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A story of two halves: Navigating the widening desirability gulf

Energy Market Review

April 2024

Market capacity figures

The figures quoted in this Review are obtained from individual insurers as part of an annual review conducted in January each year. They are solicited from the insurance markets on the basis of securing their maximum theoretical capacity in US$ for any one risk. Although of course this capacity is offered to all buyers and their brokers, the individual capacity figures for each insurer provided to us are confidential and remain the intellectual property of WTW.

WTW Energy Loss Database

All loss figures quoted in Part Two of the Review are from our WTW Energy Loss Database. We obtain loss figures for this database from a variety of market sources (including a range of loss adjusters), but we are unable to obtain final adjusted claims figures due to client confidentiality. The figures we therefore receive from our sources include both insured and uninsured losses in excess of US$1 million.

Style

Our Review uses a mixture of American and English spelling, depending on the nationality of the author concerned. We have used capital letters to describe various classes of insurance products and markets, but otherwise we have used lower case to describe various parts of the energy industry itself.

Abbreviations

The following abbreviations have been used throughout this Review:

BI	Business Interruption
CAR	Construction All Risks
E&P	Exploration & Production
ESG	Environmental Social Governance
LNG	Liquefied Natural Gas
LOPI	Loss of Production Income
Nat cat	Natural Catastrophe
OEE	Operators Extra Expense
PD	Physical Damage
S&P	Standard & Poor's
WELD	WTW Energy Loss Database

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Introduction

Welcome to the first Energy market review of 2024. In a period of geopolitical and economic instability, it appears that the energy insurance market is ready to provide us all with some much-needed stability and certainty with the balance of power once again shifting in buyers' favour. However, when we delve deeper into the range of factors driving the energy market conditions, we realise that the market really is a story of two halves with a widening desirability gulf emerging.

Relatively benign loss activity across all of the energy sectors in 2023 sees markets return to profitability once again. However, the positive headline numbers belie the true impact of the 2023 reinsurance renewals, which saw treaty deductible increases for many insurers. In real terms, this has resulted in carriers taking more attritional loss activity on their own bottom line and we certainly have seen a fair share of attritional losses in 2023.

Despite this, insurers appear to show no signs of withdrawing from the energy sector, which remains profitable for most, and capacity across all of the energy occupancies is still abundant, albeit stabilising.

The increasing amount of risk and performance data now available to insurers, has led to carriers having afar clearer view of the most profitable business within the portfolio. This new, deeper insight has resulted in a homogenisation of risk appetite amongst carriers, with a strong drive from most markets to grow the same, highly desirable 'upper tier'.

This widening desirability gulf between the best and the rest is great news for the most desirable clients and competitive pressures for this upper tier business will drive softening rate trajectories throughout 2024. However, this is less good news for the smaller, less desirable placements, which may be viewed by insurers as less attractive on account of lower premium volume or risk exposures and these placements may face a greater challenge for optimum capacity.

Additionally, there is not enough upper tier business to satisfy the appetite of all global energy insurance markets, so clients will need to make tough decisions on which markets to align themselves with, which will inevitably split the market into the 'haves' and the 'have nots'.

Those carriers coming out on top, will be those that are able to develop the broadest client relationships and supporting those clients across multiple lines of business and with new risk exposures and corresponding, relevant products.

In the long term, this could result in a retraction of the smaller, more specialised carriers, who are not able to provide such a wide cross class offering but are reliant on premium from their current upper tier business to support their portfolio. This in turn would spell bad news for smaller clients and/or those with less desirable placements, which often rely on the capacity from small, specialised insurers to be able to complete

their programmes. These clients will need to work with their brokers to find ways to positively distinguish their placements to continue to attract strong market support and optimum terms.

Environmental, social and governance (ESG) considerations are now well understood amongst insurers and we are pleased to report that the majority of carriers have adopted a partnership approach of supporting their clients through the transition in favour over applying exclusion policies.

Insurers are readying themselves to support the energy transition, with several setting up dedicated holistic energy transition offerings that recognise the complex cross sector and cross class nature of the solutions required.

Insurers are keen to support clients with their emerging exposures generated by the adoption of transition technologies, such as carbon capture and storage and hydrogen and are viewing these new technologies, alongside renewables, as a key component of their future portfolio mix. Premiums from these technologies will in time supplement insurers' current oil and gas income, which is showing signs of shrinking through increased client self-insurance, greater captive utilisation and merger and acquisition activity.

