London Market Update

July 2020

We have produced a class-by-class market update to help you navigate the current market conditions.

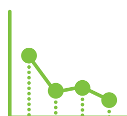
Numbers recently released by the Wholesale & Specialty Insurance Association (WSIA) show surplus lines premium is up by over 10% in H1 2020.

London clearly 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.

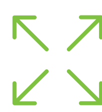
More capital is being raised in London both in the company market and syndicates. It will be selectively deployed. Lloyd's has a streamlined process for assessing and approving requests for increases in premium capacity that takes only 5 days from time of receipt of completed application.

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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- COVID continues to be a hot topic, with some reinsurers insisting on a full communicable disease exclusion.
- Select markets are thinking outside the box and looking at specific COVID products.
- Largely speaking capacity and rates remain stable although we are seeing a squeeze on commissions.

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 pricing. 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.
- Our facility is set up for a max limit of USD 50m any one risk.

Alternative risk

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- Hardening rates across traditional lines of business continues to drive the need for innovation. We are seeing increased demand for parametric solutions and have bound a number of deals in the last month. For example, we have restructured property all risk placements to help mitigate rate rises, utilising parametric capacity to fund larger client deductibles or alternatively taking certain Nat Cat exposures out of the property all risk schedule all together and into a parametric solution.
- Whilst carriers seek to capitalise on the rating environment for traditional lines, the large scale fundraising exercises taking place means there is plenty of capacity available to address new and emerging risks. The Lloyd's Product Innovation Facility, with a GBP 120m max line size, continues to bind new deals. Areas of focus include parametric covers, reputational risk, cryptocurrency, supply chain risk and non-physical damage business interruption.
- We are busy quoting epidemic risk insurance. Non-physical damage business interruption triggered by a future epidemic/pandemic has understandably led to many enquiries. We can accept submissions from the hospitality (including restaurants), retail and manufacturing sectors. Whilst there are currently limited carriers offering this coverage, we are working to bring more on line as an industry wide response is required.

Cargo and stock throughput

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- Rates are being pushed up across the board with certain areas such as retail STP and excess stock, or interests such as temperature sensitive goods, perishable goods and alcohol among the sectors seeing the biggest increases.
- There remains a broad appetite amongst Syndicates but it narrows for more challenging interests such as those industry verticals listed above. London is being more competitive on medium to large accounts with small accounts being penalised by minimum premium thresholds in the open market. Outside of facilities London is positioning for its open market play in excess of USD 100,000 gross premium for 100% on any account.
- There is an abundance of capacity in the London market with large excess policies still being placed. As mentioned above, underwriters are being selective on how they deploy capacity and pushing rate even on excess layers with high attachment points.
- Given the current pandemic, there is a huge increase in demand and supply for Personal Protective Equipment (PPE). Largely comprised of smaller value short-term contracts, a quick responding cargo and stock throughput insurance solution is needed.
- Miller has exclusive access to a Lloyd's backed facility for a USD10,000,000 limit specifically designed for this type of business, providing competitive pricing, flexible coverage options and fast turnarounds.

Construction

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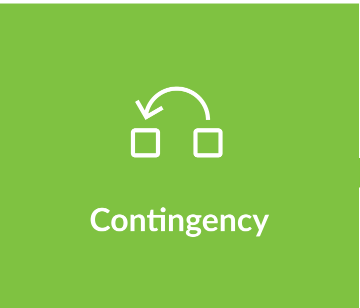
- Rate increases have remained steady and as predicted these are approximately 5-10% for standard risks. There has been some plateauing in rates, and it is anticipated this will continue as the year progresses. That being said, risks highly exposed to natural perils are seeing much higher rate increases as capacity is reduced. Rate rises are also still being seen in domestic markets as capacity reduces. Commissions and acquisition costs to underwriters are still high on the agenda to be reduced.
- Underwriters' appetite for risk remains broad and all types of risks are considered, however heavy civils, tunnelling and hydro projects are tougher to place. We are seeing an increased focus on the use of social impact reports from a number of key markets, which are implemented at a corporate level and can also effect underwriter's appetite.
- The capacity in London for well-presented risks remains strong, however underwriters in Lloyd's and Company markets remain extremely busy, having adapted to on-line trading well. High quality underwriting information and sufficient information is still crucial to get the best terms and most effective responses from underwriters.
- For more information, request our Contractors Plant & Equipment new facility product sheet.



