# London Market Update

## The 'flight to quality' continues – January 2020

In most classes, 2020 looks set to see a continuation of the underwriting community seeking to 're-underwrite' their portfolios. Differentiating accounts requires detailed information and broking skills.

London remains the leader on Excess & Surplus lines business. Lloyd's alone has a 25% market share, which is the same as the next five carriers combined. Additionally, more London based companies are acquiring licences. Domestic carriers are re-calibrating and more business is coming in to London and the international markets.

The narrative provided by our broking teams is a guide to help you. The best way to stay current and on top of how to achieve your objectives is to engage with them early.

We bring you the latest on:

- Rates
- Capacity
- Appetite

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## Accident & health

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- 2019 saw rates remain relatively flat, highlighting Accident & Health (A&H) as something of an outlier in the Lloyd's market with most other classes experiencing significant increases. We expect that to change as we move in to 2020 in view of the continued deterioration in the performance of the class.
- In general, appetite remains strong for A&H across the London Market with the exception of some distressed sub-classes such as medical and US sports, where the available capacity requires more broking and information to secure terms and pricing.
- Some markets have withdrawn from A&H and we expect to see several more before the end of 2020, however capacity remains plentiful.

## Active assailant

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- Pricing remains flat on a renewal basis and continues to be refined to match the exposed risk and the territory, rather than blanket state-wide rates. This leads to more appropriate premium levels.
- Our Active Assailant facility is growing in terms of sophistication and relevance, ensuring that tailored wordings match the specific needs of the clients.
- Average limits being purchased depend on industry sector: Manufacturing - 25m, Casino - 20m, Entertainment - 15m, Healthcare - 12.5m, Offices - 10m, Hotels - 7.5m, Education - 6m, Retail - 2m.

## Alternative risk

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- In spite of hardening rates across traditional lines of business, the Lloyd's Market continues to innovate and invest heavily in new and emerging risk areas.
- A good example of this is the recent launch of the Lloyd's Product Innovation Facility. Backed by nearly 30 syndicates, the facility now has over GBP 100m of underwriting capacity to accelerate the development of (re)insurance products for new and emerging risks. Areas of focus include intangible asset risk, particularly reputation, supply chain risk and parametric covers.
- A number of dedicated Alternative Risk underwriting teams have gone live at 1.1.20 as syndicates at Lloyd's further demonstrate commitment to innovation and providing a home for emerging risks.

## Cargo and stock throughput

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- Underwriters continue to impose strict minimum premiums, with gross premium for their respective shares increasing to around USD20,000 which is pushing up miniumn premium requirements. However, lineslip facilities and the recent launch of the Ascot/Beazley cargo consortium (A2B) provide a solution for smaller premium accounts.
- The STP/Cargo market shrunk in 2019 with a combination of carriers leaving the market and income restraints from carriers still writing this class. The latest casualties pulling out of Cargo/Lloyd's being Travelers and Neon. We expect capacity for 2020 to remain constant as we are now through the restructuring of appetite and have a clearer picture of underwriter's core interests moving forward. There is still over USD500m of capacity available and the London Company E&S market has seen increased activity because they are not affected by the income tightening happening in the Lloyd's market.
- Interests such as food, wine, soft commodities, lumber and temperature sensitive goods continue to be difficult to place but with detailed risk information there is often a solution within the Open Market.
- The level of rate rises continued to increase throughout 2019, starting at around 5%-10% at the beginning of last year and moving northwards of 25% depending on individual risk profile. We expect underwriters to continue to push rates up throughout 2020, with renewals in the first half of 2020 expected to receive higher increases than the second half as underwriters look to balance out the rate correction applied during 2019.
- Markets are moving away from offering new capacity for lineslips and binders, with many looking to support existing placements and create alternative solutions for SME business via quote & bind platforms.

## Captives

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- A hardening market is driving an increase in captive enquiries as larger clients seek to leverage the size and breadth of their operations to fund insurance risk on their own terms rather than be dictated to by the market. Cell captives remain an attractive proposition for clients wishing to deploy a risk financing strategy for lower setup and ongoing running costs.