But risk leaders need to look beyond the day-to-day risks to their organisations and consider the longer-term emerging risks on the horizon. The energy transition, geopolitical developments, sustainable capital and the changing macro-economic environment, create new risk considerations as well as leading to unexpected combinations of existing risks that could have a more severe impact on businesses than was previously anticipated.

It is important for risk leaders to conduct regular horizon scanning and to work with their specialist brokers to promptly address any and all emerging risks, be that through proactive risk management or by working with intermediaries and insurer partners to develop future proof risk transfer and/or retention solutions.

In this year's energy market review, we delve more deeply into the factors affecting our three core energy markets; upstream, downstream and liabilities, as well as discussing some of the key emerging risks, focussing on carbon capture and storage as one of the preeminent emerging transition technologies.

We will conclude by providing a market view from our key geographical hubs of North America, Latin America, Dubai, Norway, Singapore and China.

We hope that you find the review to be insightful and look forward to discussing any of these topics with you in more detail and hearing any feedback that you may have.

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Emerging and interconnected risks

Given the amount of disruption and change over the last few years, energy leaders are paying renewed attention to how they can identify emerging risks and explore how these not only impact on their risk framework, but also how they are related to expected growth and greater strategic focus over longer time horizons.

$110 trillion in capital investment will be required to achieve net-zero by 2050. This global goal is a shifting sea of change that covers macro risks as well as operational issues (Figure 1). With heightening geopolitical risk, and climate change amplifying diverse risk exposures, identifying, quantifying and mitigating emerging and interconnected risks is essential, yet challenging.

It is imperative that risk leaders need to look beyond the short term, day-to-day risk exposures and examine this changing environment with a broader lens. Whilst many of the emerging risks we are facing, are not new, the landscape is rapidly evolving, and the biggest risk may be inaction.

Research suggests that future-prepared firms — who have invested in building corporate foresight units — outperform the average by a 33% higher profitability and by a 200% higher growth[1]. Organisations of all sizes can learn from the approaches taken to improve their organisational agility and resilience through appropriately scaled management of emerging risks.

That starts with risk identification and accessing views that will challenge your thinking. We asked our WTW Research Network to give us their thoughts on key emerging trends they feel the energy industry should be considering.

> **Future-prepared firms — who have invested in building corporate foresight units — outperform the average by a 33% higher profitability and by a 200% higher growth**

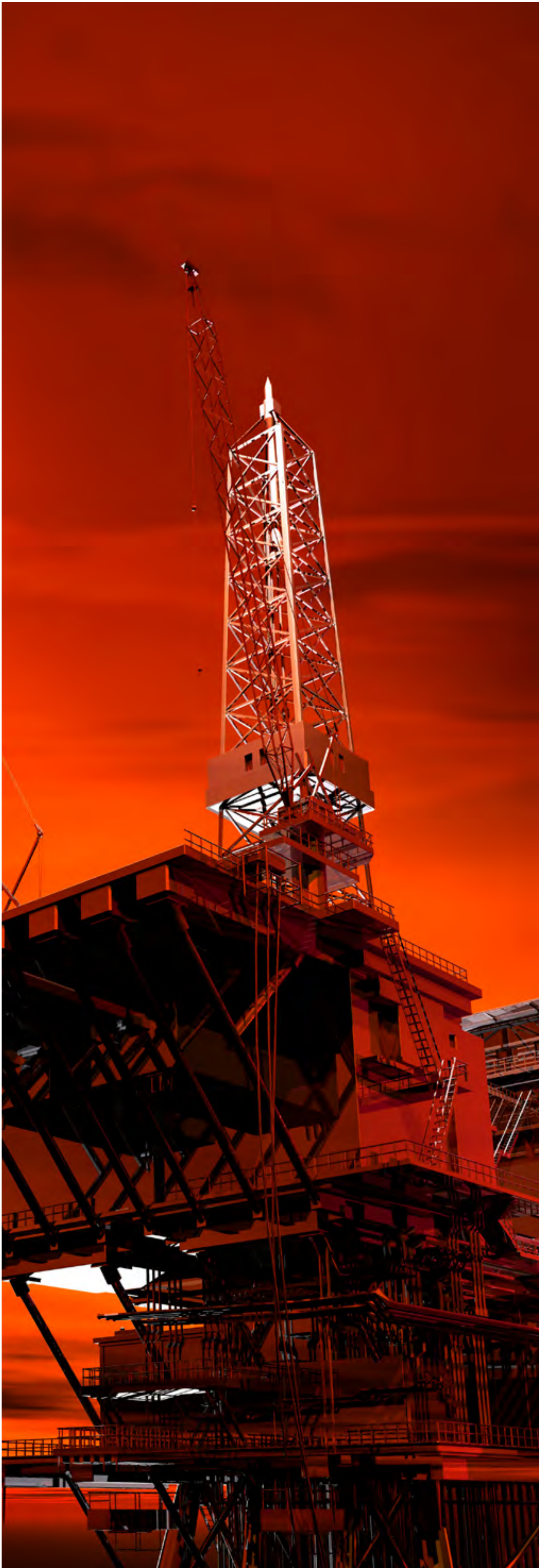
[1] https://www.sciencedirect.com/science/article/pii/S0040162517302287

