried on as usual, but all are certainly taking a more forensic underwriting approach. That being said, as some sureties regroup, there is talk of new sureties entering the market which could potentially bring some valuable capacity to contractors. This shows that surety is still a market that the insurers see as an opportunity. Maybe in the current lull, it really is the best time to enter.

There are murmurs of bond rate increases across some sureties. Where a new surety for a contractor previously would have likely followed the existing pricing if requested, this is becoming less common. For existing relationships however, rates are largely remaining steady which shows valued relationships and the sureties sticking by their clients where possible. No one is acting out of the ordinary with rate increases but as books of business are reanalysed with today's conditions taken into account, I would not be surprised to see some minor rate increases in the not-so-distant future as the sureties try to recoup their losses and rebuild their reserves. They will need to remain competitive however, as with new capacity potentially coming to the market, there could be alternative solutions if needed.

Where there is no previous relationship, the sureties are looking for sound new business risks. Profit making, healthy cash/liquidity position, modest creditor base, limited bad debts, and a strong tangible asset base – so much easier said than done in the current climate. Some want contractors to have banking facilities such as RCFs and others don't... there are no hard and fast rules as to what the sureties want. However, transparency is key to building trust from the underwriters, as many do underwrite the people that run the company as much as the financials of said company.

We can't be certain what the rest of the year holds for the UK construction surety market - caution will certainly remain though and I hope some stability returns. After all, the whole point of the product is that it pays upon default (including insolvency), and this is the risk associated. Those that are reassessing their books will be back in full force come the new year, we hope. This should provide some welcomed bonding capacity whilst allowing for the reigns to be loosened slightly and a line to be drawn in the sand. What we do know is that there will certainly be a continued demand for the product, and that demand is only growing.

There are murmurs of bond rate increases across some sureties. Where a new surety for a contractor previously would have likely followed the existing pricing if requested, this is becoming less common.

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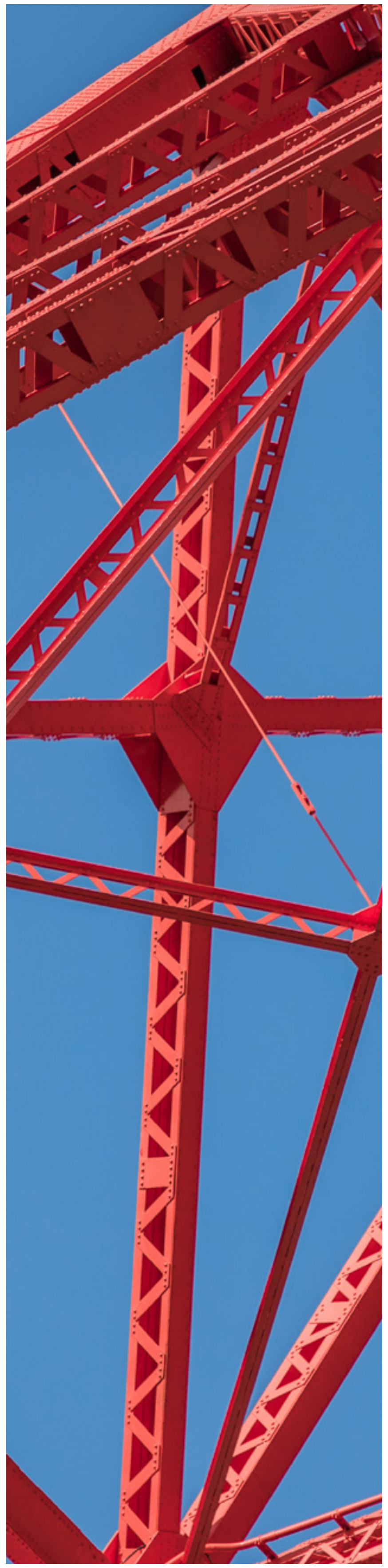

7.

CONTINGENCY

Andy Thompson

Natural catastrophes affect live events

The live event industry has recently suffered market-wide losses due to wildfires and extreme weather conditions that have impacted events, with festivals in the UK being cancelled or abandoned. Events that have been affected range from large concerts by international artists to smaller gigs, as well as music and food/beverage festivals.

Insurers have adjusted their underwriting approach in light of the impact the losses have caused to the London market. Underwriters are now requiring brokers (and insureds) to provide detailed information such as accurate budgets, event management plans, proposal forms and the like. This is necessary for insurers to more accurately assess the risks they are being asked to underwrite.

In addition to adverse weather and wildfire losses, the market, and therefore clients/insureds, have recently incurred cancellations and postponements due to ill health of artists. Some have been widely reported, such as Lewis Capaldi withdrawing from his tour for "mental and physical health" reasons. Mental health is a difficult issue for all concerned and the London market is seeking guidance from medical practitioners to appropriately address it in its policy wordings.

The number of enquiries for live event cancellation coverage continues to rise, despite a challenging pricing environment. Premiums for live event cancellation coverage had previously increased (2020 and 2021) following the losses caused by the pandemic, and have remained elevated since then. In addition to rising premiums, underwriters are still including deductibles in various aspects of coverage, and in some cases, pockets of the London market will not provide coverage regarding "natural catastrophe" perils such as windstorms.

The cost-of-living crisis is also impacting organisers of live events, as the costs they incur have also risen which may impact the profits from a successful event. At the same time, these costs may be uncovered in case of an event cancellation, which is driving more event organisers to seek cancellation coverage.

The risk environment is constantly evolving, and Lockton is continually monitoring the operating environment for live event organisers. Whilst the market has its challenges, there is optimism as more event organisers are seeking protection from the risks they face. In addition, the market is reviewing coverage and wordings, in order to provide the level of comfort insureds seek from their insurance.

We recommend starting the renewal process earlier than usual, to thoroughly prepare the documentation required by underwriters. Providing full details of planned events and budgets can have a positive impact on quotations from underwriters. To reduce the cost further, insurance buyers can consider increasing deductibles or introducing deductibles to certain perils, such as adverse weather conditions.

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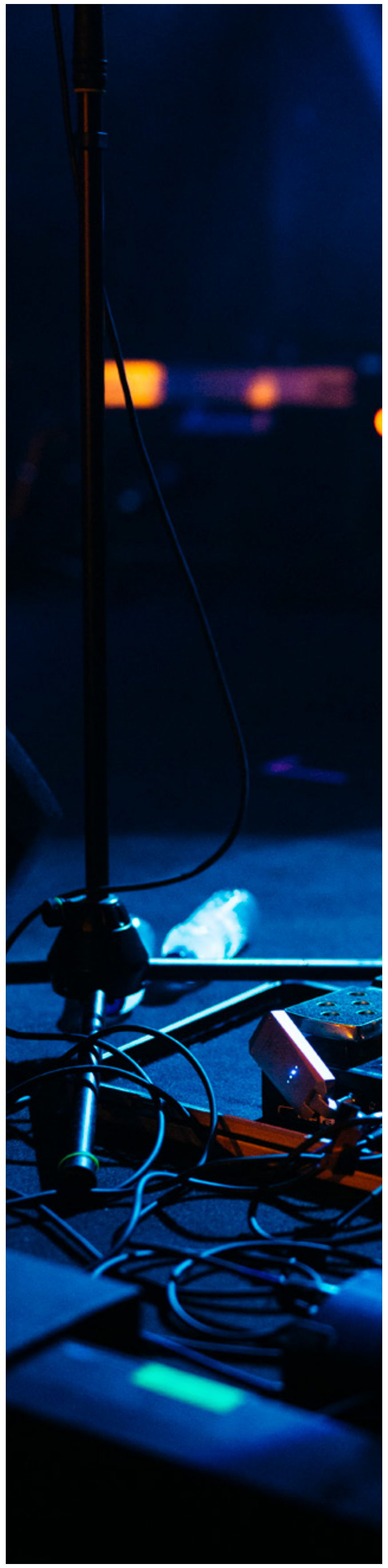
The number of enquiries for live event cancellation coverage continues to rise, despite a challenging pricing environment.



8.

CRISIS MANAGEMENT

POLITICAL VIOLENCE & TERRORISM

Martin Halls

Recent events create volatility

The global terrorism and political violence market has experienced increased volatility in recent years. Civil unrest in Chile, Hong Kong and South Africa generated significant losses. This was further compounded by the Russian invasion of Ukraine. In response, the market hardened quickly: insurers pushed for higher rates to offset losses, imposed more restrictive terms and adjusted their risk selection approach. Sublimits that had been available for extensions like "contingent business interruption", "unnamed suppliers", "service interruption" and "miscellaneous unnamed locations" were commonly excluded, as renewal negotiations became more protracted.

Challenging reinsurance treaty renewals underpinned these trends, particularly in Q4 of 2022 with the majority of carriers renewing their programmes on January 1, 2023. Depleted reinsurance capacity and appetite culminated in significant rate rises with many insurers being forced to increase retentions. In a marketplace that was becoming more reliant on facility utilisation, significant underwriting controls were also implemented on delegation beyond sabotage & terrorism perils. Converting these facility placements to the open market in many cases added cost, as insureds could no longer benefit from economies of portfolio purchasing.

Despite a period of uncertainty, the market remains steady with capacity for sabotage and terrorism standing at approximately USD 3.5 billion. These perils have experienced lower levels of volatility and fewer losses, thus underwriters are able to afford more flexibility. This is reflected in the rating environment, with rate increase generally being between 5%–15%. Underwriters are also more amenable to the broadening of previously restricted policy terms for sabotage and terrorism perils when rated adequately.

The market has seen a greater degree of losses in the strikes, riots, civil commotion and malicious damage (SRCC) space. This is perhaps unsurprising, given the myriad social and political trends that have driven incidents across large geographic areas. The cost of living, social isolation since Covid-19 lockdowns and political polarisation are regrettable global currents which show little sign of abating. In a US context, some clients in retail sectors have seen property insurers impose civil unrest exclusions or restrictions, prompting many to consider standalone buyback options. In Latin America, the purchasing of civil unrest coverage is most prevalent but in recent years, insurers have sustained meaningful losses – particularly in Peru and Mexico. Current rate increases are in the region of 25%–35% but in many cases higher, depending on occupancy and loss history.

The peril which has hardened most is political violence which includes war, civil war and coup d'état. This is a direct result of the invasion of Ukraine, with both actualised and potential losses from the conflict leading to significant claims reserves being retained. Whilst this experience has prompted markets to reconsider their appetite, aggregation and pricing models for political violence coverage, it's also contextualised other global flashpoints. These include Taiwan, Israel, and Pakistan.

The active assailant market has grown significantly in the past decade, drawing together multiple lines of insurance to meet the demand for coverage against indiscriminate acts of violence. Despite the prevalence of mass shootings this year, most notably in the United States, coverage solutions for physical damage, business interruption, liability and crisis response remain available. The prevalence of active assailant losses has inevitably driven rates and markets have, in some sectors like retail, hospitality and entertainment, managed their exposures via reducing limits or increased syndication.

Whilst the terrorism and political violence market has experienced a challenging period, there are reasons for optimism. Capacity remains stable with growing levels of competition. A multitude of different products remain available to insureds, which can be tailored to meet their specific risk transfer needs.

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CRISIS MANAGEMENT

PRODUCT RECALL & REPUTATIONAL RISK

Freddie Schlesinger

Attractive market conditions for insurance buyers

The product recall insurance market is currently offering favourable conditions for clients. This is due to an influx of new entrants into the marketplace, both in the US and London predominantly. Insurers are either backing Managing General Agents (MGAs) or hiring specialist underwriters in-house to diversify their insurance offerings. As a result, capacity available for product recall risks has reached record levels, creating a soft rate environment for insurance buyers. Further, insurers are more willing to extend out coverages, and to quote industries they would previously have shunned.

However, market conditions could change in the future with an uptick in the frequency and severity of losses in the recall space, with greater scrutiny from regulators and the general public on the protection of consumer welfare. Underinsurance has been a major issue for clients in the last 12 months with some catastrophic product recalls. One case involved a peanut butter manufacturer whose products were contaminated with Salmonella Senftenberg. This has resulted in 21 confirmed cases in 17 US states and four hospitalisations – but thankfully, no deaths. Another case involved a food firm in California that had to recall nutritional and beverage products because of potential microbial contamination, including from the organism Cronobacter sakazakii. The US Food and Drug Administration found that a processing facility in Wisconsin was operating in serious violation of federal regulation.

It's not just the food and beverage sector that is being affected, but a multitude of industries seeing more recall related events. In particular the automotive industry which has seen some issues with the fast transition to EV and advanced assistance vehicles.

RECOMMENDATIONS:

- Insurers value good third-party food safety and quality audit report scores.
- Strong contracts with suppliers and customers (i.e. rights of recourse being available and limitations of liability with customers where possible).
- A detailed submission to insurers is always helpful to secure the best outcome for clients in the negotiation of rates and terms and conditions.

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9.

ACCIDENT & HEALTH

Robert Rechtern

Capacity remains abundant as demand rises

Market capacity for Accident & Health (A&H) Insurance remains abundant, as demand rises due to growing travel needs.

Because the A&H market expected significant individual losses from the Covid-19 pandemic, insurers initially introduced blanket exclusions, longer deductibles, and region-specific exclusionary language. The expected losses in A&H didn't materialise to the extent expected, while other sub classes were more affected, such as travel and various reinsurance placements/cedents. More recently, some A&H carriers therefore started taking a far more relaxed perspective on these risks.

However, notable losses continue to emerge from the US Sport Market (specifically baseball). Much of these risks are either written by Managing General Agents (MGAs) with London market support, or form part of reinsurance placements backed in London.

