



Property Damage/Business Interruption: The development of a three tiered market

Introduction: capacity and general trends

Current estimates put global insurance market capacity for Mining at around US\$1.25 billion per risk. However, the extent to which this can be achieved depends on various factors, including but not limited to retentions/deductibles, industry sub-sector (e.g. thermal coal), inherent risk exposure (e.g. Nat Cat, underground operations, tailings) and risk management.

In the last 12 months there have been no major specialist mining market withdrawals or entrants, so capacity remains broadly stable. Nevertheless, we have seen a retrenchment of capacity in Scandinavia at January 1 where general property insurers, who had been writing a mining book supported by facultative or treaty reinsurance, have seen their books heavily impacted by loss activity. The expectation is that a similar situation may develop elsewhere in the world, with management at these insurers effectively reining in their general property underwriters to re-focus on core property risks. However, we are aware that a new insurer will be entering the London market at around the Half Year point, having hired a technical mining underwriter.

Many Lloyd's syndicates have expanded their business plans — these insurers are looking to capitalise on so deemed 'adequately' priced business in 2022 by setting their sights on further growth in 2023. This approach has also been taken by some specialist mining insurers who have looked to cautiously "open their shoulders" of late.

ESG remains a priority for a number of insurers, with some now taking a much closer look at the human/loss of life element into pre-underwriting considerations.

There has been a notable flight to quality — underwriters are looking to deploy disproportionately more capacity on the best business, and not wanting to miss out on this comparatively straightforward means to grow the top line.

Following the challenging January 1 treaty/reinsurance renewals our initial expectation of underwriter appetite going into Q1 2023 was one of extreme caution. We felt that the outlook in January for 2023 was very uncertain and that the increased costs borne by insurers of funding their reinsurances may be felt at upcoming mining placements in the following ways:

- Potentially reduced excess layer capacity, as direct insurers look to concentrate capacity in the lower layers of programmes to fund their own retentions.
- Increased focus on capital costs and in turn pricing/rate, which may necessitate re-structuring of programmes.
- Arbitrary rate increases across the market, to test what is achievable.

These initial expectations were tested at the recent Q1 renewals, where effectively a three tier market has further developed. For the best-in-class risks (Tier 1) there is still healthy competition, with perceptibly minimal reinsurance costs being passed to buyers. We discuss the three tiers in more detail later in this article.

Losses

The current estimate of total incurred mining losses in 2022 is over US\$1 billion. As these claims develop, the expectation is that the reserves should reduce; however, currently this suggests an almost 100% loss ratio, at best, based on estimated 2022 mining premium income.

Recent major losses related to structural integrity, such as conveyor collapse, has focussed underwriter attention on detailed and accurate reporting of information in this regard. Certain specialist insurers have prepared questionnaires for clients which address the main concerns; nevertheless, many of these should be picked up through any reputable risk engineering programme. Buyers unable to provide sufficient and satisfactory information regarding risk prevention/mitigation etc. may see onerous terms imposed and/or reductions in coverage.

Profitability

As mentioned earlier, global mining premium in 2022 is expected to equate broadly to incurred losses for the year, resulting in a break-even position. 2021 was more profitable for the global mining insurance market, with Incurred Ratios (net written premium versus paid and outstanding claims) estimated to be in the order of 35%-45%.

While the COVID-19/Business Interruption claims in the South African market have now broadly been settled, the Durban riots and floods in 2022 have impacted profitability. The cost of reinsurance (both treaty and facultative) has increased for South African insurers, affecting pricing for ultimate buyers.

Some of the specialist mining insurers have avoided the largest claims of 2022 and are in a solidly profitable position for 2022. However, there is a reluctance to diverge from the market in terms of rating, with these insurers re-emphasising their measured approach to the market cycle — the usual message of long-term stability from those specialist insurers.

Terms & Conditions

Broadly, coverage for key mining specific contingencies remains available and well understood. However, a handful of recent trends have emerged as summarised below.

Insurers are seeking to impose Average/Co-insurance/Values Limitation provisions where buyers have been unable to provide recent independent asset valuations or have simply undertaken an indexing exercise. In some cases, insurers have arbitrarily inflated their premiums to reflect perceived underinsurance. So buyers are receiving a 'double hit' — both pricing and claims recoveries are under pressure. Accurate and up to date professional assets valuations are therefore more important than ever to miners.

The recent insurer trend to impose BI volatility clauses (at 110%) has continued, even on programmes where a commodity price cap already forms part of the policy. Whereas commodity price caps address only the revenue component of a BI loss, volatility clauses provide a mechanism to allow for costs/cost inflation to be included within the BI loss calculation. This trend is therefore not necessarily bad for buyers, but the 110% margin is generally less than those currently achievable under a price cap provision, and the wording is geared more to the Energy market.

As a result of the worsening issues of electricity supply (particularly in relation to South Africa), certain insurers have prepared 'Grid Failure' clauses and are seeking to apply these arbitrarily, for example on South African business. The interplay between such clauses and any Utilities etc. extensions requires careful consideration.

The latest Munich Re Tailings Storage Facility (TSF) clause is generally well understood and generally accepted across the market by both insureds and insurers; however, it is not appropriate in every instance and requires careful consideration by broker and insured when viewed against each insured's facilities. Ultimately, a degree of standardisation of this cover provides clarity to all parties and increases market confidence in the risk. It speaks to the flight to quality and should enable the market to sustainably provide coverage for TSFs in the coming years.

Increased insurer focus on excluding/limiting Strikes, Riots & Civil Commotion (SRCC) type coverages within Asset policy wordings because of the war in Ukraine and 1/1 treaty renewals means buyers need to decide whether they require stand-alone/DIC protection for these perils.