Contingency

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- Following unprecedented losses due to Coronavirus, rates are increasing from anywhere between 25% 100%+ with distressed business seeing the most significant rises.
- We are starting to see the impact of Coronavirus losses with Markel and Pardus withdrawing from Contingency. However there are also new entrants with Fidelis and Convex opening Contingency accounts later in 2020.
- In general appetite is reducing with line sizes being carefully monitored and terms and conditions becoming more restrictive.
- Our own in-house binder has been successfully renewed.

Cyber

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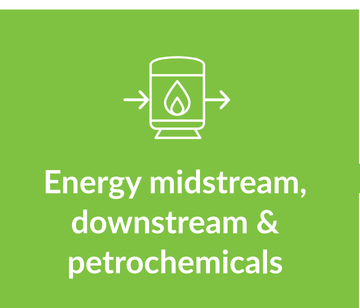
- Rates are beginning to harden, with 5% - 10% increases on clean renewal business commonplace. Following an increase in the frequency and severity of claims in the past 6 months, underwriters are pushing rate on distressed accounts. The Tech E&O market is hardening faster than standalone cyber. Markets remain competitive for new business as they look to maintain their market share.
- Appetites remain broad although some classes (e.g. manufacturing) are hardening faster than others. Greater underwriting information is being required, including how Business Continuity Plans have responded to Covid-19 and the increase in working from home. It is now crucial for an insured to provide full details on remote connection to the network, back-ups and ransomware prevention.
- Capacity has not been affected. Although underwriters are looking to manage line sizes, replacement capacity is still available.



Energy midstream, downstream & petrochemicals

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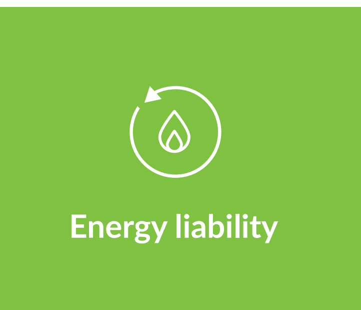
- Reduced appetite for Salt Water Disposal Wells, but otherwise good appetite for midstream. A focus on some types of compressor that have been having losses. Insurers are taking smaller shares particularly on refining risks.
- Rates are +15 to 20% for clean non cat exposed accounts in the midstream space and at least +40% for clean non cat exposed accounts with refining exposures; but more for accounts with current ratings below technical rates.
- There is reduced capacity with Hartford and Starstone both shutting their books.



Energy liability

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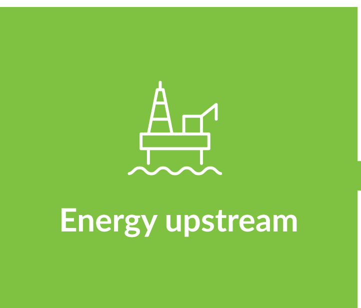
- With the withdrawal of Liberty and Aspen from primary and first excess energy liability there is limited available capacity in the London market for these risks. This scarcity of capacity, combined with a challenging claims environment, has resulted in rate rises often exceeding 30% on flat exposures. For more complex risks, notably accounts with heavy auto exposures or with active loss records much larger rate rises are being seen.
- The excess energy liability market place is also hardening. Carriers are generally looking to enforce minimum attachment points, with the 'intermediate' layers, from USD10m>USD25m, becoming challenging to complete and some carriers looking to move above USD50m>100m on accounts with larger auto fleets. That said, overall capacity remains relatively stable with the only notable recent market withdrawal being StarStone with the loss of USD25m of capacity. Typical rate rises range from 7.5%>12.5% on flat exposures, although underwriters are taking into account underlying exposure change which can help mitigate these rises.
- The Bermuda market faces different dynamics, with poor performance across the casualty portfolio resulting in carriers limiting their capacity on risks and pushing for significant rises. Typical rate rises are around 30%, although this varies depending on the perceived adequacy of the existing rating and loss experience. Many insureds are reviewing the level of excess limits purchased as they balance increased costs against coverage.



