



GLOBAL FINEX - FINANCIAL INSTITUTIONS

The State of the Market – June 2023 Banking Market Update

Financial Lines Insurance Global Market Overview
and Notable Trends



This update analyses our observations of the current market conditions for Banks and is based on our existing clients. It is not a review of the whole market. All rate changes are for guidance only and vary depending on risk profile and individual circumstances.

Banks – All Financial Lines

Market conditions and notable risk trends - Great Britain



Rate Predictions

	Trend	Range
Crime:	▼	-15% to -25%
Professional Indemnity:	▼	-10% to -15%
Directors' and Officers':	▼	-10% to -20%
Fiduciary (PTL):	▼	-5% to +5%
Cyber	▼	-10% to -20%

Market Volatility

Premium 	For good clean risks (with minimal claims activity) , we are continuing to see healthy reductions in rates across the banking sector.
Markets 	Insurers have aggressive growth targets which coupled with new capacity entering the market, is helping to drive premiums downwards.
Retentions 	Stable

Risk Trends – Snapshot

(see a more detailed overview in this presentation)

Regulatory & Conduct 	The magnitude of changing rule sets including the Edinburgh Reforms and a raft of new regulations around ESG require huge resource to stay current, avoid fines and maintain customer confidence. https://www.gov.uk/government/collections/financial-services-the-edinburgh-reforms
Cyber 	The threat of sophisticated criminal and state sponsored Cyber attacks, IT upgrades and digital transformation mean that Cyber and operational resilience continue to be a huge focus for Banks.
Climate Risk & ESG 	This is a multi dimensional risk for Banks which has to be addressed in terms of global regulatory compliance, the exposure of portfolios to physical and transition risk, in addition to liability risks.
Theft & Fraud 	Macro economic issues leading to high energy and food costs is expected to correlate with an increase in fraud activity. Ransomware attacks, crypto heists and the continuing hybrid working model all add to this growing risk.
Bank Failures and Loss of Confidence 	Market volatility arising from the collapse of SVB, Signature Bank, Silvergate Bank and shortly thereafter, First Republic Bank and the purchase of Credit Suisse by UBS.

Banks – All Financial Lines

Market conditions and notable risk trends - North America



Rate Predictions

	Trend	Range
Crime:	↔	Flat to +2.5%
Bankers' Professional Indemnity:	↔	Flat to +5%
Directors' and Officers':	▼	-10% to Flat
Fiduciary (PTL):	▼	-15% to +20%
Cyber	↔	Flat to +10%
EPL	↔	Flat to +10%

Market Volatility

Premium



While Bankers Professional Liability (BPL) continues to be a more challenging line of coverage, rates have stabilized. Rate increases have moderated and are flattening.

Markets



Insurers have aggressive growth targets which, coupled with new capacity entering the market, is generating competition, particularly on excess. Primary capacity for large banks continues to be limited, however, there are some insurers who are aggressively pursuing primary and low excess.

Retentions



Retentions vary based on size and scope of the bank. For banks with assets >\$100B, insurers often seek a minimum BPL retention of \$10M - \$15M. For banks with assets between \$50B to \$100B, insurers often seek a \$5M BPL retention.

Risk Trends – Snapshot

(see a more detailed overview in this presentation)

Economic Outlook



Inflation persists and the probability of a recession has increased with the potential pull back in credit from banks. Insurers want to know how banks are monitoring and managing deposits and portfolios and preparing for a tougher economic environment.

Cyber



Cyber threats continue to be a top risk for banks. New technology and innovation and more interconnectedness lead to increased cyber risk and regulators are keeping a close eye. Failure to adhere to regulatory guidelines surrounding protection and treatment of private information, breach notice and disclosure requirements is leading to more fines and penalties assessed against financial institutions.

Climate Risk & ESG



Policies for sustainability are driving attention. Some state Attorney Generals (AG's) have brought actions against the six largest banks involved in the UN Net-Zero Banking Alliance for potential violations of consumer protection laws and allege that such policies undermine lending and investments in the oil and gas and other fossil fuel industries. The Federal Reserve will be conducting pilot climate scenario analysis tests on the six largest US banks focusing on physical and transition risks. Regulators are focused on the need to manage climate-related financial risk.