Today's rating environment

Given the relatively stable supply of capacity, and insurers competing to maintain shares on the best-performing programmes, it has recently been possible to exploit the competitive environment to deliver clients flat to reduced composite rates.

Technical/specialist mining insurers are taking a measured approach to pricing risks individually, based on the entirety of their exposure and long-term relationships. However, the more transactional insurers and certain Lloyd's insurers are seeking to apply a broad-brush approach to rate recovery.

As already mentioned, our outlook at the turn of the year was one of concern; now, with the benefit of hindsight from recent Q1 placements, we have a clearer picture of the current rating environment, as summarised below.

Tier One

Tier One can be defined as best-in-class programmes with:

- Exceptional loss records
- Exceptional risk management
- Long-standing positive market relations and an openness to engage proactively with the insurance value chain
- Significant scale/premium volume
- Perceived low risk (i.e. Deductibles/retentions, catastrophe exposure)

Such programmes have seen positive results from the most recent renewals as underwriters have looked to offer their maximum capacities, thereby exacerbating competition and signing issues. In turn, it has been possible to limit the extent of arbitrary rate increases as well as amendments to coverage.

Rate movements have ranged from slight reductions up to +5%; however, specific to the South African local market these Tier 1 risks have been subject to a +5% to +10% rate change.

//

Now, with the benefit of hindsight from recent Q1 placements, we have a clearer picture of the current rating environment.

//

Tier Two

Tier Two can be defined as those renewal programmes which:

- Have a good loss record
- Demonstrate a professional approach to risk management
- Have strong relationships with insurers
- May have significant scale but equally could be junior or mid-tier miners

Such risks have seen underwriters continue to push for rate increases in the +5% to +10% range (the same range applying to South African insurers). However it has been possible to secure flat rate renewals in some cases — to do so has required some or a combination of the following:

- Prolonged negotiations with insurers (2 or 3 additional “bites at the cherry”) and additional interaction with the insured
- Exceptional presentation of the risk (information etc.)
- Re-layering or re-structuring
- A flexible marketing strategy and willingness to look again at the value of long-term insured/insurer relationships

Tier Three

Tier Three risks, defined as those risks that may fall into some or all of the following categories:

- Thermal coal (i.e. where revenue is primarily derived from thermal coal)
- Poor loss record
- Below average risk management
- Heavily catastrophe exposed
- New to the market

The rating environment for such risks can vary substantially; insurers have been focussing on quality almost above all. For non-thermal coal programmes, rate rises have started at around +15%, although this figure could be reduced depending on similar factors to those mentioned in Tier Two. However, for thermal coal programmes rate increases of +20% or more are commonplace and have resulted in buyers increasingly adopting a self-insurance strategy.

The involvement of non-specialist mining insurers for either capacity/limits, or as facultative reinsurance, can have a significant impact on the end result from a rating and/or terms/ conditions/exclusions perspective. These insurers are demonstrating a less nuanced and more arbitrary approach to rate and, on occasion, an unwillingness to entertain negotiations.

Programme design considerations

It can be seen from the above analysis that there is currently a mixture of different underwriting philosophies on display, so it is important that a judicious blend of these differing positions is achieved in order to generate optimum results.

Impact of commodity portfolio

Underlying all of the above is the extent to which any given mining company's commodity portfolio impacts the overall insurance rate change (for those clients insuring Gross Profit/Revenue). Commodity prices are generally strong and in some cases have been oscillating at peak levels for an extended period. This impacts Business Interruption projections and therefore can have a disproportionate effect on the composite rate, so the above analysis should be taken only as a guide.

Moving between tiers

It is important to note that, even during a renewal process, risks can move between the tiers, either in a downward or upward direction. For example, the flight to quality has resulted in an even greater level of underwriter scrutiny/due diligence/technical information requests. Brokers need to understand and communicate these to their clients timeously, both prior to preparation of renewal submission and over the course of a renewal, working in partnership with both insurer and client.

Some information requests are occasionally unnecessary. Where this is the case, clients need their broker to contest and negotiate with insurers rather than burden them with piecemeal requests. If all avenues have been pursued and valid insurer concerns cannot be resolved, it is foreseeable that a Tier 1 risk could move to Tier 2, and so on. Conversely, with a well-formulated renewal/placement strategy and proactivity on the part of both the buyer and their broker, a Tier 3 risk could move to Tier 2, and so on.

This is why it is essential that renewal processes start early, allowing enough time for potentially several rounds of negotiations.

Key concerns

As always, the following key concerns persist among the specialist mining insurers, but are perhaps heightened in the current environment as some non-specialist insurers take a more considered approach:

- Adherence to recommendations
- Equipment monitoring, maintenance and testing
- Critical spares and sparing policy (e.g. gears, transformers, motors etc.)
- Tailings design, construction, management etc.



Conclusion: the outlook for 2023

In conclusion, the macro factors at play have a bearing on the expectation for the year ahead. With the major composite insurers' Combined Ratios currently broadly positive, and capacity mainly unchanged, we believe that the rating environment for the rest of 2023 will remain comparatively stable, assuming a benign global mining loss experience.

Furthermore, inflationary forces and commodity price strength will underpin increases in premium volumes which in turn may also have a limiting factor on rate growth.

Nevertheless, with many insurers needing to fund increased reinsurance costs we may still see continued upwards rating pressure from certain corners of the market. For example, this may result in Lloyd's insurers achieving their business/revenue plans earlier in the year than expected; this could further deteriorate the rating environment, as these insurers limit their capacity to the 'best-priced' business.

So our outlook is one of cautious optimism, but it is imperative that buyers and their brokers are well-prepared for any potential bumps in the road.



William Fremlin-Key is Global Head of Mining, Natural Resources Global Line of Business, WTW.
william.fremlin-key@wtwco.com