## Casualty

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- The market continues to review historical rates as we see an increased flow of business enter the London casualty market. Insureds with flat exposures are typically seeing rate increases in the 5-8% arena with 'new new' business to the London Market seeing year on year rate increases up to 15% from their expiring domestic market pricing.
- The London Market will work with insureds to find tailored solutions. Whilst the market remains in a corrective state, London is still an industry leader for some of the long term harder industry types such as NY Construction, CA Wildfire and/or large auto fleet, which in recent months have been susceptible to 'nuclear verdicts'. These judgements continue to move the dial across all classes. Carriers continue to provide innovative mechanisms that manage the market's overall downside and capital interest.
- Capacity – 2019 saw numerous syndicates and Company markets close their doors to North American Casualty business, which had an immediate effect on supply and demand. Whilst it has been a tough landscape for most carriers, we have seen the emergence of new capacity via Ascot, Bermuda and Convex opening their doors as of 1 January 2020. With movement on the underwriting side also we anticipate more capacity being available come Q2 offering further options across the board.

## Construction

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- Rates have continued to increase over the past quarter as markets have continued to tighten their underwriting guidelines and appetites but probably by only around 5% to 10%. We expect to see some plateauing in rates over the next six months as markets re-load their capacities and have higher budget targets. We expect to see more significant rate rises in domestic markets than London as they have not hardened as much to date. Underwriters are pushing very hard to reduce commissions in London.
- Underwriters still have a broad appetite for risks, however, heavy civils and tunnelling are more difficult to place and there is an increase in appetite for frame construction subject to stringent warranties. Small risks are more challenging to place competitively due to underwriters further increasing their minimum premium requirements for their participation combined with reductions in actual shares accepted. Underwriting submission quality is a significant factor in gaining traction with underwriters.
- There is still plenty of capacity in London for well-presented risks. Capacity in Lloyd's has remained stable over the past quarter. There have been some new entrants to London but these are mainly MGA capacity and licensing is a key issue. Underwriters in both Lloyd's and the company market are very busy and are selecting risks to participate on, based on perceived risk quality. Therefore a high quality underwriting submission is critical to achieving the best terms.

## Contingency

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- In general rates continue to rise but at a more gradual pace. Outdoor festivals will see the largest increases due to the high volume of claims in 2019. Non-appearance rates have stabilised but remain high when compared to a few years ago. Major events and indoor cancellation risks continue to have a stable and competitive rating.
- The appetite to write Contingency business remains high, but insurers are being selective and underwriting has become much more detailed. Apart from indoor cancellation risks, the follow markets are only following recognised lead insurers and large placements are taking much longer to finalise.
- Capacity has greatly reduced over the last 12 months. There have been significant Insurers (i.e. Swiss Re) who have pulled out of Contingency completely. Insurers are limiting their exposure on festivals and non-appearance risks. Even though capacity is reducing, there is still abundant capacity for major events (such as the Olympics) and indoor events.

## Cyber

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- Rates remain flat on clean renewal business although carriers are looking to push rate, especially on combined Cyber and Technology E&O policies. Despite signs of hardening, the market remains competitive on new business as carriers look to build market share.
- Appetites are still broad, with wide appeal for just about any industry (except for cannabis related, adult entertainment and gaming). Policy terms and conditions continues to broaden in line with market developments. Healthcare, manufacturing, retail and utilities remain particularly popular with cyber underwriters. Following the Lloyd's directive for cyber cover to be affirmatively covered or excluded in property and all-risk policies from 1/1/2020, property damage caused by a cyber event is a burgeoning market.
- Capacity is not a concern: despite recent market wide losses, capacity in London continues to grow. For the right risk a tower of USD350m is achievable.

## Energy midstream, downstream & petrochemicals

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- Rates for downstream/petrochemical continue to rise into Q1 2020 to an average of 40% for clean accounts due to continuation of losses worldwide. Midstream rate increases are less severe, due to a more profitable loss ratio, but are still seeing rate increases of circa 20% for clean business. The market as a whole has seen USD3.6bn in loss advices versus approximately USD2bn in premium, with final loss amounts yet to be seen.
- There is appetite to write these classes, however terms and conditions are a major focus. Underwriters are pushing for deductible increases and requesting further understanding of the insureds maintenance programme in determining key risk factors. There is also a push to include a BI volatility clause for refining/petrochemicals and average clauses for oil and gas assets that haven't had recent valuations.
- Carriers are deploying smaller lines/capacity as underwriters are looking at profitability with a keen eye.

## Energy upstream

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- Upstream has been one of the best performing classes of business for the last couple of years due to benign loss activity in the sector. Having said that, underwriting margins have been significantly eroded due to the drop off in rate and industry activity. The record low premium levels make the market susceptible to a reactive shift if a catastrophic loss were to occur.
- There have been a number of control of well losses from across the globe and there is particular focus on that coverage.
- Due to the above dynamics, underwriters are seeking modest single figure rate increases across the book. We expect this trend to remain unchanged for 2020 despite heightened internal pressures to increase margins.