Banking System Turmoil



Failures of Silicon Valley Bank and Signature Bank sent shockwaves through the global banking system resulting in stressed financial markets, pressure on regional banks, claims against the failed banks and the possibility of claims against other entities which have suffered setbacks as an indirect result. Banks face liquidity risk and deposit and duration risk. Key potential exposures to entities affected or potentially affected are likely to be bankruptcy, securities fraud class actions, Federal Deposit Insurance Corporation (FDIC) and creditor claims, and government investigations. The events may result in increased regulation and stress testing of mid-sized banks.

Banking Industry Trends

Risk Trends – Regulatory & Conduct – Great Britain & North America

Observations



- The risk of non-compliance with regulation continues to prevail in the Banking world, stemming from the magnitude of changing rule sets and supervisory expectations across the globe.
- Compliance with a raft of new environmental, social and governance (ESG) risks is often cited as the top regulatory risk for Banks right now.
- In the UK, the Government is planning to reform the financial services regulatory landscape through a series of measures dubbed the “Edinburgh Reforms” in line with the Government’s ambition for the UK to be the world’s most innovative and competitive global financial centre.
- Once enacted, these reforms will have far reaching consequences on the Banking sector in the UK.
- Times of economic uncertainty and upheaval are often breeding grounds for misconduct which inevitably take time to come to light. Further, the hybrid model of working allows greater potential to breach controls and procedures.

Concerns



- A huge amount of time and resource is required to stay current with the continually evolving regulation, to avoid fines, reputational damage and loss of customer confidence.
- Coupled with this, the “great resignation” during the COVID-19 era has led to a talent shortage in many key roles and so the ability to attract and retain talent remains a priority for this sector.

Considerations/ Suggestions



- Ensure you have broad form Professional Indemnity and Directors and Officers Liability policies, and in particular, appropriate coverage for Investigation Costs.

Banking Industry Trends

Risk Trends – Cyber – Information Security, IT Disruption & Resilience – Great Britain & North America



Observations

- The threat of sophisticated criminal and state-sponsored cyber-attacks on Banks continues to be a major concern for the sector. Even when the Chief Information Security Officer (CISO) perceives their own internal systems to be secure, cyber risk lurks everywhere, due to the interconnected technology that underpins the entire global financial system – from financial market infrastructure and domestic service providers to the vast network of vendors and partners upon whom the Banks rely.
- The threat to operational resilience is exasperated by the current geopolitical turbulence following Russia's invasion of Ukraine.
- Further, the hybrid working model provides more access points for failure or breaches in security, and the opportunity for unwary homeworkers to “leave the back door open”.
- Banks continue to invest in digital transformation to innovate with new products and services, to improve the customer experience and increase operational efficiency, and legacy systems and infrastructure are being replaced.



Concerns

- Cybersecurity and resilience remain a key focus in all jurisdictions, as the entire global financial system represents a huge perimeter to secure, and bad actors are relentless in seeking vulnerabilities.
- There is increased scrutiny from regulators, business counterparties and investors, in their search for evidence of operational resilience, and cybersecurity risk management policies and procedures that are robust.



Considerations

- Review each of your financial lines policies in line with your digital risk profile to ensure that activities and exposures are covered as broadly as possible and are in line with your risk appetite.
- Consider the purchase of a standalone Cyber insurance policy if Cyber insurance is not already a part of your risk transfer strategy.
- Understand the limitations/ boundaries of each policy and ensure that coverages dovetail as far as possible.

Banking Industry Trends

Risk Trends – Climate Risk & ESG – Great Britain & North America



Observations

- This is a multi-dimensional issue which has to be addressed in terms of global regulatory compliance, the exposure of portfolios to physical and transition risk, liability risks, the impact on asset valuations, consumer pressure and reputational risk.
- The severity and frequency of natural disasters and freak weather conditions have dominated headlines over the past year.
- This together with increasing litigation from investors and other stakeholders over claims of greenwashing will keep ESG at the top of board agendas for some years to come.



Concerns

- Increasing regulatory oversight and the complexity of due diligence for ESG related activities and reporting will likely lead to increased regulatory investigations.
- Climate protestors and activist shareholders are applying pressure for lending to be sustainable and responsible.
- Litigation and public appetite to hold banks to account for so called “dirty lending” may result in increased defence costs, if not indemnity.