Many carriers were quick to invoke war exclusion language or cease providing travel coverage to specific areas affected, following Russia's invasion of Ukraine in February 2022. Whilst a few more innovative markets looked to provide coverage at a heavily loaded rate, many withdrew altogether. As demand for travel in the region has been increasing recently, we have seen more markets looking to offer cover following established carriers in the space.

MOVING MARKETS

After the Covid-19 disruption, the London A&H market has seen substantial movements. Some insurers have spotted opportunities and started underwriting the class. Everest, for example is targeting A&H risks as part of its strategic expansion in international insurance.

Others have decided that A&H trends no longer align with their business's strategy and ceased trading on a direct basis. This group includes Markel, Vibe, ChinaRe, Aspen, Starstone and most recently, Chaucer.

MARKET OUTLOOK

- Capacity remains abundant, with rating stable for the "vanilla" risks, with carriers seeking to be competitive in the sector.
- A&H markets expect that on average, the risk adjusted rate change for the remainder of 2023 will be similar to the end of 2022, at anywhere between flat to +3–5%.
- With global travel being re-established post pandemic, there has been an uptick in clients either re-engaging for cover, or a necessity for it going forward.
- Some carriers have realigned their product offering in a way that may benefit insurance buyers. These may include Covid-related trip cancellations, and fewer short term deductibles on "Illness Temporary Disablement".

RECOMMENDATIONS

- Prepare in good time, with advance notice to brokers of impending changes.
- Data and ability to articulate it to underwriters (claims & exposure analysis) may determine availability of more favourable options.
- Meet with your insurer and your broker, and close any relationship gaps – we are a people-led industry.
- Work to manageable and realistic timelines to ensure optimal end results.

Lockton take the approach that all clients are different in terms of both needs and requirements, and will therefore engage with multiple markets to ensure best cover at the most competitive pricing.

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10.

POLITICAL & CREDIT RISKS

Nicholas McBride

Global economic outlook weighs on the Political & Credit Risk Market

The global economy remains in a precarious state, amid the protracted effects of the overlapping shocks of the pandemic, Russia's invasion of Ukraine and the tightening of monetary policy to combat inflation. Following growth of 3.1% in 2022, the global economy is set to slow significantly in the second half of 2023 with weakness expected to continue into 2024. Lower energy prices are helping to bring down headline inflation, but core inflation is proving persistent, and the impact of higher interest rates is increasingly being felt across the economy.

One of the biggest concerns currently amongst insurers in the Political & Credit Risk market is the impact of higher interest rates on the counterparties they are providing cover on, both corporate and sovereign.

At the corporate level, companies which may not even be considered to be highly leveraged are likely to have seen their interest rates increase significantly, potentially making debt repayments unsustainable and increasing the likelihood of default.

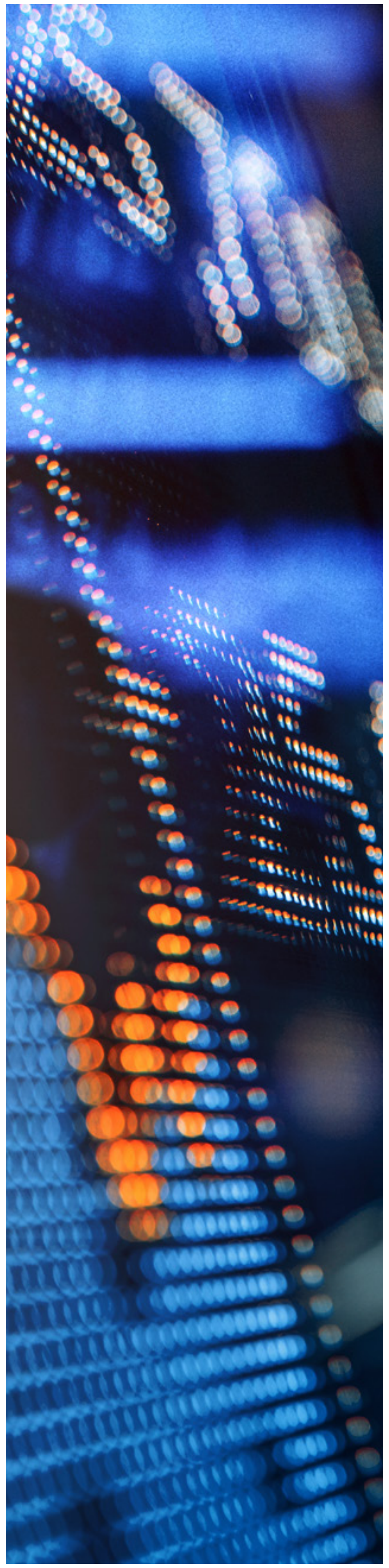
At the sovereign level, a potential debt crisis has economists and policymakers concerned with total sovereign borrowing still at pre-pandemic levels. Standard & Poor's note that the number of rated sovereigns in default has increased to six: Lebanon, Belarus, Suriname, Sri Lanka, Zambia and Ghana. Moreover, there are eight sovereigns currently in the CCC/CCC+ rating category: Burkina Faso, Congo-Brazzaville, Mozambique, Pakistan, Ukraine, Argentina, El Salvador and Ethiopia. With very high levels of exposure to sovereign-backed projects insured in the market, insurers are understandably concerned that the next sovereign default could be around the corner, following Ghana in December 2022.

MARKET CONDITIONS

The fallout from the Russian invasion of Ukraine has stabilised but continues to impact the market. On the one hand, insurers have clearer visibility over their risk exposures and, in some cases, have reduced the exposure to Ukraine as insureds successfully moved some commodities out of the country (for example, agricultural traders). On the other hand, 18 months on from the beginning of the war, where clients have been deprived of access to their assets in the country, insurers continue to see claim notifications being submitted.

Since the end of February 2022, the vast majority of insurers have refused to provide cover to insureds where the underlying transaction has a Russian nexus: for example, the sale of Russian oil products. One change we have seen in the last couple of months is that a small number of insurers are now willing to cover the sale of Russian originated products, provided that the transaction is in compliance with the price cap, all relevant sanctions and the insured signs an attestation confirming such compliance.

The Political & Credit Risk market has historically provided a large amount of cover in Ghana, particularly to transactions and projects backed by the Ministry of Finance. Following the default in December 2022, insurers have started to see claims notifications in recent months. This has increased the focus on other exposures in the country, as well as exposures to other sovereigns. Most insurers will likely have been avoiding the CCC rated countries listed above for some time. However, other emerging market economies in the single B range that have still been attracting foreign direct investment and taking on large amounts of debt, are now under close scrutiny.



On the political risk side, there is increasing concern over the situation between China and Taiwan with many insurers confirming themselves off risk.

Following a very challenging reinsurance renewal season for 2023, insurers are anticipating more of the same later this year, in light of significant claims activity and reinsurers' exposure to natural catastrophe losses, which are also at high levels.

RECOMMENDATIONS

Whilst the outlook may sound gloomy, the Political & Credit Risk market still has significant capacity and appetite for the right deals. Insurers continue to support key insureds and their underwriting approach focuses on insureds who can demonstrate a deep understanding of the risk, and a willingness and ability to try to resolve any issues which may arise.

The insurance product should be seen as a last port of call, not the primary route of recovery in a default situation.

In order to use the market successfully, insureds should consider the following:

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

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11. UK PROFESSIONAL SERVICES

LARGE LAW FIRMS

Neville Miles

Rates ease for large law firms

Recent years have been characterised by challenging insurance market conditions, as surging premiums, dwindling appetite for new business, and a lack of new entrants left firms with very few options. However, 2022 marked the beginning of the end, with significant easing of rate increases throughout the autumn. Despite increases still being felt, this improving trajectory is set to continue throughout 2023.

The lack of insurer options over the last few years has meant that many firms have been forced to renew with their existing insurer. However, we are experiencing an increase in appetite from a variety of insurers willing to quote for new business, with capacity available to achieve significant limits of indemnity.

At a primary level, significant rating increases over the past few years have returned rates to a sustainable level, with insurers now anticipating a greater opportunity to profit from their underwriting.

This increased competition will not only serve to suppress market rates, but will also encourage current insurers to limit their desired increases in order to retain business.

Despite many insurers wishing to achieve rate growth, most well-managed firms with a good claims experience should benefit from flat rates to rate reductions up to 10% on their primary layer. Those who have suffered particularly challenging renewals in recent years may achieve greater rate reductions, and on a case-by-case basis there will be opportunities to negotiate modest reductions. Self-insured excesses will continue to remain stable, unless insurers are concerned there are insufficient risk management controls in place.

Overall, there is reason to be positive. Insurers are more receptive to new business opportunities, and equally keen to retain their existing portfolio of business. This is resulting in a greater willingness to negotiate on premium levels, and the accompanying terms and conditions.

However, the impacts of global inflation continue to drive up claim costs, which combined with other factors – geopolitical tensions, regulatory change, and the increased frequency of natural disasters – could all impact market stabilisation.

As ever, detailed information, even for well-managed and well performing risks, is critical to achieving best placement results.

Insurers remain focused on profitable growth and retention of well performing risks, and continue to expand their appetite in targeted areas. Underwriting is generally more flexible, but remains disciplined and based on individual risk profile, controls, and performance.

ADVICE TO CLIENTS

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

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

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UK PROFESSIONAL SERVICES

ACCOUNTANTS

Ian Saxelby

Regulatory changes require action

A series of new regulations either recently introduced, or due to come into force, are set to bring significant implications for the accountancy sector. For firms, these new regulations create risks, at such time until they are embedded into business-as-usual practices. In order to minimise the likelihood of increased premiums, accountancy firms should take steps to familiarise themselves with the regulations. That way, they can implement the necessary changes as soon as possible.

CHANGES TO ANTI-MONEY LAUNDERING REGULATIONS

In September 2022, updates to the existing UK anti-money laundering (AML) legislation came into force. In particular, the updates made a number of amendments to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs).

Although many of the changes do not impact accountancy firms, there are certain areas of which they should be aware:

- All supervised firms are now required to perform a proliferation financing (PF) risk assessment, to assess the risk that it may be used to enable proliferation financing.
- Discrepancy reporting requirements are no longer limited to the onboarding stage of a business relationship, but have become an ongoing obligation.
- The MLRs has been widened to apply to Limited Partnerships registered in England and Wales and Northern Ireland (Scottish Limited Partnerships are already subject to the regulations).

Failure to comply with AML regulations can have serious consequences for the offending firm, including fines and sanctions, criminal proceedings, and significant reputational damage. Firms at the point of renewal for their PI cover should anticipate additional scrutiny from insurers around the newly introduced regulations.

REGISTER OF OVERSEAS ENTITIES

On August 1, 2022 the UK government introduced the register of overseas entities (ROE). This is a new requirement for all overseas entities that own property in the UK. They will need to record information about themselves and their beneficial owners on a new register at Companies House by January 31, 2023. As part of the registration process, accountants may be required to perform verification of an overseas entity's registrable beneficial owners.

By nature, this is risky work, as an overseas entity will involve corporate structures spanning multiple jurisdictions. The inclusion of a strict liability within the ROE regime raises the possibility that any firm undertaking verification work will be exposed to possible criminal prosecution, regulatory sanction and reputation damage, should the verification function not be performed correctly.

Firms' increased liabilities under the ROE are already giving insurers cause for concern. The heightened exposure of accountancy firms to overseas entities raises the possibility that such firms will be used for the purposes of money-laundering or sanctioned individuals, where it is not possible to correctly identify true ownership.

PROBATE WORK

Following the withdrawal of the Association of Chartered Certified Accountants (ACCA) from legal services, all accountancy firms wishing to offer probate work to their clients must set up a separate Limited Company or LPP firm to be designated as a CILEX-ACCA Probate Entity.

All owners and directors of the Probate Entity must also be authorised as CILEX Practitioners, which requires first successfully completing an accredited course and assessment with an approved provider, covering specific areas of probate work.

In the absence of standalone insurance products for probate work, all work conducted by the Probate Entity must be covered under the accountancy firm's general professional indemnity (PI) insurance.

FURTHER CONSIDERATIONS FOR ACCA-REGULATED FIRMS

In addition to the above external regulations, changes to the ACCA professional indemnity (PI) insurance regulations are due to come into effect in September of 2023.

The main changes are:

- The minimum limits of indemnity will increase from £50,000 to £100,000, which will affect smaller practices. It has been recognised for some time that this limit is not sufficient to reflect increasing legal costs and claim payments. Other income bands and limits have also changed.
- The minimum limit for Fidelity Guarantee Insurance (FGI) has increased from £50,000 to £100,000 and firms need to ensure sub-contractors are covered. This is an area where we've seen a number of claims in recent years.
- Retroactive date requirements have been clarified and should reflect the date the practice commenced. This is to counteract issues such as where some insurers state "when PI cover was first purchased", which places onus on the insured to prove they have had cover for past liability.
- For certain high-risk activities where it can be difficult to place PI cover – such as tax mitigation work, financial services, and cyber related events – this can now be placed on an aggregated basis, as insurers can be more inclined to quote.

Members and firms have a period of time to adjust to the changes in the PII requirements and obtain PII cover which is compliant with the new regulations. Under transitional arrangements, PII policy renewals on or after January 1 2024, must comply with the new requirements. All existing PII policies must comply with the new requirements by January 1, 2025. Early adoption is permitted.