Figure 1:

Emerging trends and risks, and how you can respond

49% / 64+1: geopolitical shifts	2024 is set to be what the Economist has called “the biggest election year in history,” with national elections scheduled in at least 64 countries plus the EU, representing close to half the global population (49%)[2]. Many will prove consequential for years to come with potential impacts ranging from social stability to reshoring/offshoring, regulatory change to international investment shifts.	**Key lesson:** Effective leaders are factoring geopolitical trends into their intelligence monitoring to identify opportunities for growth, while preparing to act quickly and decisively when events occur. WTW’s Geopolcast provides a thought-provoking discussion of the world’s most pressing geopolitical issues through expert interviews.
50 million gallons of water: supply chain risks	Every time a ship crosses the Panama Canal more than 50 million gallons of water are diverted from surrounding lakes into the locks and then, after the vessel has been lifted, flushed into the ocean. The region has just experienced its worst drought since it opened in 1914, leading to disruption as fewer ships are able to traverse the canal. This disruption of a key Asia-U.S. route happened at the same time as conflict in the Red Sea also resulted in the need for further diversions.	**Key lesson:** Given the flexibility of global transportation, there is a reliance on always being able to take another transportation route. That may involve record high costs with very real financial impacts[3]. Taking a global view and bringing stakeholders together from across regions can allow companies to stress test possible futures and uncover hidden vulnerabilities.
17.94 million hectares: wildfire risks	2023 saw Canada experience its most extensive wildfire season on record, with 17.94 million hectares burned — a new high for North America. The scale of fires saw the Canadian government close several roads across Quebec, with many energy and mining companies having to curtail their operations. As wildfire risk increases, a multifaceted approach will be needed that combines early forecasting and anticipation of wildfires with robust infrastructure, effective communication, adaptable policies, and consideration of nature-based solutions.	**Key lesson:** Events once thought rare are becoming more likely or occurring at scales previously not seen. The historical record alone does not capture the full range of potential risks. By examining what-if scenarios, organizations and governments can gain insights into potential vulnerabilities and develop strategies for a more resilient future.
38 billion by 2030: IoT connections	Emerging technologies and connected devices will continue to change the cyber risk landscape. They will also allow organisations to build out digital twins, gain greater visibility of their supply chain, and deploy resources more effectively. Currently the majority of the world’s mines — essential for transition technologies — are open-pit. However, connected devices could allow for smaller, modular mines facilitated by semi or fully autonomous fleets, reducing the requirements for ventilation volumes and fans, consequently both reducing the energy demand, and reliance on flying in workers and the number of specialists on-site.	**Key lesson:** risk frameworks can also be used to explore opportunities, shift business models, and allow organisations to embrace new futures. A forward-looking view of positive and negative futures can provide a structured framework for discussion, whether through a short workshop or full day of wargaming.
30 / 13: future of work	The IEA forecast that 30 million new clean energy jobs will be created by 2030, while close to 13 million jobs in fossil fuel-related industries are at risk[4]. Multiple generations in the workforce are pushing leaders to be more creative in how they manage different sets of needs. Permanent demographic shifts have created long-term shortages for certain jobs and skills that could persist for years, and companies are still catching up to find the workers they need.	**Key lesson:** When discussing risk and strategy, there is a strong role for workforce perspectives, whether that’s considering the workforce of the future or how your staff today influence/manage/and react to risk. Your people arean untapped view of risk — often dealing with the operational realities of strategic decisions, and can very quickly point at risks and opportunities.