## Energy liability


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- The energy liability market is experiencing a range of changes that will impact insureds. In particular, continuing historical loss deterioration and the well documented issue of 'social inflation' has pushed many insurers' results into the red, with a particular impact on primary and first excess liability business. Most notably, increased frequency and severity of auto liability claims has meant that accounts with a large auto schedule are increasingly difficult to place. Key markets such as Liberty have either withdrawn from the class, or significantly restricted appetite, restricting available capacity for insureds and driving up pricing.
- In respect of higher excess business (above USD25m) there remains substantial available capacity, despite the closure of various Lloyd's syndicates such as Skuld, Standard, Acapella and Neon. Rates are hardening, but at a more modest rate than in primary lines with 5% being typical on a 'like for like' basis.
- Higher excess layers out of Bermuda are experiencing more significant rises due to an increased frequency of large casualty losses (not necessarily energy specific) that have led to a restriction of available limits - rate rises of 20%+ are common.

## Executive / management / transactional


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- The D&O market is seeing a genuine hardening, with rate increases of 20% to over 100% on clean renewals and excess factors hardening beyond the primary. FI/PE is not as hard but is also firming, with a rate increase in the 5% to 20% range and caution on breadth of coverage. R&W transactional remains stable on pricing and attachment – for US business, approximately 3% rate on line remains the market standard.
- All classes, types and attachments considered (other than cannabis) but within the new rating reality. IPO business will attract very, very high rates but can be done. Less appetite for cryptocurrency related exposure (none for E&O); California private company programs have to be unbundled with the individual lines placed separately; likewise on much FI business.
- Capacity has shrunk across both D&O and FI but is still sufficient for middle-market prospects that we see. R&W/transactional market capacity continues to grow.

## Healthcare

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- Rates are increasing within the space where London targets and elects to participate.
- There is increasing demand for long term care exposures within the London Market with the introduction of new markets in this space (notably Chaucer and Convex from 1/1). Allied appetite remains minimal given the domestic market's ability to satisfy demand at a rate which London views as unprofitable (except through MGA's). From a macro perspective, London remains a traditional surplus lines market, succeeding on risks where there is a complexity or complication which causes the domestic market to decline.
- From 1/1 there is an increased amount of capacity within the market. There are no foreseeable issues seen over the next 12 months with respect to capacity.

## Hull and machinery

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- An overall hardening market and consistent rate increases in 2019 are set to continue in 2020. Average market rise of 14% across all business for H2 2019 with no signs of rises slowing into H1 2020.
- Underwriters continue to 're-underwrite' their existing portfolios. Assisted by the impression of shrinking annual capacity, risks outside of the 'target appetite' are significantly less attractive than 2-3 years ago and each underwriter's rejection rate has dramatically increased. New Singleton and Doubleton accounts are likely only able to be placed under facilities, most of which have not been renewed within the market due to poor performance. Miller continues to maintain our facilities to service this business.
- Capacity has contracted significantly through the closure of many H&M underwriting teams and the reduction in annual capacity of remaining significant players, some of whom have seen their available capacity reduced up to 50% of the previous year. Insurers are split between taking up lines on business early in the year, predicting a plateau in rating midyear or withholding to take advantage of further rises as the market becomes distressed in H2 as a result of inequality in capacity deployment. There have been a number of instances in the market where 100% support has not been achievable at or near the leaders terms and current pressures have ensured final shares have only been secured at a significantly inflated premium. Clients and brokers need to ensure negotiation is started well in advance of renewal.

## Kidnap & ransom

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- There are no indications of the market hardening, with rates remaining largely flat and extremely competitive. It is yet to be seen whether the increased tensions in the Middle East and Gulf region will impact premium rates.
- The market appetite is broad and with carriers willing to consider any risks. That said, insurers are extremely focussed on cyber extortion because of the growth in ransomware attacks. Significant loss activity in the market is hardening the breadth of cover available for this peril. The positon varies from insurer to insurer with some carriers excluding the peril in its entirety while others restrict the scope and/or sub-limit specific elements of cover.
- There is no shortage of capacity.

## Marine and transportation (non-owned auto)

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- Rates in the Marine Liability market remain competitive on clean renewal business, underwriters are at 5 – 10% rise. There is an abundance of appetite and plenty of capacity for the year.
- In transportation liability, the market is still relatively new but pricing is becoming more consistent, the market remains competitive with the US domestic market and there is sufficient appetite. Clean renewals are seeing 5 – 10% rises aligned with the rest of the Marine liability market.
- Marine property rates are increasing at around 5% for non-CAT clean renewals and around 10% for CAT. There is little appetite in the market for private pleasure exposures, but for commercial marine exposures the market remains buoyant. New wins in 2019 demonstrated that the London Market is outperforming the domestic market on pricing.