RECOMMENDATIONS FOR FIRMS

To avoid an increase in premiums, firms should take an active approach to ensure that they familiarise themselves with the new regulations, and take steps to address potential exposures:

- Identifying the ways in which AML regulations demand a change in business practice, and instilling the appropriate changes as part of business-as-usual practice as soon as possible.
- Firms should consider carefully whether they should undertake ROE work, weighing the business rationale for doing so against the potential risk exposures.
- If they do undertake ROE verification work, firms should ensure that verification is completed based on documents from a reliable source, independent of the client. They should consider how often verification procedures must be repeated.
- Where required documentation for the ROE is only available to a client, firms should consider how else they might verify the information (for example, by seeking confirmation from the legal firm that drafted it).
- Where firms have created a separate Probate Entity for the undertaking of probate work, they must ensure all owners and directors are authorised as CILEX Practitioners.
- All practising staff should be made aware of the relevant updates and training provided to ensure compliance with AML, ROE verification, probate, and ACCA PII requirements.

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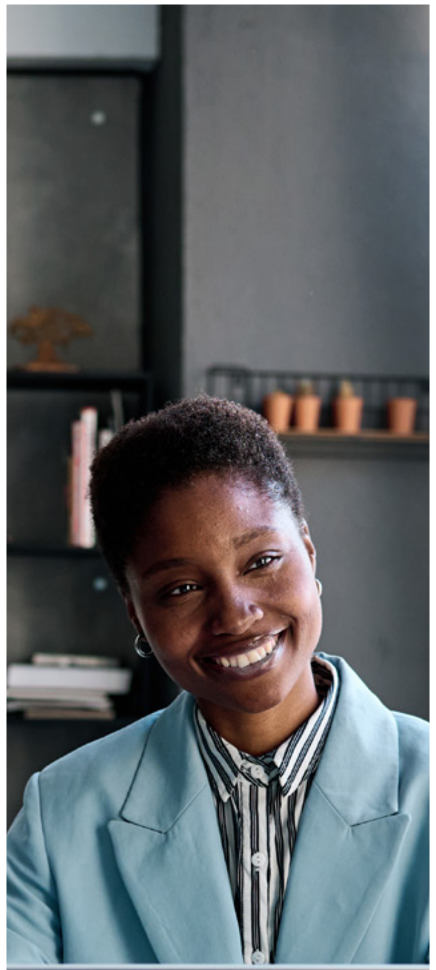

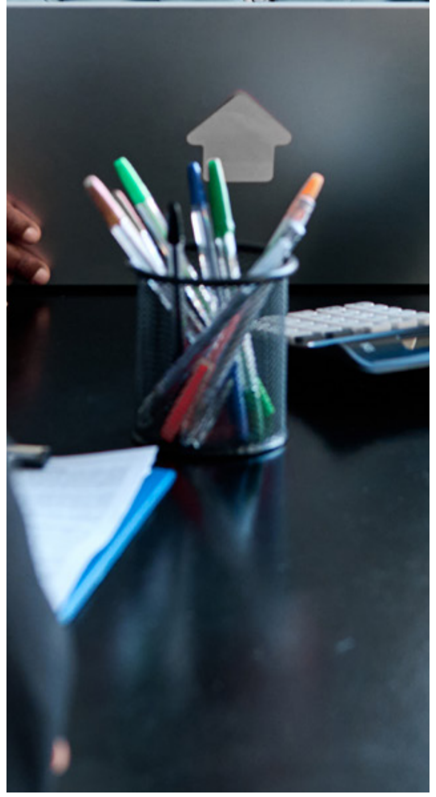

UK PROFESSIONAL SERVICES

ARCHITECTS, ENGINEERS & CONTRACTORS

David Isherwood

A "softer" construction professional indemnity market

Recent months have witnessed the expansion of capacity within the market. This is the result of both the opening of "new" markets, and growing appetite for new business among established insurers, aided in part by increasing interest rates.

CLADDING AND FIRE SAFETY EXCLUSIONS EASE

The construction professional indemnity (PI) market first started to harden back in 2018 and since then, rates have been on the rise. During this period, many insurers were remediating their renewal books, and earning considerable premiums. With premium rates now returning to profitable levels, however, the market once again represents a more attractive proposition for insurers, who in turn have greater capacity and appetite to underwrite new business.

In particular, the growth of healthy competition within the market is improving conditions for buyers, with insurers looking to increase lines on held risks, or offering rating decreases to firms with strong claims records and sustainable growth. Small and medium-sized enterprise (SME) buyers stand to benefit the most from this trend, thanks in part to their lower relative risk exposure. Insurers do continue to show some hesitance with regard to larger, multinational exposures, although premium rates are decreasing in the right circumstances.

> The construction professional indemnity (PI) market first started to harden back in 2018 and since then, rates have been on the rise.

One notable change is the availability of cladding and fire safety cover for the majority of firms. Whilst the standard International Underwriting Association (IUA) cladding and fire safety clauses remain, complete exclusions for these risks are becoming rare. Once again, this reflects a growing appetite within the market. As insurers increasingly seek out new business, they must keep themselves competitive. Added to this, previous projects involving cladding and/or potential fire safety issues will, in most cases, have already been notified to prior insurers. Therefore, any cover given going forward will likely not apply to the entirety of firms' work profiles.

As ever, insurers continue to consider cladding and fire safety issues on a case-by-case basis. Where firms can provide evidence of effective risk management and clear information, insurers are demonstrating a willingness to write limited cover back into the policy as required. However, this is likely to have a retroactive date of inception where previously excluded entirely. Where cover is available, it is still largely on a restricted basis, with aggregate limits, increased excesses and consequential loss exclusions applied.

Insurers are no longer insistent on specific cladding and fire safety questionnaires looking at a 12-year portfolio, easing the administrative burden on an insured.

BSA AMONG LINGERING UNCERTAINTIES

Despite these improvements, uncertainty remains around the lasting impact to the insurance industry in the wake of the Grenfell Tower disaster. The Building Safety Act (BSA) came into force on 28 April 2022 and implements a number of Dame Judith Hackitt's recommendations in her 2018 report "Building a Safer Future". Although the full ramifications of the BSA are not yet apparent, it has undoubtedly increased the potential for civil claims.

June 2022 also saw the extension of the limitation period under s1 of the Defective Premises Act, which changed from six years after the completion date of works to 30 years retrospectively and 15 years prospectively. In the wake of these amendments, there is some evidence of spurious notifications on historical projects that would have previously been statute-barred. These remain in their infancy, however, and it will be some time before the impacts of the extension are fully understood. Insurers remain vigilant as to how this field will develop, and it presents a challenge to an otherwise improving market.

In addition, the principal designer role was also expanded upon within the BSA, creating increased obligations related to building regulations. This too has the potential to create a more vibrant claims environment in the Construction PI sector.

RECOMMENDATIONS

When it comes to renewal, there are a few key considerations that firms should make:

- Early engagement with brokers and insurers remains vital. Ensure that all information is provided at least six weeks prior to renewal to enable forward planning, as covers and premiums may change.
- Meet with your insurer(s), if possible, in order to better articulate your needs and constraints. Doing so will provide firms with the best forum in which to discuss issues and identify optimum solutions.
- Take steps to include supplementary information in renewal submissions regarding subcontractors and supply chain. Questions to consider include: do supply chain partners maintain their own PII? Are contracts back-to-back? Are liabilities capped in contracts? Providing this information will give insurers insight into firms' risk management and due diligence processes.

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12.

REAL ESTATE

Rob Hunter

Craig Charlton

A positive trend in the European insurance market

The UK and European real estate insurance market continues to benefit from a positive trend. This is despite the pressure received from large global catastrophe losses, which have had a significant impact on the US and global reinsurance markets.

SITUATIONAL ANALYSIS

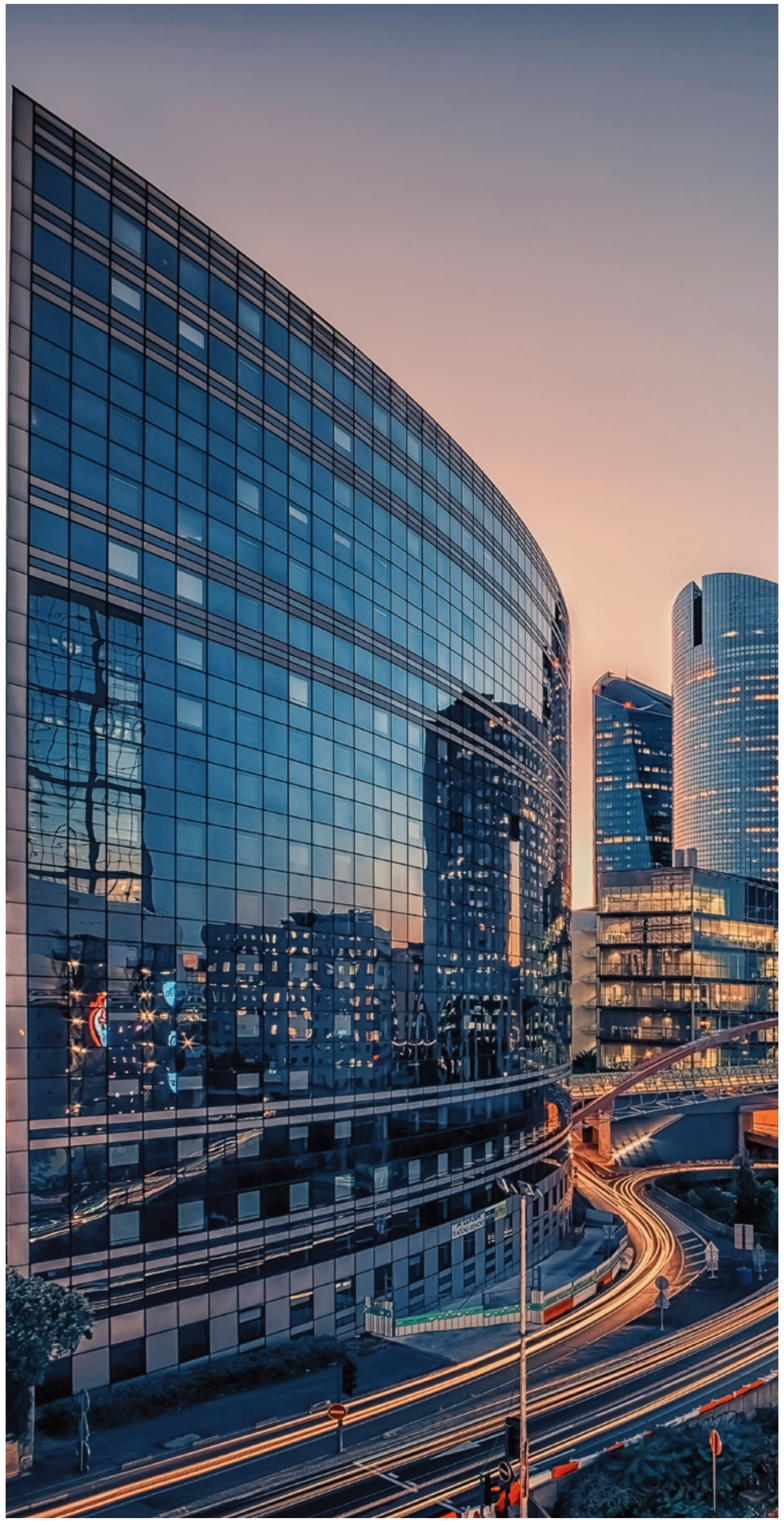
There continues to be a trend in the real estate space of encouraging results across a plethora of portfolio types. Whilst the market is far from a "soft" cycle, we are in a period of stabilisation where favourable outcomes can be achieved. Insurers will continue to apply higher premiums to portfolios that have incurred claims. However, businesses which have shown to be well managed and where loss ratios are positive can achieve flat rates and, in some cases, small reductions. Premium reductions are not yet very common, but we expect this to become a trend for profitable portfolios going forward.

We continue to see more insurers keen to develop their real estate proposition, and some insurers are looking to increase their line sizes. Both trends are driving competition. In addition, a number of insurers are working on their infrastructure to become a viable lead proposition in the multi-national space, further fuelling competition for pan-European portfolios.

As signs remain positive, we are keeping an eye on the catastrophe losses which continue to occur regularly across the globe. So far, these events have not yet adversely affected UK and European real estate insurers. However, reinsurance treaties renew annually, and insurers may need to increase rating in some catastrophe affected regions for insurers, who may want to pass the cost on to insurance buyers.

TAILWINDS

- Increased participation in the real estate insurance market and increased capacity from some insurers, is breeding healthy competition and leading to positive outcomes for clients.
- Insurers have undertaken a period of rate correction across their exposures and as such, have established a far more stable trading platform in order to deliver positive results for clients.
- Inflation is starting to show a downward trajectory (albeit slowly). This will provide a positive outlook for areas of previous concern, such as claims inflation and increased premiums through index linking.
- Long-term agreements with small, stepped increases or in some cases no increases in years two and three, are becoming more common. This is showing longer term stability within the market, and attesting to the positive signs we have described.



HEADWINDS

- Reinstatement valuations continue to be a focus for insurers, with a number of recent claims showing underinsurance because of inappropriate implementation of portfolio revaluation schemes. We recommend reviewing the last time each of your properties were revalued, and speaking with your broker around how this affects your policy coverage.
- Residential risks remain out of appetite for a large number of insurers. Therefore the marketplace for this type of asset remains restricted. Insurers are particularly cautious about high-end residential properties, due to the increased cost of reinstatement and potential large alternative accommodation costs that can be incurred following a claim.
- Lack of information is a risk to insurers, and many continue to push back on portfolios with little detail around the risk exposures they are underwriting.
- Environmental factors such as flood mapping will continue to influence insurers' appetite to each risk. Those assets in higher flood zones are likely to result in increased deductibles and/or increased premiums.
- The information and testing of modern technology such as robots in logistics warehousing remains sparse and with recent large fire losses, insurers remain cautious of these risks. Underwriters will often apply adverse premium loading to account for an increased fire risk.