[2] https://time.com/6550920/world-elections-2024/
[3] https://www.eia.gov/petroleum/weekly/archive/2023/230927/includes/analysis_print.php
[4] https://www.iea.org/reports/world-energy-employment-2023



It all starts with understanding what we mean by emerging risks

Organisations use a range of different definitions for emerging risks, refined based on time horizons, risk tolerance thresholds, and strategy deliverables. The recent release of the *ISO 31050 — guidance for managing emerging risks to enhance resilience* — marks a pivotal moment in the management of these risks at a time when new regulatory standards and requirements are being implemented or considered.

If definitions can vary, what are emerging risks? To quote directly from ISO 31050, they can cover a series of characteristics:

Emerging risks can include, for example:

- Risks arising from unrecognized changes in organizational contexts.
- Risks created by innovation or social and technological development.
- Risks related to new sources or previously unrecognized sources of risk.
- Risks from new or modified processes, products or services.

Source: ISO 31050

To make the language clearer and more accessible an organisation could choose to view emerging risks as:

1. Circumstances that materially change the profile of risks we have already spotted.
2. Circumstances that lead to new risks we had not previously spotted.
3. Circumstances that cause two or more risks to combine, happen simultaneously or create a domino effect.

There is no one-size-fits-all approach to identifying, analysing, monitoring and responding to emerging risks. Organisations should remain aware of this and ensure they take account of their culture, experience, technological capability and colleague attitudes when designing or refining their approach. Reviewing emerging risks and being future ready is about more than maintaining a risk register, or scoring acceleration, impact and severity.

In asking whether your existing approach deals with these risks and opportunities appropriately, an organisation may wish to consider three challenge questions:

1. How do you identify and manage emerging risks?

The importance of building an emerging risk process and linking it to the business model cannot be emphasized enough. That includes the lens of opportunity. Reviewing emerging risks is also about considering your competitive advantage, gathering insights into new market opportunities, customer needs, and technological advancements, as well as staying ahead of regulatory developments, compliance requirements, and industry standards that could impact your operations and reputation.

Action: Instigating a horizon scanning regime that extends beyond traditional boundaries, such as a focus on new legislation or financial reporting standards. By asking the question "what's new and what does it mean for us?" regularly, new risks and opportunities may become apparent far earlier. By examining what-if scenarios through techniques like wargaming that immerses attendees in roles, organizations can stretch their imaginations to gain insights into potential vulnerabilities, competitive advantages, and develop strategies for a more resilient future.

2. What is your biggest concern in the current environment?

Given the pace of change in our internal and external contexts, truly "new" risks are increasingly likely. An important element of an effective emerging risk process is the ability to spot these risks in good time, and to plan and prioritise a response appropriately given the varied risk profile the organisation is likely to have.

Action: That might mean taking a fresh look at existing data sources such as taking a specific emerging risks view when reviewing your claims data alongside WTW's Renewable Energy Loss Database (RELD), or keeping pace with the latest thinking across science, academia, think tanks and the private sector. This is the approach our WTW Research Network uses to identify risks, improve their understanding and quantification for the benefit of our clients and society.