Energy upstream

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- The underwriting market has been supportive to E&P customers during the downturn of the oil price and renewal increases have been very modest despite little underwriting margin remaining in the upstream sector. Larger market share offshore accounts were renewed with modest rises to flat rating but the onshore property assets, especially midstream, have witnessed much more aggressive increases in rating. We have also seen signs of market hardening in specific areas such as the peril of lightning at salt water disposal locations, where Underwriters are requiring larger deductible and rate increases due to the significant losses within this area.
- Upstream has seen a spike in control of well losses within the last 12 months which are mostly attaching to the 2019 year and it seems inevitable that pressure for increased rating will continue in this line of cover.
- Market capacity remained stable with the exception of departures from StarStone and Arcus and the consolidation of Arch and Barbican syndicate lines.

Executive / management / transactional

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For North American FIDO:

- Continued hardening across all sectors of D&O – public and private; US domiciled or foreign.
- Rate increases from 15% to over 100%.
- Reduced appetite and capacity for Oil & Gas, Pharma and any industry acutely effected by the Pandemic.
- FI also hardening although not to the extent of D&O yet. For both lines market appetite for new business is strictly core and extensions are hard to achieve with tough conditions applied with coverage pared back.
- Transactional risk remains steady although a lot of DD required to avoid pandemic related exclusions.

Healthcare

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- The current market state is hard, only relevant on risks where domestic options exhausted.
- Blanket application of Covid-19 exclusion on all risks moving forward (including renewals). Appetite is conservative and opportunistic.
- No change in capacity – it is available where it makes sense.

Hull and machinery

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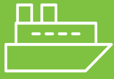
- Rates continue to increase, with most accounts seeing between a 7.5% and 15% premium rise on clean business. Underwriters are using the hardening market to differentiate between owners and operators with poorly performing accounts being hit hardest by increases.
- Whilst there was a trend of reducing capacity in the market into the first quarter of 2020, this has been somewhat offset by a number of new entrants and some current markets undergoing additional funding seeking to take advantage of certain areas of hardening rates.
- Where some existing carriers have had their capacity reduced this has in turn changed the appetite. Many insurers have taken 2020 to “re-underwrite” their portfolios and this process has continued throughout the disruption of Covid-19. The placement of niche and specialist risks is becoming increasingly more difficult.



Marine and transportation

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- Appetite remains buoyant in the Marine and Transportation liability markets in London. There has been one syndicate who has exited Lloyds, being StarStone who have closed their London syndicate and other operations.
- Although there is a substantial capacity the market has been hardening over the last 18-24 months, with rate rises across the board starting at 10% for flat exposures and clean business. For accounts which have suffered losses and excess accounts which were previously rated at minimum premiums rises are in excess of 10%. Further to this, umbrella/ bumbershoot accounts which have significant auto exposure are seeing large rises and reduced capacity.
- Appetite remains strong for marine property business such as jetties, piers and docks.

Media Liability

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- Rates are generally flat. As some domestic carriers look to manage line sizes on underperforming accounts the market may start to harden. Excess layers are matching underlying rate increases particularly on previously under-priced layers.
- Appetites remain broad for most Media E&O classes, particularly marketing, publishers, broadcasters, film and TV producers and multimedia organisations. Cover for music publishers and artists remains challenging.
- No known changes to capacity.
- For further information, request our latest product sheet for more information and recent successes.

Power utility and renewable energy

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- Rates are +20% for clean non cat exposed accounts.
- Minimum premium thresholds are punitive for small accounts. Focus on out of warranty equipment being mitigated by deductible increases. In renewables a retraction of appetite to just wind and solar; and increased scrutiny on natural perils, especially hail for solar.
- There is reduced capacity with Hartford and Starstone both shutting their books. Significantly reduced capacity for coal. Sompo have started a renewable energy book.