Whilst environmental, social and governance (ESG) considerations are high on the agenda for a number of clients, we are monitoring closely how the insurance industry balances these risks in relation to the real estate sector. The following are current hot topics being given close scrutiny:

1. Installation of electric vehicle chargers – the installation of chargers should be discussed with insurers to ensure they are installed in the optimal position on the premises.
2. Solar panelling – insurers are conscious of how these are installed and by whom. In addition, it is important that the construction materials of the roof are non-combustible to reduce risk to insurers.
3. Modern methods of construction such as the use of cross-laminated timber (CLT) remains relatively untested territory for insurers. We expect positive movement in the market to a more accommodating stance. However, insurers remain reluctant to underwrite these risks on an individual basis outside of portfolio arrangements.
4. Modular construction is also an area where the loss data is sparse. Insurers remain hesitant about becoming involved with this type of construction. We have however seen more acceptance in the market over the past 6–12 months.

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13.
CONSTRUCTION

Lewis Coward

A settled market despite the impact from inflation

The construction insurance market remains broadly settled in many respects, for both projects and annual programmes in the UK and the International markets. This is despite the impact from inflation with rising operating and production costs, as well as supply chain issues.

UK TRENDS

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

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

Lead insurers continue to raise the bar for risk information requirements, and in many cases will need to assess individual risks involving in-house engineers. This can lead to a two-week average turnaround time on quotations.

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

INTERNATIONAL MARKET

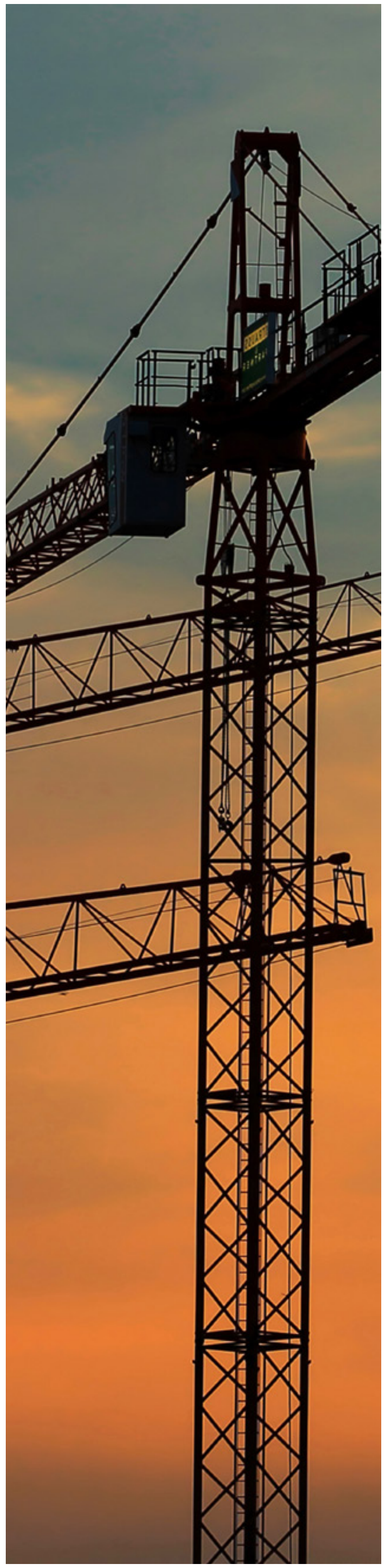
The international insurance hubs have experienced the same trends as that of the London marketplace over the last three years, with insurers in the US, Canada, Middle East and Australia all increasing rates and restricting cover for builders' risk exposures. These have largely been driven by poor performance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

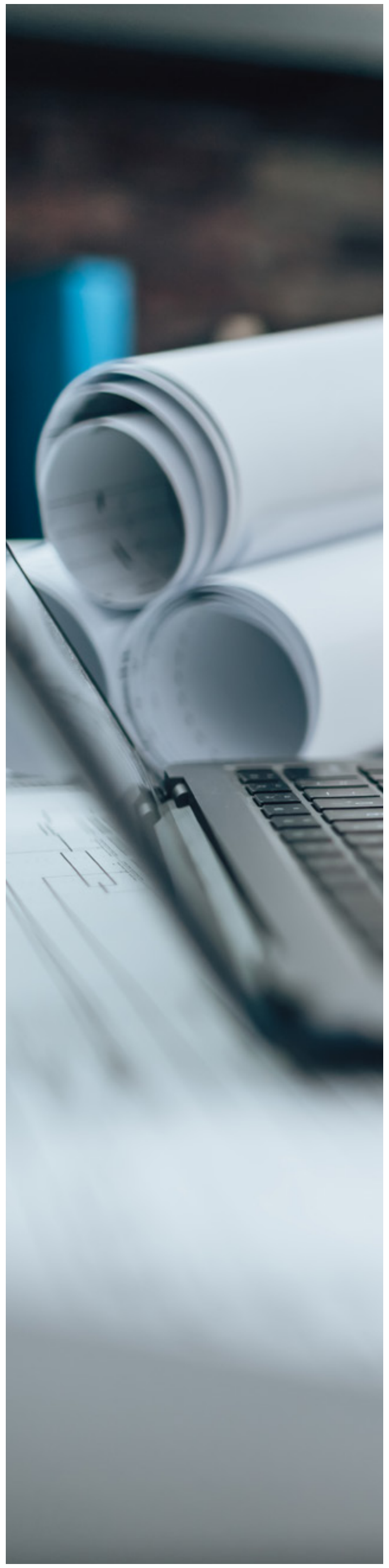
Key trends

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

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

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





CHALLENGES

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

Cross Laminated Timber/ Hybrid/ Timber Frame Construction

With the construction industry facing pressures around environmental, social and governance (ESG) issues, we are likely to see more of these types of projects in the near future. However, despite the global drive behind this initiative, these types of risks continue to be a challenge in the context of the insurance world. This will continue to be the case in the foreseeable future, unless new capacity enters the market and underwriter perception shifts. We continue to monitor the market, but appetite remains lukewarm at best with underwriters taking the view that these types of building methods present too much exposure to their underwriting portfolio. This is exacerbated by a number of recent high-profile fire losses. We do have a handful of lead insurers prepared to offer a solution to our clients. This depends on projects being modest in size, single dwellings low-rise, or part of a larger portfolio – with underwriting information around design and risk management of a high quality. As these types of risks start to become commonplace, we are hopeful that insurers will take a more proactive approach to this sector as 2023 develops and beyond.

Project extensions

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

Lengthy construction periods and disproportionate Delay in Start Up (DSU) sums insured

Construction periods greater than five years are of concern to some insurers, due to their inability to accurately predict future reinsurance costs. DSU sums insured that exceed 30% of the estimated contract value will automatically rule certain carriers out of that placement, owing to treaty restrictions.

OUTLOOK

- We anticipate further stabilisation of the market with established lead insurers.
- With a dearth of capacity and appetite, there will be continued challenges around re-furbishment projects and CLT/hybrid/timber frame, both in the UK and the US markets.
- Vertical/split placement solutions will continue to be commonplace on market capacity risks or the more challenging placements.

For further information, please visit the [Lockton Global Real Estate and Construction](#) page, or contact:

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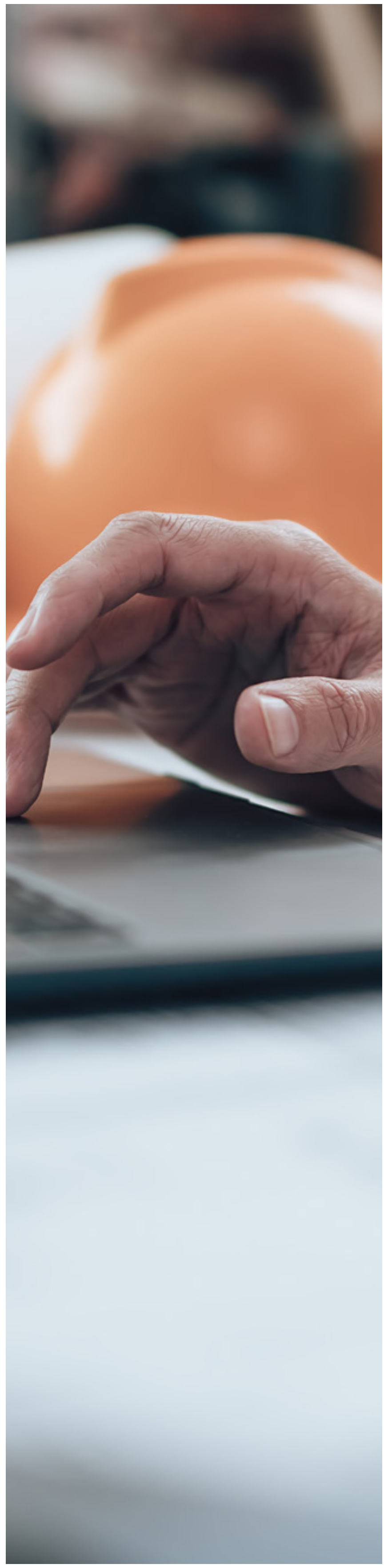
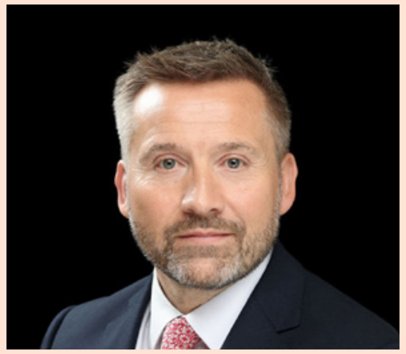


14.

MARINE & TRANSPORTATION

HULL AND MACHINERY



Michael Reynolds

Conditions improve for well-managed risks

The hull and machinery market remains buoyant for the most part, a continuation of the trading conditions seen in the first half of the year. There is sufficient appetite to ensure most renewals are now flat, with improvement in terms often being achievable for shipowners with consistently good records.

The insurance market is seeing growth opportunities. Many shipyards are currently very busy following the return to normal trading patterns post pandemic, and owners are looking to grow their fleets. The current geopolitical climate has also led to an increased demand for naval vessels, adding further to the growing demand for insurance protection.

RISK TRENDS

On a less positive note, the shipping industry saw the fire on the car carrier "Fremantle Highway", off the Dutch coast in July. As well as the loss of life, over 3,000 cars were destroyed with the vessel in the blaze, believed to have started from the electric cars on board. Car carriers have always been a difficult class of business, and underwriters' appetite for the vessels will only be challenged further by the apparent added risks from transporting electric vehicles.

> The insurance market is seeing growth opportunities. Many shipyards are currently very busy following the return to normal trading patterns post pandemic, and owners are looking to grow their fleets.

Meanwhile, the Russia/Ukraine conflict continues to dominate the headlines, in particular shipping activity in and around the Black Sea. As well as all the work needed to follow the relevant sanctions protocols, there has been a growing awareness of some vessels "going dark" and turning off their Automatic Identification System (AIS) trackers in the course of their trading. Whilst the reasons may be legitimate, insurers need to establish the exact cause, to limit the possibility of cover being inadvertently given to a vessel breaching sanctions.

The Ukraine grain deal has been suspended, and safe passage for vessels in the Black Sea can currently no longer be guaranteed. Grain facilities at Ukrainian ports have themselves come under renewed attack, including facilities to the West of Ukraine. Other routes for cargo out of Ukraine are being explored and accessed.

Merchant ships trading in the region face multiple military threats. Russia has declared wide areas of the Black Sea unsafe for shipping. One vessel has been fired upon and intercepted by the Russian navy, and there are concerns that a more obvious naval blockade may be a realistic scenario. Clearly, this is a situation that shipowners and insurers will monitor closely, and one that will shape the war insurance market for the remainder of 2023.

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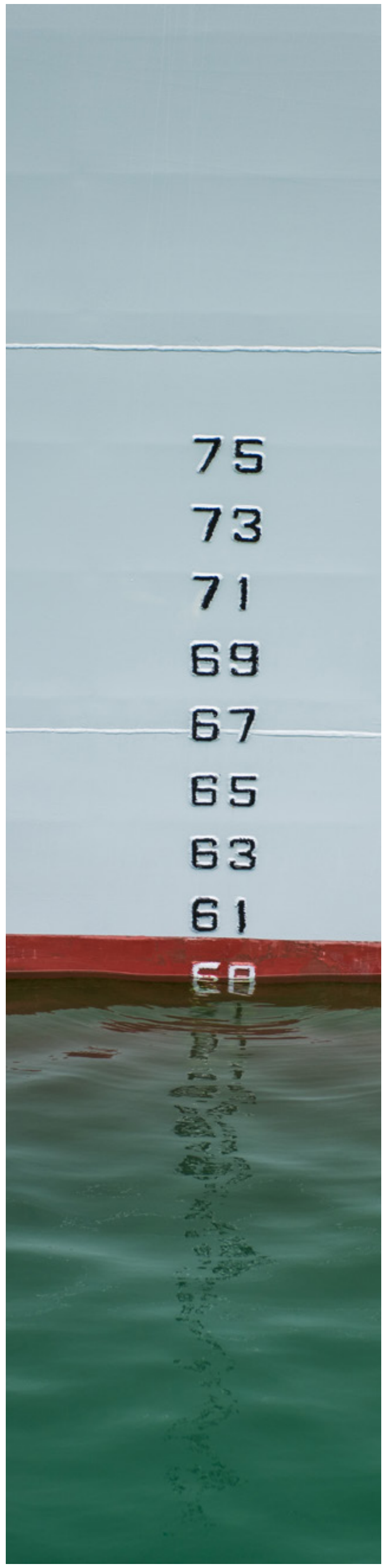

MARINE & TRANSPORTATION

P&I

Filippo Fabbri

Benign claims trends to benefit insurance buyers

The 2023/24 policy year for protection & indemnity (P&I) has been relatively benign so far, compared to the preceding five years. This new claims cycle contrasts with the record-high number and value of claims in recent years.

