



GLOBAL FINEX - FINANCIAL INSTITUTIONS

The State of the Market – June 2023 Insurance Company Market Update

Financial Lines Insurance Global Market Overview
and Notable Trends



This update analyses our observations of the current market conditions for Insurance Companies 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.

Insurance Company Industry – All Financial Lines

Market conditions and notable risk trends – Great Britain



Rate Predictions

	Trend	Range
Crime:	▼	Flat to -10%
Professional Indemnity:	▶	Flat
Directors' and Officers':	▼	Flat to -10%
Fiduciary (PTL):	▶	Flat
Cyber	▼	-10% to -20%

Market Volatility

Premium 	Competition is driving down rates across the insurance company sector, except for Life Insurance Professional indemnity, where rates remain stubbornly high.
Markets 	Insurers across the market have ambitious growth targets which in turn drives strong competition for quality risks and sows the seeds of innovation.
Retentions 	Insurers will now accept more risk leading to the option of lower self-insured retentions.

Risk Trends – snapshot

(see a more detailed overview in this presentation)

Regulatory & Conduct



With the [Edinburgh Reforms](#) brings welcome a welcome development to Solvency II capital treatment but certain impacts of these reforms around supervisory expectations remain uncertain for now.

Cyber



Cybersecurity continues to be a key focus for insurers on both the life and general sides, from a regulatory as well as resilience standpoint.

Climate Risk & ESG



Regulatory oversight, compliance and due diligence are key exposures across the disciplines of investment, corporate governance and underwriting.

Theft & Fraud



Fraud, especially social engineering type loss continues to plague the industry.

Insurance Company Industry Trends

Risk Trends – Both Life & General Insurance - GB

Observations



- Inflation is driving claim cost higher which in turn undermines underwriting profitability.
- The global transition to green energy and sustainable investing requires the industry to adjust quickly.
- COVID-19 fuelled a revolution in work practice and employee expectation. There is now intense competition for talent.
- The industry's pivot to technology continues unabated, requiring capital investment to evolve to address the threat of disruption to established industry working practices.
- Firms will be judged by how their ESG initiatives pan out, so enhanced initiatives to enhance transparency and accountability in governance seem likely.
- The challenging economic environment is driving demand for insurance whilst putting huge cost pressure on clients, especially the SME sector. Efficient distribution and tight cost controls are key to market share.
- As a utility the threat of sophisticated criminal and state-sponsored cyber-attacks on the insurance industry is a concern. Cyber risk lurks everywhere, due to the interconnected technology that underpins the financial system.
- The threat to operational resilience is enhanced by current geopolitical turbulence.
- The industry's pivot toward digital transformation to innovate and increase operational efficiency puts increased reliance on technology.

Concerns



- A growing commitment of time and resource is demanded in an effort to stay abreast of the evolving economic environment, regulation, public expectation, and to avoid claims for mismanagement, fines or reputational damage.
- The “great resignation” of the COVID-19 era has led to a talent shortage in the industry coupled with a pivot toward technology challenges a firm's ability to attract and retain talent.
- Cybersecurity and resilience remain a key focus in all jurisdictions, as the global financial system's infrastructure is a popular target for fraudsters and rogue states.
- There is increased scrutiny from regulators, business counterparties and investors who require insurance firms to demonstrate operational resilience to cybersecurity risk.
- Increasing regulatory oversight and the complexity of due diligence for ESG related activities and reporting will likely lead to increased regulatory investigations.

Considerations



- Ensure you have broad form Professional Indemnity and Directors and Officers Liability and employment practices liability insurance, and in particular, appropriate coverage for Investigation Costs.
- Consider the adequacy of limits and the impact of self insured retentions against your clearly defined risk appetite.
- 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 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.

Insurance Company Industry Trends

Risk Trends – General Insurance – GB



Observations

- The severity and frequency of natural disasters has dominated headlines over the past year. This multi-dimensional exposure issue represent both an opportunity for the industry and a risk in both underwriting and investment portfolios to physical and transition risk, liability risks, the impact on asset valuations, consumer pressure and reputational risk.
- Emerging exposures in intangible assets classes including cryptocurrency, and virtual activities in/on the metaverse, suggest plenty of room for growth for those willing to consider new risks.



Concerns

- Climate protestors and activist shareholders are applying pressure for insurers to be sustainable and responsible.



Considerations

- Insurers expect insurance companies 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.

Insurance Company Industry – E&O/Professional Liability

Market conditions and notable risk trends – NA



Rate Predictions

	Trend	Range
Primary:	▲	-5% to +5%
Excess:	▲	-5% to +5%

Market Volatility

Premium



Rates have stabilized following several years of significant increases. In certain circumstances, reductions are achievable through marketing.

Markets



There remain very few viable primary insurers which are looking to write new business. Competition for excess Insurance Company Professional Liability (ICPL) – particularly when blended with other coverages – improved dramatically in 2022 and we expect that to continue as several new insurers began quoting on an excess basis or returned to the market after having taken a step back.