## Power / utilities

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- Rates continue to increase for both power & utilities and renewables, with clean accounts seeing rises of circa 20% due to the continued increasing loss ratio of 2019.
- There is still appetite to write these classes, with the exception of coal, where capacity continues to contract worldwide due to pressure from activists and adherence to the Paris accord. Underwriters are pushing for increased deductibles due to the losses incurred in 2019.
- The renewable market has reduced substantially with the closure of various carriers, such as Pioneer and Hardy. Gcube have lost support from their binder and Chaucer have been acquired by China Re which will result in a further reduction of capacity. Capacity for thermal power has not been impacted to anything like the same extent.

## Product Recall

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- Rates are -5% to +5% depending on individual risk performance. Underwriters would like a rate increase of 5% across portfolios but this is difficult for them to achieve. From a new business perspective as a broker, the market is still competitive so reductions are available when approached correctly and marketed strategically.
- Breadth of policy cover meets more of our client's exposures than ever. The market covers multiple industries including (but not limited to); food and beverage, automotive components, pharmaceuticals, packaging, aviation warranty, supermarkets, restaurants/foodborne illness and consumer products.
- In the past six months Pembroke and Axis have exited the market for this class, but there have also been two new entrants in Fidelis (Perigon Product Recall) and HDI. Total market capacity is relatively stable at around USD400m/USD500m in total in London. There is a marked shift towards Quota Share deals utilising the subscription market for which Lloyd's is renowned. Large amounts of capacity (relative to recall markets maximum line sizes) can be aggregated quickly to the benefit of insureds.

## Professional E&O

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- Rates are holding - some markets are trying to get increased rates but it is resulting in some lost good business. Domestic markets are not trying to increase rates at this stage. Several domestic carriers have pulled out of the class but that is not having an impact on rates yet.
- Lots of appetite for this business with many underwriters requesting increased lines on renewals and new markets seeking opportunities to participate on our facilities.
- No known capacity issues.

## Property

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- The rating environment continues to harden for US property risks. The starting point for clean renewals is +10%-12%, with CAT exposed generally up 20%. Loss affected, CAT exposed can be anywhere from +25% dependent on quantum, risk profile and the amount of capacity required from our markets.
- The market is now very hard for certain specific classes such as habitational, food and all forms of recycling. For softer occupancies there is greater appetite, but only at the right terms and conditions. California wildfire exposed risks are increasingly hard to place in part due to increased use of wildfire modelling. As markets remain focussed on avoiding attrition it is increasingly difficult to achieve consensus pricing as well as terms and conditions, so split slip placements for both premium and terms and conditions are now standard procedure. Only those submissions with quality and plentiful risk information gain underwriters' attention.
- Whilst capacity is clearly available at the start of a new underwriting year, catastrophe aggregates are monitored on a rolling basis and controls remain strict for a class still firmly within the "Decile 10" which must be seen to make profit in 2020. The demise of Neon syndicate, an early 2020 casualty, will keep underwriters focussed on the right risk selection, at the best perceived terms and conditions available at time of placement.
- Company underwriters guard their capacity tightly, with terms and conditions subject to greater scrutiny as well as premium at the start of this year.

## Reverse flow / corporate retail

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- Rates for liability (EL/PL) renewals remain flat where claims have performed well. Appetite is still wide, although an increasing number of insurers are imposing higher minimum premiums for standalone EL. This is only affecting smaller companies, or organisations with a few employees for their UK operations. Markets who buck this trend, such as Aviva, are capitalising.
- Property Damage and Business Interruption (PDBI) rates are relatively stable. Detailed risk information is becoming more important, with any sub-standard protections driving up rates. There's less appetite without the information and capacity can be challenging for higher EMLs. As with EL/PL, there are benefits in packaging the PDBI with other lines.
- Generally, for other lines that are running well: motor insurers seek 5% rate increases; engineering inspection/insurance rates continue to increase in line with the CPI (dominated by Allianz/Zurich); personal accident & travel rates are flat (remains a competitive market).