POOL CLAIMS

The number of Pool Claims (those exceeding USD 10m and that are shared across the International Group of P&I Clubs) suffered a record high value of claims and number of claims declared in 2020/21 and 2021/22 policy years. Contradictorily, the following 2022/23 policy year experienced a record low number of declarations. The current 2023/24 policy year has seen an average number of declarations, so we are expecting a relatively benign impact on the 2024/25 renewal negotiations.

UNDERWRITING TRENDS

Whilst the market still seems to be hardening to recover from past record-high claims levels, the rate at which it is hardening seems to be slowing. Clubs are looking for lower increases than in previous years. Based on current information, including the latest financial results published by the P&I Clubs, we are expecting an average general increase across the International Group of +2.5–7.5%. We are also expecting the General Excess of Loss Reinsurance to be up to +2.5% across all categories of trade.

Whilst the market still seems to be hardening to recover from past record-high claims levels, the rate at which it is hardening seems to be slowing.

The 2024/25 policy year will represent the first joint-underwriting year of the newly merged entity, NorthStandard. Many market participants are predicting that Clubs will enter into a two-tiered system, with larger "Super-clubs" offering a range of products, and smaller Clubs offering more traditional lines of business. This has, in part, been driven by mergers & acquisitions activities and emerging partnerships. Members are likely to benefit, due to the Clubs' improved profitability levels and risk profiles, and increasing product choice.

INVESTMENT INCOME

Most International Group of P&I Clubs have released their financial results, showing large investment losses from the previous year. These losses may impact renewal as we approach 2024/25, if recoveries are not made. However, the loss ratios across all Clubs appear to have improved, with some even dipping below 100% and therefore breaking even.

The average investment result from all P&I Clubs for the 2022/23 financial year was USD -45.2m. Each Club has taken a different approach to investment, diversifying between bonds, equities, cash and real estate. However, many have been susceptible to geopolitical developments and market fluctuations and 2023/24 is expected to be no different, creating uncertainty regarding the impact on premium levels.

GROUP EXCESS OF LOSS REINSURANCE

The reinsurance side of the International Group of P&I Clubs has faced far more exposure to wider market events in the property & casualty and aviation markets. This in turn affects the rates requested from individual shipowners, by way of their reinsurers. The International Group benefited greatly from the two-year policy in 2020/21. The reinsurance markets, however are still expecting to achieve rate increases to compensate for past losses.

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PORT & TERMINAL MARKET

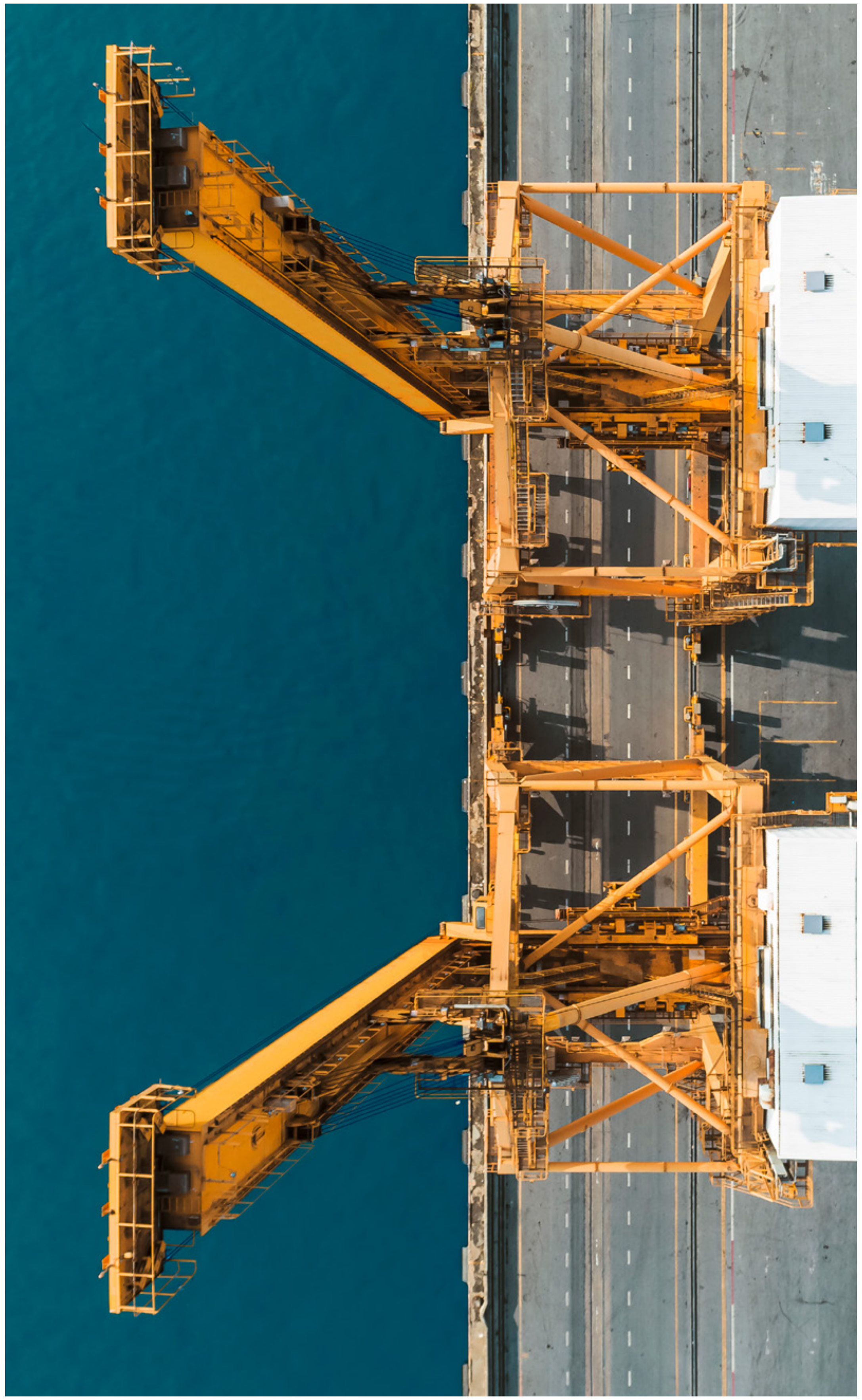
LIABILITY & PROPERTY

Michael McGratten

Rate increases slow down for port and terminals

The Port & Terminal (P&T) market remains firm, albeit with insurers requiring lower rate increases across the board.

- General
  - Discipline is being maintained with minimum pricing required for capacity. Price drivers include claims inflation, more frequent and severe weather events, rising reinsurance costs, and the continued scrutiny to deliver profits for insurers' capital providers despite lower investment returns.
  - Certain markets are requiring blanket Russia/Belarus exclusions.
  - Optimal renewal outcomes are achieved by early, focused and high-quality submissions with clear differentiating factors.



- Liability
  - 1st excess liability policies now considered "working layers", so are rated accordingly.
  - Ventilation layers for excess liability placements are more common, resulting in quota share placements requiring new capacity.
- Property
  - Burdens for both insureds and insurers are increasing as the latter require substantial amounts of data, including risk engineering reports, prior to quoting.
  - Wet bulk and grain terminals should expect to face challenging renewals – coal terminals too due to environmental, social and governance (ESG) concerns.
  - Expect continued verticalisation, with insurers participating at different price levels.
  - The latest El Niño event is likely to create more challenges especially as the Atlantic is currently warmer than average.

RATE PREDICTIONS

- Background:
  - Not all P&T insurers posted positive performances for H2'22.
  - Certain markets have been reducing their natural catastrophe (Nat Cat) aggregate capacity to offset their XOL reinsurance costs.
  - Following over 24 quarters of premium increases, the base is far more resilient to withstand the expected losses. The fear of shock losses will still affect the volatility of the account, and is keeping insurers disciplined as the cost of capital remains high.
- All things being equal, we anticipate risk adjusted rate increases for clean accounts in the following ranges:
  - Marine liability: +2.5% to 12.5% (result dependent on exposure to long tail liability)

- Excess liability: +5% – 12.5% (focus will be on whether net premium for share is an optimal use of capital)
- Clean marine property non-cat: +10% – 20%
- Clean US marine property cat: minimum +10% to 20% (very location specific)
- Clean Lat Am marine property cat: minimum +5% to 15% (very location specific)

- To mitigate rate rises, deductibles and sub-limits may need to be reviewed, certain coverages aggregated, or conditions tightened.
- Loyal accounts may receive beneficial treatment, whilst underperforming or inadequately rated accounts are subject to larger rate rises.

RECENT PORT & TERMINAL MARKET LOSSES

- Background:
- Half of the maritime incidents recorded in 2022 occurred in ports and terminals; of the 2,400 incidents recorded, 50% occurred with vessels in port (with 813 of these when docked)
- Many of these risks are out of the ports' control. As such, a port needs to be ready to deal with issues as they occur, while also making sure operations across all facilities are not disrupted.

Figures shown are estimated for London P&T markets unless stated.

- Latin American bulk terminal – Q4'22: fire PDBI > USD35m
- Hurricane Ian – Q3'22: – although a small P&T loss as it avoided Tampa, it is relevant as it hit the property cat/reinsurance and retro markets.
- Middle Eastern Port – Q2'22: chlorine gas explosion during vessel loading > USD10m
- US LNG terminal explosion – Q2'22: USD7m
- Peruvian LNG Terminal – Q2'22: USD275m (marine tower only – strict liability)
- Latin American bulk terminal – Q1'22: handling equipment PDBI > USD13m
- Hurricane Ida – Q3'21: largest Port related claims being:
  - Port Fourchon area ~ USD125m damage – split between London and US markets
  - Port of New Orleans ~ USD40m
- Indian cyclone – Q2'21: PDBI USD20m
- UK Grain Terminal explosion – Q3'20: GBP90m
- Hurricane Laura – Q3'20: PDBI USD150m
- Four separate vessel allision claims totalling > USD100m since 2020

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

MARKET MOVEMENTS

- The market has attracted new 2023 capacity from Everest Re (EVE 2786), Apollo 1969, and Westfield (ex Argo).
- Senior marine underwriters have recently resigned from AIG, Chaucer, Markel, Liberty, CNA Hardy and Tokio Marine HCC – the majority of whom have new seats elsewhere.

WHY AREN'T RATES COMING DOWN?

Although rate increases moderated during H2 2022, the industry remains laser focused on profitability. Some significant headwinds remain in 2023, including:

- Cost & (Social) inflation:
  - Labour, steel and freight prices, together with supply chain pressures and increased indemnity awards, have caused loss creep. Insurers are closely monitoring results to ensure that premium rates remain adequate by staying ahead of loss trends.
  - At +/- 10% in H1'23, inflation erodes the benefits of deductibles and attachment points, makes pricing and reserving for long tail lines more challenging, and leads to more conservative underwriting.
- Varying loss activity by industry and line:
  - Amidst high stakes and ongoing uncertainty, it is to be expected that the bulk of accurate reserving for Ukraine will be delayed.

– Cyber & technology risks remain unpredictable.

› The use of technology, interconnected systems, and data-sharing platforms between multiple operators in the supply chain is increasing. This renders ports and their users vulnerable to attack. As cyber ranks as a top-priority risk for port operators, most businesses are now unlikely to enter contracts with counterparties not displaying robust cyber risk management practices.

› Cyberattacks not only threaten operational downtime and revenue disruption, but also raise reputation, safety, and litigation concerns.

– Impact of deficient liability reserving across policy years 2013–20 still being felt.

- Physical climate risk
  - The physical effects of climate change present material risks to ports in the immediate, short, and medium term. For example, coastal erosion and rising global temperatures exacerbate the risk of warehouse flooding, heat stress to key machinery, or temporary inaccessibility of inland transport links.
  - Climate risk modelling solutions can analyse a port's resilience against increasingly frequent and disruptive extreme weather events. Such evaluations provide insight into the necessity of additional safeguarding measures for the protection of a site and its assets.

