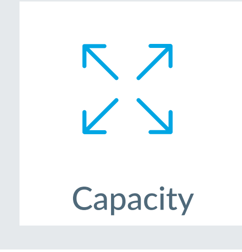
London Market Update

Following Lloyd's H1 results – September 2019

Market and Broker dislocation in London and North America is creating opportunities.

In these interesting times with Lloyd's H1 results, the Future at Lloyd's proposals and innovation drives taking centre stage, we have produced a class-by-class market update to help you cut through the noise.

We bring you the latest on:



Contents

Accident & health	3
Active assailant	3
Captives + special lines (sharing economy, reputational risk)	3
Cargo and stock throughput	4
Casualty	4
Construction	4
Contingency	5
Cyber	5
Energy midstream, downstream & petrochemicals	6
Energy upstream	6
Executive / management / transactional	6
Healthcare (long term care)	7
K&R (extortion, repatriation, threat etc)	7
Marine and transportation	7
Power / utilities	8
Product recall	8
Professional E&O	8
Property	9
Reverse flow / corporate retail	9
Terrorism	9

Accident & health

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- In general, rates are flat on 2018, except for certain sub-classes such as sports disability and contractual performance indemnity risks. The biggest rate increases have been associated with sports disability. There are very few rate reductions.
- Still strong appetite for A&H business across the London market. Medical, sports and CPI has less appetite but still a vast amount of business being written by both syndicates and the Company Market.
- Numerous markets have withdrawn from A&H, but there is still significant capacity. Sports disability (loss of value and temporary total disablement), CPI and medical placements are the only sub-classes that are seeing restricted capacity.

Active assailant

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- A relatively new market experiencing almost its first renewal cycle taking place. Pricing is proving attractive and many more accounts are binding having initially priced and now with budgets to spend.
- USD 50m is available under a quick turnaround facility and much more capacity is available on an open market basis.
- From casinos & hotels to healthcare & municipalities, underwriters are entertaining all sectors with specialist wordings developing to cater for exposures unique to each.

Captives + special lines (sharing economy, reputation risk)

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- A hardening market is driving 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.
- 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 24 syndicates, the facility now has GBP100mn 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.

Cargo and stock throughput

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- Minimum Premiums – underwriters are being strict on minimum premiums. Typically USD 10,000 net for their line.
- Narrowing appetite – we are seeing interests such as food, wine, lumber, temperature sensitive goods being extremely difficult to place as underwriters are being very selective on what they write.
- Reduced capacity – overall market capacity has shrunk considerably, whether that is through carriers leaving cargo entirely of just cutting their income. This is now becoming a real problem as underwriters have obtained much higher increases than they originally anticipated.
- Lineslips – underwriters are still pulling away from delegated authority as they want to control their income. Some markets have looked to capitalize on this with Ascot and Beazley creating a consortium (A2B), Chubb proving a 100% solution for SME.
- Rates are continuing to rise and with further reduction in income this is only going to increase further.

Casualty

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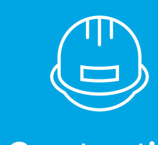
- For renewal business, markets are seeking anywhere from 5-8% on rate whereas 'new new' to the London Market tends to see higher increases than they were experiencing in the domestic market, as underwriters target their technical prices. Long-term insureds placed in the London Market may see a flat rate above a certain attachment threshold, however this would typically be north of USD100M and very dependent on underlying and exposure information.
- The London Market continues to have appetite and be the market leader for some of the long-term harder industry types, such as NY Construction, CA Wildfire and / or large auto fleet exposures, however more and more mechanisms are being brought into play to manage the markets downside should incurred losses reach higher levels than expected at inception. Given the shift in appetite in the US, London is also seeing increased middle market opportunities, which are being bound across industry types. Analytics to model and determine loss picks are becoming increasingly important.
- Swiss Re have pulled out of the US GL marketplace, along with Liberty London closing part of their operation which focused on the mid excess space. Convex is highly awaited given the experienced line up of personnel from the London marketplace along with the newly formed Ascot Bermuda team which will further bolster additional US GL Capacity.



Construction

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- Rates still increasing but not at the same speed as earlier in the year. Rates are now 30% to 50% higher for EAR and 50% to 100% higher on CAR than 12 months ago. We would expect some plateauing in the New Year.
- Underwriters still have a broad appetite for risks, however heavy civils and tunnelling are more difficult to place and there is little appetite for frame construction. Small risks are more challenging to place due to underwriters requiring minimum premium for their participation. 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 has shrunk in Lloyd's since the beginning of the year with numerous syndicates withdrawing. The remaining underwriters including company market are busier than ever and are selecting risks to participate on, based on perceived risk quality.

Contingency

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- Rates are continuing to rise, especially for outdoor festivals and non-appearance risks. Indoor cancellation risks and major events (i.e. the Olympics) are the only sub-classes seeing renewal terms as expiry.
- The London Market is slightly fractured and it is difficult to get consistent appetite. Most risks will be quoted, but getting lead terms supported can be troublesome, especially on larger risks where the entire market is needed.
- The market continues to restrict its exposure on outdoor events (such as festivals) and rock and pop non-appearance. Capacity is abundant for indoor cancellation risks and major events.

Cyber

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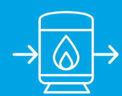
- Rates are flat for renewal business and competitive for new business, meaning we can usually achieve whatever rate is required to put ourselves in with a chance of winning new business. The market remains soft and has been so for a few years.
- Appetite has not changed recently and there remains broad appeal for just about any cyber class you can mention. Media (advertising) heavy risks and small payment processors are a challenge. There are not many classes for which we cannot find a home (adult entertainment / adult content being an example where we have no market).
- If anything, capacity continues to grow. Capacity in London alone probably exceeds USD300m for the right risk. Property damage caused by a cyber event is a growing market, partially as a result of the property markets excluding losses caused by a cyber event.