## Terrorism

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- Rates continue to be flat, with rate reductions achieved if values increase but limits remain the same. We have facilities that accommodate risks so that underwriter minimum premium requirements are satisfied.
- Pricing for new risks is still very aggressive and is able to beat pricing for TRIA, particularly if TRIA is priced as a percentage of the all-risk costing and in a cat-exposed zone.
- Still huge appetite with underwriters increasing capacity in all territories and blast zones.
- We anticipate all risks underwriters looking to restrict Strikes, Riots & Civil Commotion (SRCC) coverages in light of recent global events (Chile/Hong Kong). This captivity can be taken up by the standalone Political Violence market.

## Yachts

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- Overall hardening market and consistent rate increases in 2019 are set to continue into 2020, along with re-underwriting of portfolios..
- Carriers preferred risk selection is currently more focused on European/Mediterranean trade, as capacity falls for wind exposed business on yacht values sub USD5m.
- Underwriters terms and conditions disciplined going into 2020 with greater emphasis on ship yard periods and tender towing.
- That being said, our yacht capabilities have continued to grow through 2019 with a key focus and success on vessels valued over USD5.25m. On value bands exceeding USD10m + in particular, we have many competitive market options and products.

## Our aim: To help you win and retain business.

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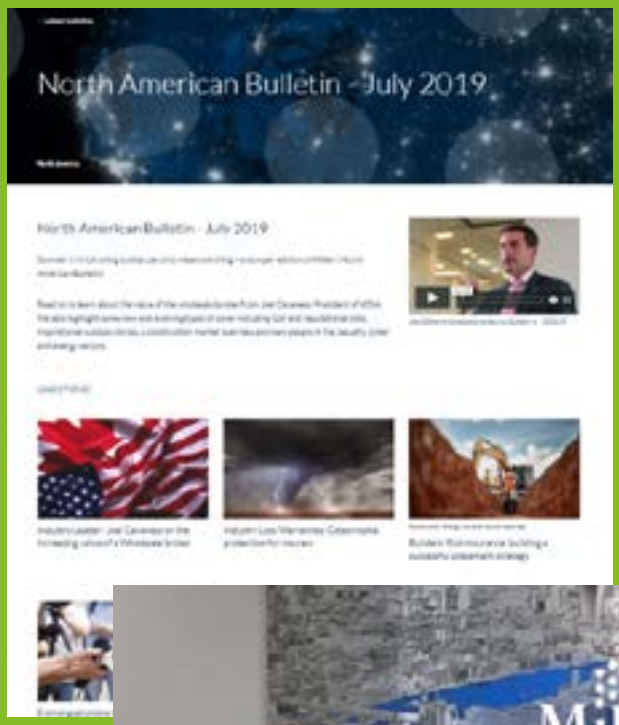


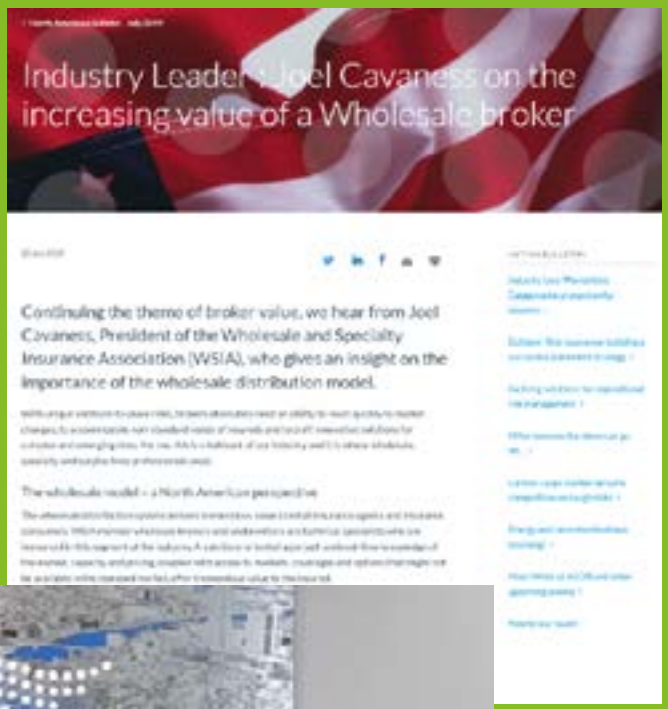


## About Miller

Since Miller was founded in 1902, we have gone from strength to strength because of our unwavering focus on delivering an exceptional standard of service to our clients.

We are known for doing the right thing, delivering on our promises and working as one team.

Today, we are a leading specialist (re)insurance broking partnership, headquartered in London with more than 650 people across our UK and international operations.

Miller is proud to hold Chartered Insurance Broker status, the industry gold standard awarded by the Chartered Insurance Institute (CII). This title demonstrates our professionalism, client focussed approach and commitment to excellent service standards.