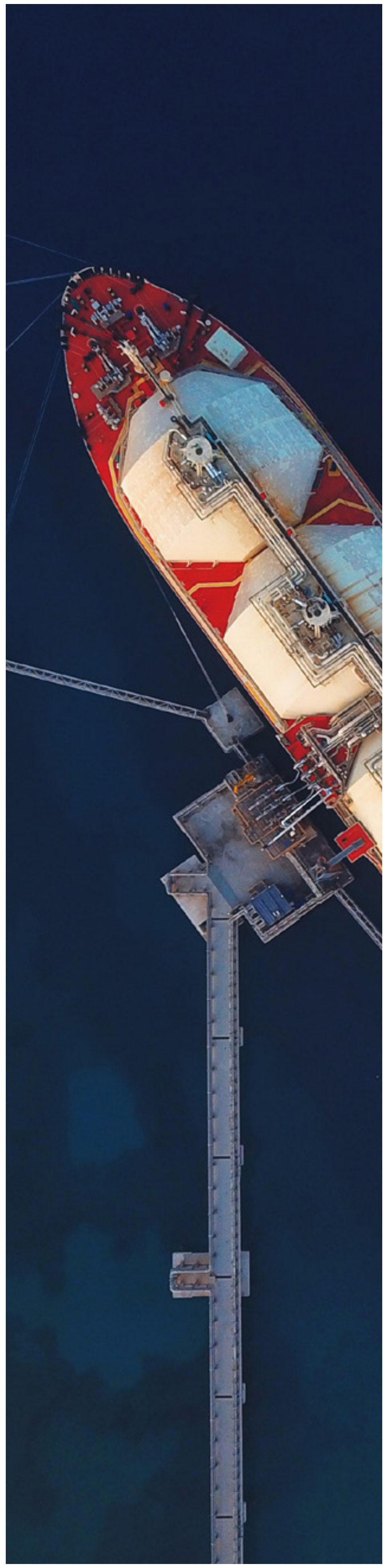
- Catastrophe (cat) activity:
  - Losses from nat cats and non-modelled perils continue at record levels. For example, Hurricane Ian caused a material increase in reinsurance cost that added 5–6% to a syndicate's bottom line in 2023.
    - › *"Reinsurance pricing will likely increase further in 2023, despite a drop in predicted storms for the 2023 hurricane season, which began June 1."* (Source: Morgan Stanley).
  - The market is healthy enough to pay losses, but not to provide a meaningful return on capital to investors.
  - The Tropical Storm Risk (TSR) forecast has deteriorated in recent months, such that consensus on the current hurricane season is that it will be an "above-normal" season, bringing more hurricanes and tropical storms.

Despite these trends, insurers intend to capitalise on current conditions and pursue growth. The underwriting cycle carries on inexorably. Many thought that the cycle was dead because the last soft market went on for so long. It will come again, as hard markets do not last forever, but not in 2023.

THE CURRENT CAPACITY IN THE MARINE LIABILITY MARKET IS STILL GENERALLY ADEQUATE

- There is competition for new business. Indeed, some markets are looking to come back on to accounts that they came off due to management-imposed dictates during 2021/2. We therefore expect this to negate to a degree, some of the negative buyer trends explained above.
- In H1'23, "as before" renewals were generally unachievable in the commercial market, even for those with perfect loss records. It is expected that this trend will continue in H2'23.
- We anticipate less restructuring of line sizes in 2023 than was seen in 2022. Heavy cat exposed accounts will be the exception, where there will be a trade-off between increased net retentions and higher reinsurance costs.

> The use of technology, interconnected systems, and data-sharing platforms between multiple operators in the supply chain is increasing. This renders ports and their users vulnerable to attack.



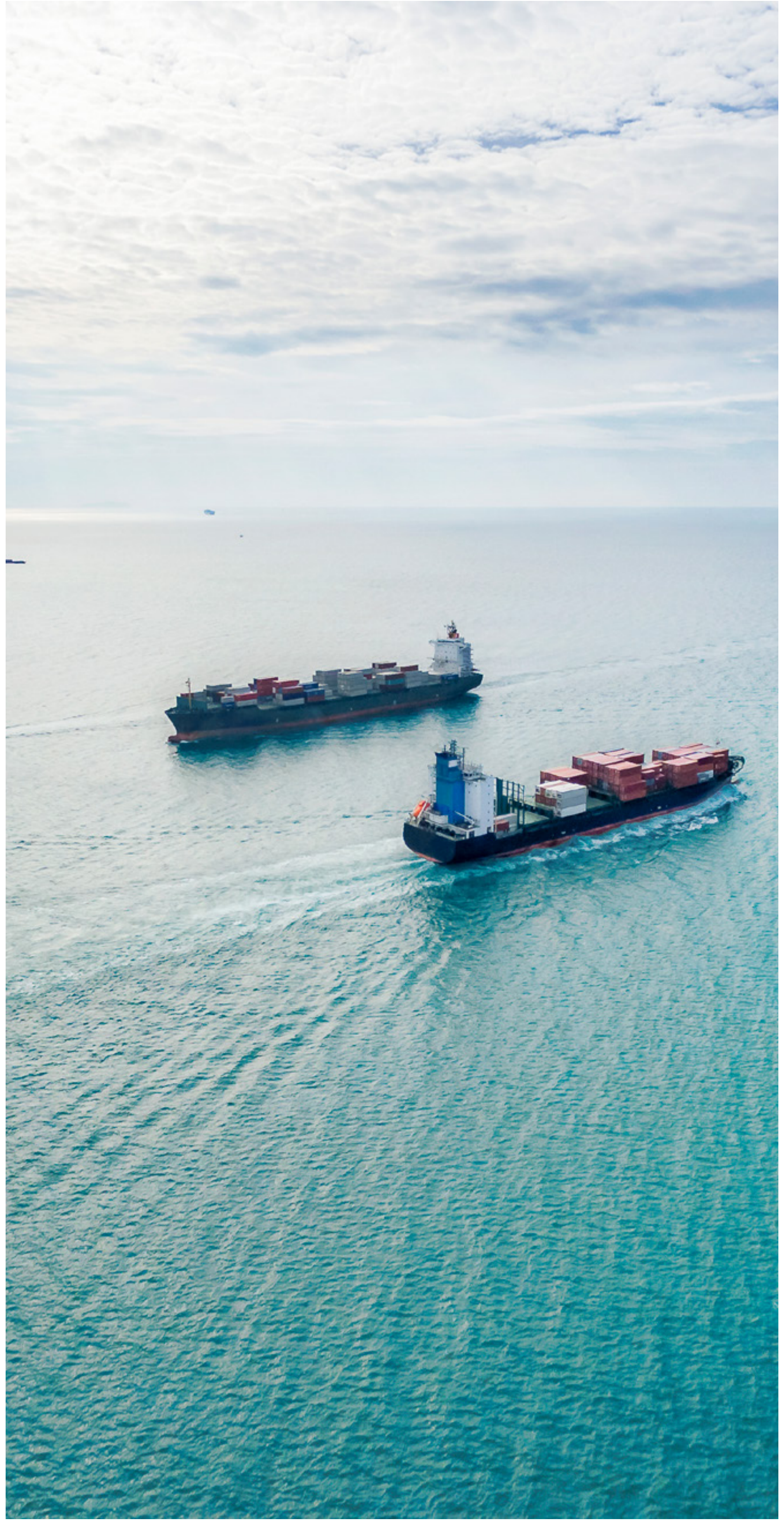
RECOMMENDATIONS

Optimal renewal results for complex accounts are achieved with early engagement.

- Extend the renewal timeline cycle to at least three months ahead of renewal.
- Engage incumbent insurer early with professional presentations.
- Challenge reserves.
- Follow up on survey recommendations (improved return on capital expenditure (CapEx) in a hard market). Poor risks are penalised, so investing in risk improvements is justifiable to the board.
- Sound out alternative markets to obtain options – consideration should be made to breaking long-term relationships if pricing is the key renewal driver.

HOW TO DIFFERENTIATE YOUR RISK:

1. **Maintain ongoing insurer dialogue** – even after inception, remain connected with underwriters to reinforce "out of renewal cycle" relationships. Expand relationships to include management and claims teams, to align on expectations throughout the claims journey.
2. **Be proactive** – the current selective underwriting environment calls for detailed descriptions of risk management and mitigation efforts. Explain any relevant changes to business models and leverage analytical risk modelling tools. Such differentiation, when combined with sufficient lead time for underwriter review, will result in more positive outcomes.
3. **Statement of Values** – ensure this is refreshed, taking into account external inflationary factors.
4. **Set risk tolerance and appetite at a portfolio rather than product level** – instead of retaining large deductibles on part of your program and small deductibles elsewhere, consider consolidating premium, and leveraging it to build scale within a captive.
5. **Report claims efficiently and with thorough documentation** – provide regular updates to excess insurers if applicable, especially related to any claim that is nearing 50% of the first attachment.
6. **Explore all options** – review retentions, scope of coverages, and sub-limits. Consider alternative sources of capacity, long term agreements, renewal discounts, and structured portfolio solutions.
7. **Understand the true value of resilience** – be more conscious of your risk exposure, particularly when faced with systemic risks like cyber and climate risk.



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15.

CARGO

Peter Hall

Market continues from strength to strength

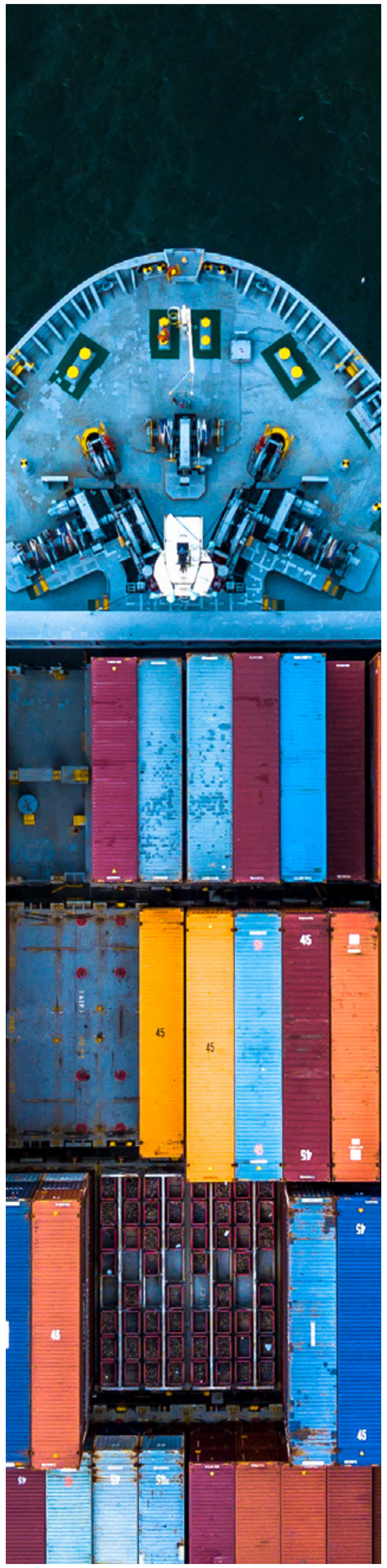
The London cargo market offering continues to surge, and available capacity is now around the USD1.50bn mark. This allows the market to continue to be proactive in their approach to providing solutions, and in maintaining its reputation as the global market leader.

The increased market competition offers buyers alternatives and whilst we encourage loyalty, options should be explored and considered on individual merit. Rating stability should be expected, however concerns around disruption to supply chains are set to stay in 2023. This follows continuing uncertainty around geopolitical conflicts, inflationary pressure and the recessionary environment, along with climate change and weather events.

Global logistics and supply chains continue to experience challenges, and these are expected to persist for the remainder of the year. Generally, these challenges are further driven by increased consumer spend, sustained preference for buying online, and catch up from last year's bottlenecks. Supply chain challenges include material scarcity, increasing freight prices, difficult demand forecasting, port congestion, changing consumer attitudes, digital transformation, restructuring, and inflation. Companies continue to mitigate these issues and look to diversify sourcing, identify alternative shipping ports, and improve demand forecasting. Many continue to assess the inventory they keep on hand, entering longer term contracts with key suppliers to build additional resilience.

The debate surrounding the transport of electric vehicles is again brought into sharp focus following the fire on 6,200-ceu car carrier Fremantle Highway (built 2013) in the North Sea. The specific cause remains under further investigation, and IUMI understands that the transportations of EVs raises certain risks that are different to those involved in carrying internal combustion engine vehicles (ICEVs). However, research suggests that the risks are not heightened or more dangerous, IUMI said in a statement. The London cargo market and the Joint Cargo Committee (JCC) continue to work with brokers to offer solutions that suit both the automotive industry and those in the manufacturing and distribution of lithium batteries. There is indeed much talk around a new Lloyd's cargo market consortium. This reiterates the commitment of the London cargo market in this challenging risk environment. We understand that this product is more specifically aimed at lithium battery manufacturers and distributors and will have a USD50m policy limit.

There was much talk following 2023 reinsurance renewals, that the increased costs borne were sought to be recovered by insurers. However, the market is generally doing that through disciplined under-writing, and by attempting to offer flat rating or low-digit percentage increases based on individual risk factors, viewing portfolios as a whole. The hardening property market, on the other hand, creates an increased opportunity for all buyers to explore a "Stock Throughput" option, effectively removing the stock risk from the existing property placement to the cargo market. This often comes with improved deductible levels, economies of scale, and improved pricing in conjunction with the cargo exposures.