Energy midstream, downstream & petrochemicals

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- Rates for downstream / petrochemical are up at least 20% on clean renewals; midstream rate increases are less severe but still positively mitigated by the participation of upstream energy markets.
- There is appetite to write these classes but there is a bigger focus on adequate deductibles and up to date risk engineering.
- Carriers are putting out smaller lines as Lloyd's syndicates in particular are reaching their Gross Written Premium capacity ceilings due to the higher than expected rate increases.

Energy upstream

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- Underwriting profits have remained favourable for carriers in the absence of any major losses or natural catastrophes affecting the upstream sector of energy.
- Capacity remains over supplied despite very modest withdrawals and line structure modifications.
- Eroded margins across other areas in energy have encouraged requests for modest single digit rises over 2019 for upstream.
- We expect this trend to remain unchanged for 2020 despite heightened internal pressures to reduce acquisition costs at Lloyd's.

Executive / management / transactional

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- The D&O marketing 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 (long term care)

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- Rates are increasing given the greater demand for London capacity – all driven by the long-term care exposure demand.
- London is struggling on small, medium sized allied health and medical malpractice given losses – only two markets available on the open market. There have been recent loss driven withdrawals (e.g. SwissRe, Pioneer). London focus of appetite remains in the hospital space plus huge increase in demand within long term care. Domestic markets are being burned given their rate decreases with significant non-renewals increasing the submissions making it over to Lloyd's.
- Capacity is not a huge concern - multiple Lloyd's syndicates who have consistently performed were allowed to keep writing (mainly Chubb / Coverys). We are also seeing new markets entering the space in regards to supporting capacity. The limiting factor is appetite (London remains cautious) rather than capacity.

K&R (extortion, repatriation, threat etc)

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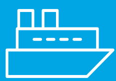
- There are no indications of the market hardening, with rates remaining largely flat and extremely competitive.
- The market appetite is broad and strong with carriers willing to consider any risks. That said, insurers are extremely focussed on cyber extortion because of the growth in ransomware attacks. The position 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; the total available having been increased following the entry of Brit into the market on 1 January 2019.



Marine and transportation

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- Rates in the marine liability market remain competitive on clean renewal business. Underwriters are at 0 – 5% rate rise. There is an abundance of appetite and plenty of capacity remaining for the remainder of the year.
- In transportation liability, the market is relatively new and still finding the correct pricing point, however, the market remains competitive with the US domestic market and there is sufficient appetite.
- 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 the last six weeks had London all outperforming the domestic market on pricing (read more in our North American Bulletin article).

Power / utilities

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- Rates in thermal power are up 15% for clean accounts; renewable energy is around 10% on clean accounts.
- There is still appetite to write thermal power, other than coal where the European company markets have retracted. For renewables there is a big focus on adequate deductibles for out of warranty US wind.
- Axis have recently withdrawn from thermal power, but there remains capacity available through a number of carriers. Renewable energy capacity continues to increase as the market matures away from MGAs to a subscription market.

Product recall

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- Flat to +5% rate increases. Underwriters would like 10% but struggle to achieve this. Attacking domestic incumbent business, the market is still very aggressive so reductions are happening on the right risks.
- Appetite is at its broadest in history, ranging from food and drink contamination to automotive parts recall, foodborne illness, consumer goods recall, aviation component recall, pharmaceutical contamination, and supermarkets recall / contamination.
- Two recent exits from the market – Pembroke and Axis. But also two new entrants in Fidelis and HDI. Total market capacity is relatively stable at around USD400 / 500m in total in London but maximum lines are rarely deployed. Slight move towards Q / S deals more so than 100% lines but this market is dominated by two or three of the 12 players and as such competition is fierce on risks which are seen as flagship accounts with good loss records.

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.
- Lots of appetite for this business with many underwriters requesting increased lines on renewals and others seeking opportunities to participate
- 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%, with cat exposed generally up 15%. Loss affected, CAT exposed can be anywhere from +25% dependent on quantum, and the amount of capacity required.
- The market is 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. As markets remain focussed on avoiding attrition it is harder to gain consensus, so split policies is increasingly common.
- Capacity is available for the remainder of 2019, as many syndicates have negotiated increased premium income limits, however capacity is only being deployed to those accounts that present the best information, pricing and retention levels.

Reverse flow / corporate retail

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- Insurers continue to request small rate increases (5%) on motor whereas liability (EL / PL) renewals tend to be invited flat (dependant on loss ratios). Personal accident / travel is flat and engineering inspection / insurance is in line with CPI.
- ELPL (very competitive for well running risks), motor (restricted markets and usually combined with liability proposition), property (competitive for offices / hotels but less so manufacturing), PA / travel (existing markets + new entrants make this particular class highly competitive), engineering inspection / insurance being dominated by Allianz / Zurich.
- Capacity is available for most risks. Larger TIV's on property can be challenging.

Terrorism

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- Rates continue to be flat. Underwriters are prepared to offer flat premiums on increased values, and rates are still very low.
- Continued huge hunger for business with markets increasing capacities and aggregates.
- As much capacity available as is needed - USD1bn easily achievable at a competitive rate, however considerably larger limits available if required.
- In New York and Toronto capacity is tight, but underwriters ability to very accurately aggregate risk means it can be more specifically rated, therefore potentially broadening the scope of cover in high aggregate zones.

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