Product recall

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- Rates are generally flat to +5% on renewals depending on individual risk performance. Underwriters would like a rate increase of 5% across portfolios but pressure from new market entrants is making this difficult to achieve. The market is still competitive so reductions are available when approached correctly and marketed strategically. This is especially prevalent when new buyers of this specialist cover come to the market for the first time and price is a key dynamic. The market remains very competitive for new business opportunities.
- 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 Fidelis (Perigon Product Recall) and HDI have worked hard in creating competition in the market place as they build their portfolio's. 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 (architects and engineers)

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- Rates are steady – there has been a slight hardening but nothing dramatic and we are waiting to see what happens in the US market.
- There is plenty of appetite from our Lloyd's markets for this class.
- There is also plenty of capacity still, although some syndicates are beginning to reduce primary limit sizes which requires us to seek excess which is currently not an issue to find.

Property

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- The rating environment continues to harden for US property risks. The starting point for clean renewals is +15% - 20%. Loss affected, CAT exposed can be anywhere from +25% - 50% dependent on quantum, risk profile and the amount of capacity required from our markets.
- As is now known, Lloyd's markets collectively did not return a profit for the 2019 year of account and so the ongoing focus on terms and conditions as well as price continues. Split slip placements for both premium and terms and conditions are well established as part of the "new normal" operating practice.
- Only those submissions with quality and plentiful risk information gain underwriters' attention. Despite the ongoing lockdown new business submissions are continuing to make their way to London with most markets having adapted well to entirely electronic placing.

Reverse flow / corporate retail (UK)

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- 5-10% rate increases are being applied to Liability (EL/GL) and Motor (Auto) renewals, although rate reductions have been secured on well-managed risks with good claims experiences. +10% rate increases are being applied on Property renewals. We are also seeing some exponential rate increases on high-risk mid-market placements, despite claims performing well and broad re-marketing taking place.
- For Property, Long Term Agreement options are less freely available and capacity to write new business with heavier trades is reduced and/or declined entirely, due to trade/COPE information, regardless of premium income. There is appetite amongst insurers to write well managed EL and PL risk and markets are becoming much more selective on new business.
- Restrictions on capacity has led to a greater need for more technical broking and improvisation. There is limited capacity on Property, especially where risk criteria is not met.

Terrorism

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- Rates continue to be flat, with rate reductions achieved if values increase but limit remains 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 it is priced as a percentage of the All Risks price.
- Still huge appetite with underwriters increasing capacity in all territories and blast zones.
- We would predict a definite uplift in capacity requirements with the impending TRIA expiration set for 31st December 2020.
- We anticipate All Risks underwriters looking to restrict Strikes Riots Civil Commotion SRCC coverages in light of recent global events (US Riots, Chile, Hong Kong). This capacity can be taken up by the standalone Political Violence market.

Yachts

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- Rates are continuing to harden due to several fire losses in past 12 months, no renewals are being offered on an as before basis or with reductions.
- There is little to no appetite for wind exposed yachts under USD10m in value. Insurers are targeting Superyacht business, fully crewed, professionally managed and classed vessels. We have a great success rate and market access / products on larger yachts.
- Little / no capacity for wind exposed pleasure craft in USA. Capacity risks (values USD200m +) are still being placed in London and overseas markets.

Our aim: To help you win and retain business.

Contact our people using:
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North American Bulletin - July 2019

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Summer is in full swing so that can only mean one thing – a bumper edition of Miller's North American Bulletin!

LEAD STORIES

Industry Leader : Joel Cavaness on the increasing value of a Wholesale broker

Industry Loss Warranties: Catastrophe protection for insurers

Builders' Risk Insurance: building a successful placement strategy

Industry Leader : Joel Cavaness on the increasing value of a Wholesale broker

Continuing the theme of broker value, we hear from Joel Cavaness, President of the Wholesale and Specialty Insurance Association (WSIA), who gives an insight on the importance of the wholesale distribution model.

The wholesale model – a North American perspective

IN THIS BULLETIN

Industry Loss Warranties: Catastrophe protection for insurers

Builders' Risk Insurance: building a successful placement strategy

Evolving solutions for reputational risk management

Miller ensures the show can go on...

London cargo market remains competitive on tough risks

Energy and terrorism business booming!

Meet Miller at AEGIS and other upcoming events

New to our team!

About Miller

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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.

We are Chartered Insurance Brokers, publicly committed to a customer-first approach and values that align with a professional Code of Ethics. We'll provide solutions relevant to your needs, maintaining our knowledge through qualifications and ongoing professional development.

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