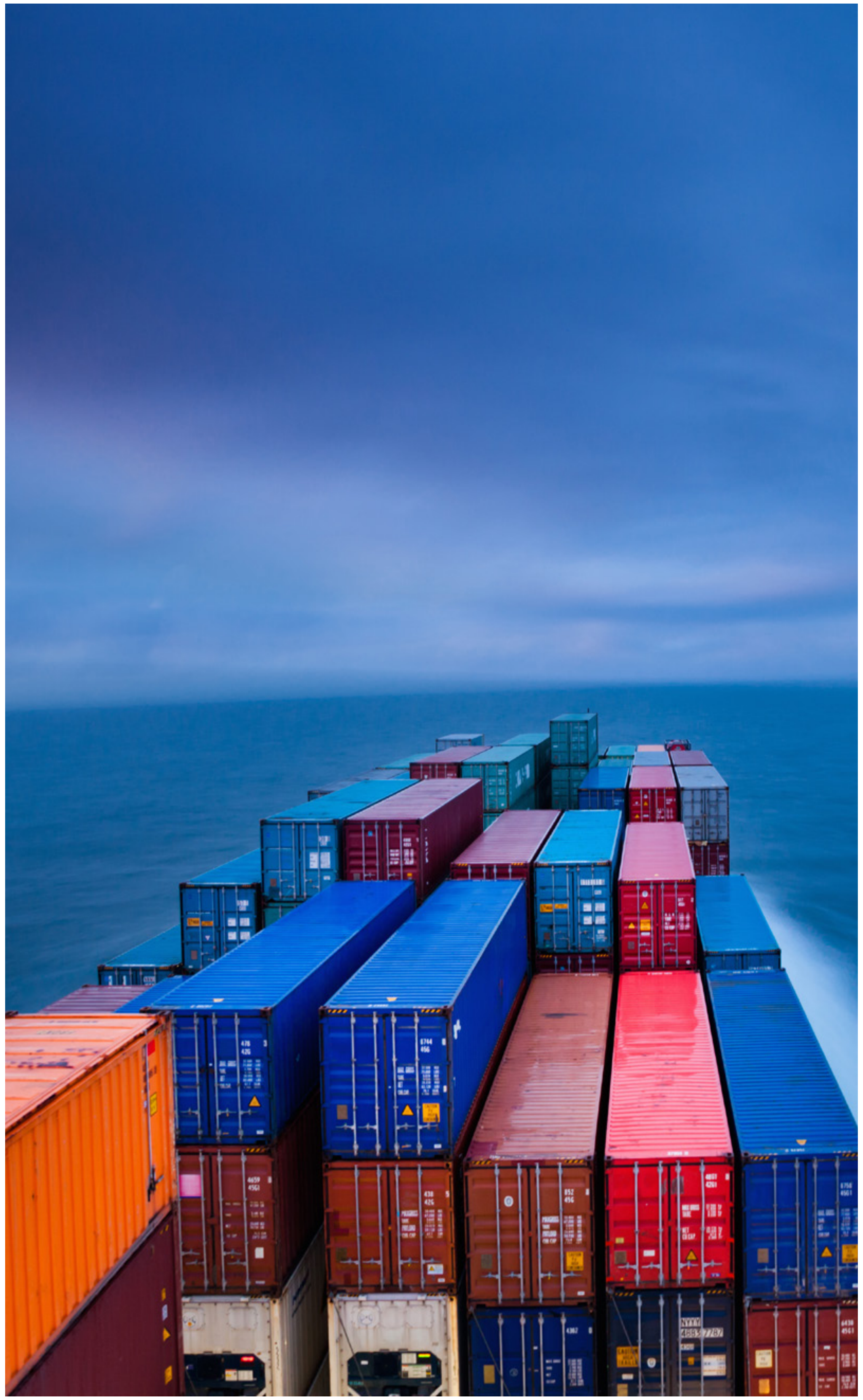


Where traditional property placements may at times struggle to provide competitive pricing, adequate capacity and manageable deductibles for your inventory risks, the "Stock Throughput" policy can offer a valuable and sustainable alternative. By combining uninterrupted throughput coverage with tailored retentions, ever-growing market capacity/appetite and more competitive pricing compared to traditional insurance products, insurance buyers can protect their investments and achieve sustainable growth. This is despite a dynamic geo-political and environmentally challenged trading landscape.

The "Five Powers War Clause" has been imposed by reinsurers. While commonly used in other lines of business, cargo placements typically avoided this exclusion both on primary or reinsurance levels. However, reinsurers moved to impose the wording as part of widespread de-risking in Q1 2023. As a result, the exclusion is being introduced into wordings to avoid gaps in reinsurance protection.

The Lloyd's Market Association Joint Cargo Committee has drafted and distributed the below clause:

"This Contract excludes loss damage liability or expense arising from the outbreak of war (whether there be a declaration of war or not) between any of the following: United Kingdom, United States of America, France, the Russian Federation, the People's Republic of China".



Further, a specific exclusion in respect of movements of goods to/from/within Russia, Ukraine and Belarus is also being mandated by reinsurers and insurers from a compliance and risk management perspective.

With the increased capacity comes the inevitable market moves, including the following:

- Louise Crockford and Matt Arden have joined Brit.
- Howard Potter has joined Aviva.
- Nick Holding and Michael Wilkes are heading to BHS.
- Armand Van Hien is now at Fidelis.
- Ryan Godfrey and Steven Barr are both heading to Sompo.
- Frank Chu has started at The Hartford.
- Joanne Reynolds and Ben Farley are both joining Axis.
- Gavin Wall and Chris McGill have both resigned from Ascot.
- Andrew Whitehouse has joined AIG.
- Rob Partridge is now at Tokio Marine Kiln.
- David Axtell is on his way to Everest.
- David Pressman to Aegis.
- Richard Etches has joined Chubb.
- Bobby James joins MunichRe.
- Alice Tyler joined QBE.

i

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16.

AVIATION

Doug Ogilvie

Market moves on after the Russian fallout

Following significant industry claims as a result of the Russia-Ukraine war, the aerospace sector has rather quickly fallen into a distinctive rhythm. For many customers, this is not necessarily unsatisfactory.

Pricing changes have, in many cases, turned out to be rather modest if imposed at all. We believe that this demonstrates the maturity of the industry and the underlying strength of capital providers. We have not faced the seismic changes in rating (bar major manufacturers) that some observers may have expected. Rather, we are seeing a measured and explainable new rating climate, as a response to the industry's adverse claim position. This suggests that the market has learned from past experiences and is testimony to the strength and depth of market capacity. Insurers have, however, reviewed coverage for certain policy extensions and applied restrictions.

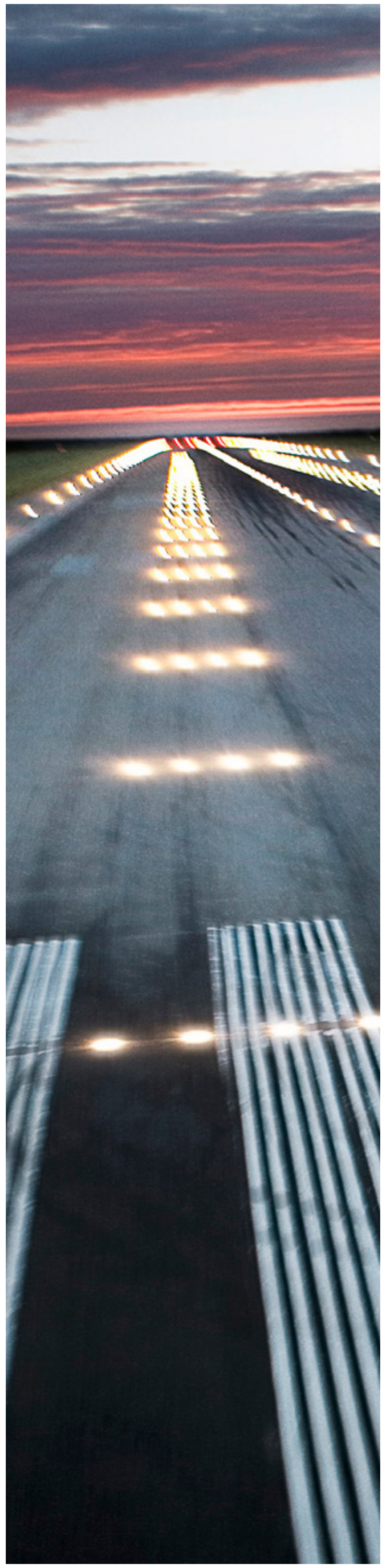
Aerospace insurers have increased their focus on claims activity, frequency and severity, as well as on customers' turnover projections (organic and through mergers & acquisitions). Following the post Covid-19 lull, many players in the sector are forging ahead with their growth plans, which is generally interpreted as an expression of success and strength. Customers experiencing unfavourable claims activity will clearly face a more challenging environment. However, we are optimistic about a reasoned and favourable outcome for most.

AIRLINE "ALL RISKS" PREMIUM AND RATING TRENDS

Whilst threats to the airline business are some of the greatest the sector has ever experienced, there is significant appetite and meaningful competition amongst insurers. This is keeping the core "all risks" airline insurance market stable, despite inflationary pressures and heightened geopolitical instability. We have achieved "as before" rates on stable exposures recently. Insurers are taking a flexible approach and are treating each airline individually. In some instances where exposures were up, and premium growth realised, insurers have nevertheless agreed to rate reductions.

There remains some uncertainty around future rating levels, however. This is due to potential claims arising from the Russia/Ukraine conflict. Insurers have over the past few months become more cautious, with some insurers seeking to run their decisions through higher management for approval. This can cause additional pressure, likely due to the uncertainty of response from their reinsurers and retro capacity providers. Underwriters continue dividing the sector into three tiers at renewal: low-cost carriers; those with higher limits/values; and those with losses or that are deemed to be unprofitable on a premium versus historic claims basis. As always, insurance capacity is ultimately driving renewal results.

We are expecting additional pricing pressure in the next 12 months, as the direction of the lessor claims from Russia becomes clearer, and the market reacts to the movement. The ultimate impact will depend on whether claims fall on the war, or "all risks" policies, or a mix of both. At present, most insurers appear to be taking a cautious approach to reserving with little or no financial disclosures on aviation due to the complexity of the event. When arbitrary or legal outcomes are acknowledged by insurers and reflected in financial results, markets are likely to react and create upwards pressure. This could be compounded by reinsurance pressure.



GEOPOLITICAL INSTABILITY IMPACTS WAR COVERAGE

With the prospect of substantial losses and a generally heightened geopolitical instability, hull war and excess war third party cover has come under significant pricing pressure. This contrasts with the core "all risks" airline insurance market which to date, remains generally stable.

CAPACITY

Currently, there is an encouraging level of capacity for airline risks for all core coverages. We have seen some scaling back in certain areas – but not all insurers are exposed to losses from Russia/Ukraine. With airline rates having increased substantially in recent years, some insurers see this as an opportunity to expand, particularly after the release of self-imposed underwriting. Capacity providers are eyeing new start-ups and existing platforms are extending out into the class.

HULL WAR, EXCESS WAR THIRD PARTY

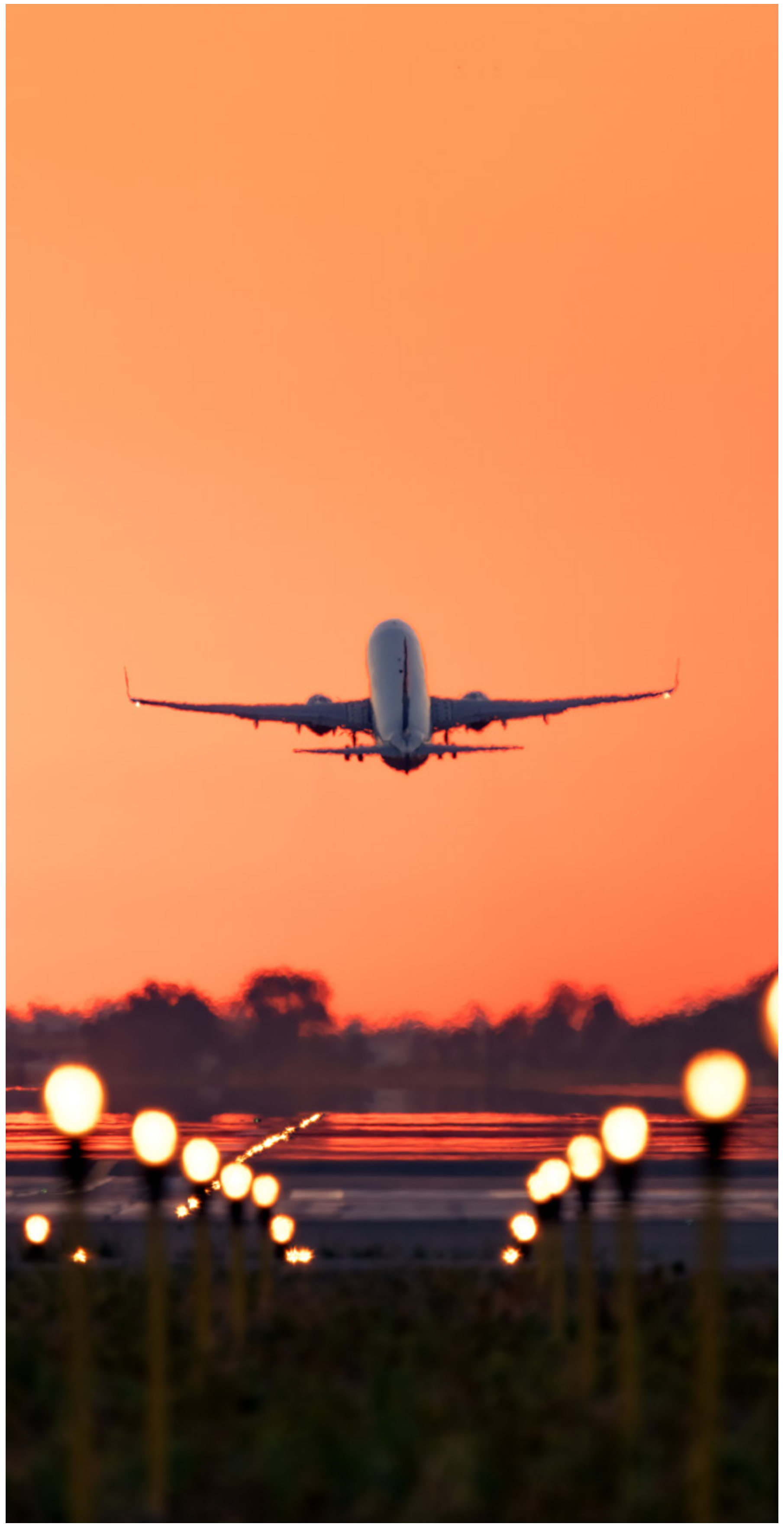
With the prospect of substantial losses and a general heightened geopolitical instability, hull war and excess war third-party aviation coverages are under the most pricing pressure. At renewals, insurers are now applying significant increases to hull war risks. Excess war liability rates have also increased, albeit at a more moderate level. In addition, following AIG and Talbot's exits, some existing markets have paused quoting any new business while they review their portfolios and positions. We are also seeing a harder position in respect of terms and coverage – with underwriters attempting to remove elements of coverage or impose new exclusions.