Considerations

- Insurers expect banks to be focused on ESG and clients should be prepared to articulate their ESG strategy during their market presentations.
- As ESG activities and reporting gain momentum it is important to monitor any corresponding impact on Financial Lines insurances to ensure that coverage remains as robust as possible, particularly your D&O policy and the breadth of cover provided for Regulatory Investigations.

Banking Industry Trends

Risk Trends – Theft & Fraud – Great Britain & North America



Observations

- Theft and fraud pose major risks for banks and other financial institutions who hold significant deposits.
- This makes them a target for ransomware attacks, the threat of which is heightened from state sponsored cyber criminals following the imposition of economic sanctions.
- The hybrid model of working allows greater potential for employees to breach controls and procedures, and for the possibility for bad actors to receive inside help.
- Sophisticated social engineering schemes continue to abound, including authorised push payment fraud, phishing, vishing and malware, to dupe victims into providing confidential information and access to bank accounts.
- There has also been an explosion in crypto heists over the past year with a reported US\$3.5bn stolen in [2022](#) in 200 different attacks. The collapse of FTX and the arrest of its founder Sam Bankman-Fried has had a ripple effect across the market with other exchanges falling in its wake. With so much volatility and the lack of regulation, Crypto insurance continues to be a challenging insurance marketplace.
- The economic downturn, high inflation and energy costs, and the recessionary outlook, have converged to cause a cost of living crisis and social unrest in many jurisdictions. Such challenging financial conditions have historically correlated with greater claims activity across all financial lines.



Concerns

- Tackling financial crime requires vast resources and evolution of systems and controls in order to stay one step ahead of the criminals.



Considerations

- Some insurers have removed cyber related extortion coverage from traditional bankers' Crime policies and many Cyber insurers have imposed sub limits and/or coinsurance to ransomware coverage.
- It is important that you review the terms and conditions of your Crime and Cyber policies to ensure that they are as broad as they can be, and to understand the boundaries of each so that it is clear which policy will respond to which types of loss.
- Be prepared to articulate your crypto strategy with insurance and ensure that your insurance programme is appropriately aligned.

Banking Industry Trends

Risk Trends – Market Volatility: Bank Failures - Great Britain & North America



Observations

- On March 10, 2023, the California Department of Financial Protection & Innovation (DFPI) closed Silicon Valley Bank (SVB) and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver of the bank. This resulted in the largest U.S. bank failure since Washington Mutual was shuttered in 2008 during the financial crisis.
- In addition to SVB, crypto bank, Silvergate Bank announced that it would voluntarily liquidate on March 8, 2023, while another crypto-friendly bank, Signature Bank, was taken over by the New York Department of Financial Services on March 12, 2023, in conjunction with the decision to backstop SVB.
- The following week UBS agreed to purchase Credit Suisse after a frantic weekend of negotiations to safeguard the country's banking system and attempt to prevent a crisis spreading across global markets. Further, 11 of the biggest names in US banking ploughed USD 30bn into the beleaguered First Republic Bank in an attempt to shore it up. However, shortly after, the FDIC seized First Republic Bank and subsequently on 1 May 2023, the majority of the business was sold to JP Morgan Chase.



Concerns

- Significant market events that negatively impact bank share prices may result in claims activity under directors and officers liability insurance programs. Such claims often come in the form of lawsuits and/or regulatory proceedings.
- There is already at least one 10b-5 securities fraud class action filed against SVB Financial Group and its CEO and CFO. There are also US Department of Justice (DOJ) and Securities and Exchange Commission (SEC) investigations. There is also at least one 10b-5 securities class action filed against Signature Bank and some of its directors and officers.



Considerations

- Securities class actions are generally fully covered for defence and indemnity for most well written public company D&O policies (although fines may not be covered). However, the policy scope should be carefully reviewed with particular attention paid to the following:
 - Are programme limits adequate?
 - Do we have dedicated Side A limits?
 - Regulatory coverage – not all coverage is created equal; consider formal v informal coverage. Does a sub limit apply?
 - Does the policy contain a bankruptcy exclusion?
 - Insured v Insured exclusion – how will the policy respond to claims brought by the regulators in their capacity as receiver against former directors and officers?
 - Reporting provisions – ensure that you are familiar with notice of circumstances and claim reporting provisions.

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