Bermuda and London have limited appetite for NA-centric ICPL risks.

Retentions



Most primary insurers have taken corrective action to materially adjust retentions, which has reduced the need for further changes in 2023. Sales & Marketing coverage is typically subject to a higher retention of \$25M+, if at all available.

Risk Trends – Snapshot

(see a more detailed overview in this presentation)

Regulatory & Conduct



With individual states imposing their own requirements, insurance companies are increasingly forced to reevaluate legal remedies and the viability of participating in certain markets.

Climate Risk & ESG



Insurance companies are uniquely positioned as climate and ESG represent both a challenging risk and an opportunity for growth or differentiation.

Economy



Uncertainty around macroeconomic factors such as inflation and interest rates is impacting underwriting, claims, reserving and investments operations for NA insurance companies.

InsurTech



Established insurers have been pushed to innovate or acquire as a result of InsurTech competition.

Insurance Company Industry Trends

Risk Trends – Regulatory – NA



Observations

- Several Insurance Commissioners/ Departments at the state level have taken an increasingly aggressive approach to preventing insurers from enforcing proposed changes to pricing and coverage.
- This is especially prevalent in the P&C space where states like California and Florida have imposed moratoriums to protect citizens from having certain policies non-renewed or subject to changes.
- Some regulatory changes have been favorable for insurance companies, including Florida's recent elimination of one-way attorney fees for property insurance claims.



Concerns

- Regardless of underlying performance, both broader and social inflation have negatively affected profitability for several lines of coverage.
- When states prevent insurance companies from assessing needed changes, financial performance and unrelated policyholders can be impacted.
- Alternatively, failure to adhere to regulatory guidelines can expose insurers to investigations, fines and additional damages.



Considerations

- Insurance companies can expect financial lines underwriters to scrutinize their exposure to problematic classes and jurisdictions.
- Clear plans to address the increasing regulatory burden can help to alleviate underwriter concerns.
- The scope of regulatory coverage available should be reviewed.

Insurance Company Industry Trends

Risk Trends – Environmental, Social & Governance (ESG) and Climate – NA



Observations

- P&C insurance companies are heavily analyzed both for direct exposure to the results of climate change and for their role in enabling commerce of key contributors to pollution.
- Greater attention is also being paid to the long term impact of climate change upon Life insurance companies.
- All insurers are being held accountable in terms of not just their own ESG progress but also for those companies funded by their investment portfolio.



Concerns

- Increases in extreme weather have transformed the P&C insurance landscape, including the all-important reinsurance market.
- Underwriters are concerned that the preceding factors will also negatively impact mortality tables and ultimately affect life insurer performance.
- Perception that insurance companies are not doing their part to both acknowledge and improve ESG risk factors can draw scrutiny from investors, policyholders and regulators.



Considerations

- Insurance companies should be familiar with third party corporate ESG evaluations, as they are becoming a common piece of underwriting process. Favorable scores can be highlighted in hopes of achieving better renewal outcomes.
- Careful review of policy wordings should be conducted to ensure no problematic language which could exclude coverage for a claim relating to ESG failures.

Insurance Company Industry Trends

Risk Trends – Economic Uncertainty – NA



Observations

- Universal Life coverage has been a very popular product for policyholders, but the persistent low-rate environment has caused significant issues for insurers. Several life insurance companies have made contentious adjustments and/or taken substantial reserve charges tied to the performance of Universal Life products.



Concerns

- Financial lines insurers are very wary of potential shareholder (D&O) and policyholder (ICPL) suits arising out of such products.
- Settlements can be catastrophic in addition to defense costs alone exceeding \$10M in some cases.



Considerations

- Life insurance companies must be prepared to speak to the health of any Universal Life exposure and outline steps taken to address potential volatility.
- ICPL policy language should be scrutinized and broadened where possible – especially the wording of Underwriting Exclusions and those items excluded via the definition of Loss.
- Some insurers have discontinued writing and/or divested historical Universal Life books in order to mitigate exposure.

Insurance Company Industry Trends

Risk Trends – InsurTech – NA



Observations

- An influx of start-up technology-focused insurance companies have pushed the broader insurance industry towards improvements in the collection, review and implementation of data.
- Many established insurance companies have acquired InsurTech firms while others opted to internally invest in data capabilities.



Concerns

- Failure to keep pace with modernization could leave traditional behind as new and old peers achieve advantages in an extremely competitive landscape.
- Alternatively, expensive ventures into developing or purchasing new technology that are unsuccessful will weigh on insurance company bottom lines.
- US InsurTech stocks struggled mightily in 2022, with several major companies suffering share losses of 80%+. InsurTech [funding decreased](#) by 58% in the first quarter of 2022 compared to the last quarter of 2021.



Considerations

- Many insurers have introduced Cyber 'clarifications' which more often than not are intended to exclude potential coverage. Such language needs to be closely monitored to account for today's greater reliance upon technology as a core part of an insurance company's operations.
- Depressed valuations and investor competition may provide greater opportunities for those looking to acquire InsurTech firms.

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