We anticipate continued pricing pressure on these coverages. However, to what degree (if any) rates will further increase, will depend on how the overall loss picture develops.

AIRLINE LOSSES

Notwithstanding losses from the Russia/Ukraine conflict, a steady accident attrition is following a predictive path. Interestingly, accidents that move the dial have been light, which is having a positive effect on the competitive landscape. The perception is that the market is quite finely balanced, meaning that a significant event could cause a sudden change of direction.

Currently, there is an encouraging level of capacity for airline risks for all core coverages. We have seen some scaling back in certain areas – but not all insurers are exposed to losses from Russia/Ukraine.



MARKET DRIVERS

- Uncertainty and fallout from the Russia/Ukraine conflict continues
- The effect on the market will depend on the ultimate size of the losses
- The lack of clarity is likely to see a continuation of the current all-risks rating trend in the short term, with the greatest pricing pressure on hull war and excess war third-party coverage
- Heightened risk selectivity and underwriter focus on terms and policy coverage

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17.

ENERGY

POWER MARKET

Alex Irvin

Predictions from 1.1 renewal have not materialised

A turbulent treaty renewal season heading into 2023 had created expectations of major repercussions for the conventional power market. These have not materialised.

Fuelled by (re)insurers having to accept higher retentions with double digit premium increases on their treaty renewals, the general message at the start of 2023 was that rates would increase quite dramatically with markets targeting at least a +15% uplift on their portfolios. This was driven by two main factors: the outcome of the treaty renewals (in particular the cost of natural catastrophe aggregate) and the increased loss activity for many conventional power books. We were assured, however, that clients' renewal terms would reflect their individual risk quality, and would be underwritten based on their own merits rather than a blanket increase being proposed across all clients.

Despite all of the "talking up" of the year ahead from (re)insurers, the market began to settle in the following months. It is now consistently operating between a 2.50% to 7.5% rate increase for well-managed, clean risks. These increases were coupled with property damage valuations adjustments, which markets continue to request as part of the renewal submissions. Aside from certain critical catastrophe (cat) regions, it seems that the initial estimations of natural catastrophe (Nat Cat) pricing were higher than predicted. Indeed, insurers have not achieved further rises in rate movement, due to the need to remain competitive on international markets. In the US, a weaker domestic market has seen slightly more favourable rates for London insurers and increased orders. London markets are predicting that this will continue into 2024, particularly as Aegis New Jersey look likely to maintain a somewhat more conservative renewal position than in previous years.

Client retentions and deductibles have remained relatively stable, which again is not completely consistent with what we expected at the start of the year. Whilst in some instances where business interruption (BI) sums insured had inflated considerably, insurers have exerted pressure on clients to increase their BI deductibles. This has not materialised.

Loss activity has continued to hamper the markets' profitability throughout the first half of the year. This has been predominantly driven by supply chain issues causing considerable outage periods and BI costs, in addition to increased inflationary cost. There were several large losses ($100m+) in the second half of 2022, as noted in our previous update. A number of these are still not settled with claim quantums still rising.

Standalone coal placements continue to be problematic as a result of insurers' environmental, social and governance (ESG) commitments, although solutions do remain available in the London and international marketplaces. Clients are, however, in some cases having to accept reduced limits and increased deductibles due to the limited market pool for this type of occupancy. Several territories around the world are heavily reliant on coal as their main source of fuel to generate electricity. Insurers are taking this into consideration when reviewing a risk, as well as looking at the countries'/clients' commitments to manage their emissions by transferring to a greener source of electricity.

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ENERGY

RENEWABLE ENERGY

Michael Bogdan

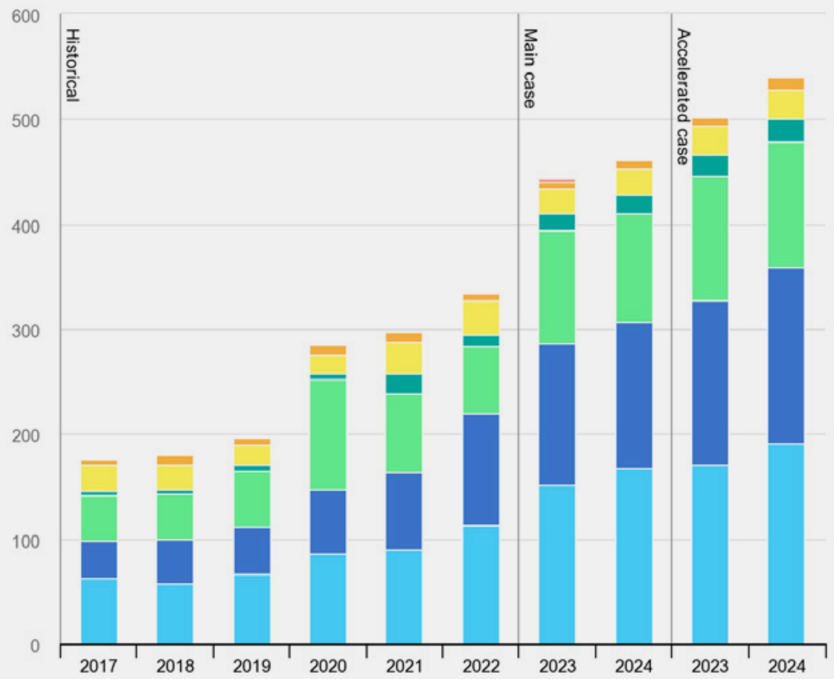
Robert Wilson

Insurers adjust underwriting terms and conditions

The global insurance market is growing alongside the renewable energy sector, to support developers and owners of this technology. But as the risks become better understood, insurers are adjusting underwriting terms and conditions.

Renewable energy continues its upward trajectory to become a greater portion of the global power market. According to estimates by the International Energy Agency (IEA), global renewable capacity additions are set to soar by 107 gigawatts (GW) in 2023. This is the equivalent of the entire installed power capacity of Germany and Spain combined, and is the largest absolute increase ever recorded. It brings total renewables capacity to 440 GW.

NET RENEWABLE ELECTRICITY CAPACITY ADDITIONS BY TECHNOLOGY, 2017-2024



Source: International Energy Agency

As the graph shows, the bulk of this investment will be in solar, both utility scale and distributed (rooftops for example). Onshore wind is also showing growth, and the areas of offshore wind and battery energy storage systems (BESS) are finding niches in specific electricity markets. The global insurance market is growing alongside the sector, but as insurers learn more about the risks of each technology, they are putting terms and conditions under increased scrutiny.

- Natural catastrophe continues to be the main driver of losses in the solar space, with Severe Convective Storm (SCS) and the associated hail that comes with it making some otherwise ideal sites look riskier. Solar panel manufacturers are stepping up with improved designs to better withstand the exposure.
- Mechanical breakdown is the primary driver of losses for onshore wind, and the original equipment manufacturers' (OEM) performance and responsiveness to warranty claims are key considerations for insurers when evaluating an individual project.
- As both offshore wind and BESS see rapid increases in installations in the most developed power markets in Europe and North America, the ability of the supply chain to meet demand will be closely watched by the insurance market that is eager to serve this growing space.

According to estimates by the International Energy Agency (IEA), global renewable capacity additions are set to soar by 107 gigawatts (GW) in 2023.

No longer a niche area, the speciality insurance markets that have long provided renewable energy insurance, are scaling their underwriting teams to meet the demand of their long-standing customers. Many are also expanding beyond their wind and solar origins to write a broader swathe of power, such as biomass, hydro, and in some cases even natural gas. They do this as they evolve to become more holistic energy insurers, to better support the transition away from fossil fuels.

Conversely, conventional power insurers are actively entering the renewables space, often building up their existing underwriting expertise with new hires from the original renewable energy insurers. Innovation is rife from these players, as they look to establish themselves in renewables. The Lloyd's syndicate Hiscox has launched an "ESG syndicate" which will provide extra risk capital to businesses, such as renewable power generators and energy storage providers that are already insured under the main Hiscox 33 Lloyd's syndicate. Novel approaches from multi-line and mutual insurers such as Liberty, allow them to look to take an integrated approach in serving the needs of renewable energy clients. This approach extends across a wider range of coverage than just standalone project insurance.

Navigating this rapidly evolving space can be complex, particularly for management teams which are new to the sector. There are various "push" and "pull" factors driving insurer appetite. The top-line growth of the sector is very compelling, but recent loss history has made some wary of the coverage they offer.

Lockton Global Energy & Power (LGE) is actively engaged with markets across the spectrum of renewable energy, helping clients to understand the coverages and ensuring the best fit for their needs. Working in partnership, we help our clients to make the right long-term buying decisions to ensure smooth operations for the life of the project.

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18.

SPOTLIGHT ON THE US

Mark Moitoso

Property and inflation remain top US market headlines

As of the second quarter of 2023, leading US commercial insurers are benefiting from continued growth of net written premiums and investment income. These forces have helped keep the insurance market generally predictable across most major lines, including general liability, auto liability, workers' compensation, directors' and officers' liability, and cyber.

Earlier in 2023, the consensus in economic circles seemed to be that a recession in the US was inevitable. The economy however, has been resilient, backed in part by a labour market that is cooling but remains strong overall. In August 2023, US employers added 187,000 jobs, according to the Bureau of Labor Statistics, and labour force participation for people between the ages of 25 and 54 reached 83.4% in March and April 2023 – the highest it's been since May 2002.

Economic inflation – as measured by the Bureau of Labor Statistics' Consumer Price Index – has slowed considerably; after peaking at 9.1% year over year in June 2022, inflation dropped to 3.2% in July 2023 before rising slightly to 3.7% in August. Core inflation – excluding energy and housing – remained at 4.3% in August, more than double the Federal Reserve's target of 2%. As a result, the Fed is unlikely to lower interest rates anytime soon, providing a boost for investment yields and a strong tailwind for the insurance industry.

There are, nevertheless, signs of trouble on the horizon for commercial insurers. Combined ratios have deteriorated over the last year, in part because of persistent catastrophe losses and social inflation. Insurers exposed to personal lines, where rates have failed to keep pace with losses, have been especially impacted.

Property also remains challenged. Higher reinsurance pricing, tighter terms and conditions and a contraction in supply at affordable rates, have led to higher costs and volatility for primary insurers. This, in turn, has prompted more disciplined underwriting and a continued push for rate. Even buyers with limited catastrophe exposures and favourable loss histories are renewing with rate increases of no less than 10%.

Globally, insured national catastrophe losses reached $50 billion in the first half of 2023, according to Swiss Re, with thunderstorms in the US being the main driver. Insurers are watching for more catastrophe losses in the second half of the year, particularly given that researchers at both Colorado State University's well-respected Tropical Meteorology Project and the National Oceanic and Atmospheric Administration are forecasting above-average activity in the 2023 Atlantic hurricane season.

Meanwhile, social inflation remains a bête noire for liability insurers, which continue to report adverse loss development for prior years. This is particularly acute for general liability and auto liability in accident years 2015 through 2019.

Looking ahead, insurance buyers should expect the property market to remain relatively unchanged through 2024. Those with large fleets, significant product exposure or adverse losses should be prepared for renewed pressure around retentions, attachments and/or pricing. While senior insurance executives are generally content with their portfolios, risk selection and program design are key as insurers seek to stay ahead of escalating loss trends.

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For further information, please visit the explore the US Lockton Market Update, or contact:

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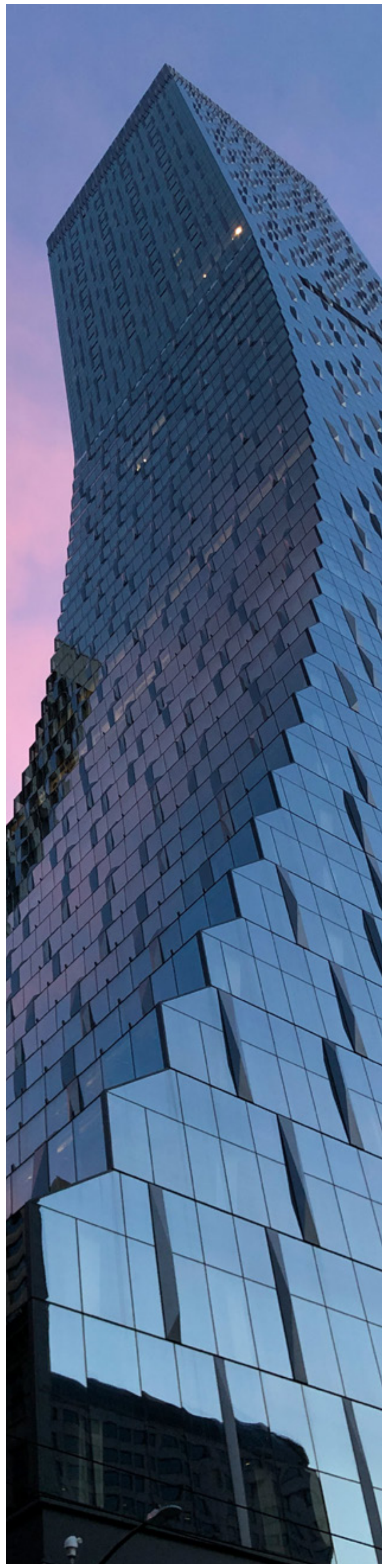

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