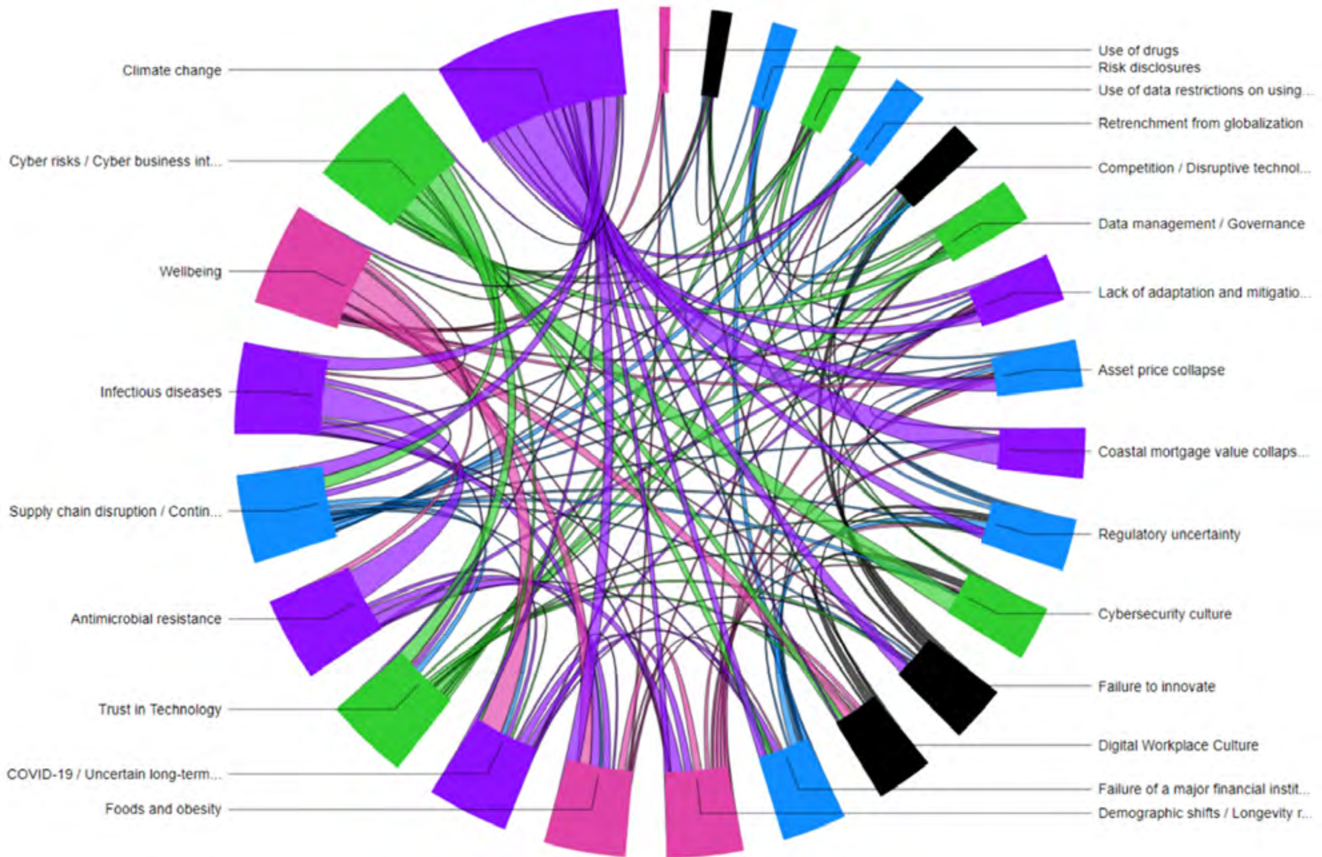
3. To what extent do you consider the interconnected nature of emerging risk when formulating plans to respond to your top concerns?

Traditional risk assessment frameworks frequently use statistical methods and techniques to identify and isolate historical trends in the trigger, magnitude, or the frequency of an individual hazard. While this captures the risk one hazard at a time, it does not adequately capture the risk associated with connectivity, whether that's co-occurring, compound or cascading hazards. If something goes wrong and exceeds organisational resilience, it is rarely the tried and tested area of individual risk with numerous tightly defined controls and scenarios. Instead it is usually either about interconnected risks or scenarios just beyond the imagination.

Action: A structured approach to consider interconnectivity between risks can provide a foundation for shared understanding between stakeholders. Registers have their place but additional value can be added through challenge perspectives, such as the below view of a list of top 25 risks, where respondents were asked for their top three combinations of risks of concern. This approach can be used to bring unseen/unappreciated risk dependencies to the surface, encouraging collaboration across business functions, and enable an elevated risk governance regime that offers the business a repeatable, but necessarily flexible, means of outsmarting complex risk connections. You will have your own opportunity to respond to our 2024 survey and benchmark your views against your industry peers, and see what other industries are thinking about.

Figure 2:

Challenging interconnectivity



Source: WTW Emerging risks survey 2021

Consideration of emerging risks is essential for a truly effective enterprise risk management approach, which provides long-term value and accordingly, organisations should seek to ensure they give emerging risks, in all their guises, sufficient consideration and attention when building, enhancing and implementing strategic frameworks and processes. It is also not just a defensive technique — understanding emerging risks should also consider how that lens may uncover competitive advantages from new markets to collaboration between functions.

In the face of global change, there has never been a better time to reconsider your emerging risk approach to ensure you find a smarter way to risk.

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Carbon capture and storage: Has the insurance market adequately responded to operator needs?

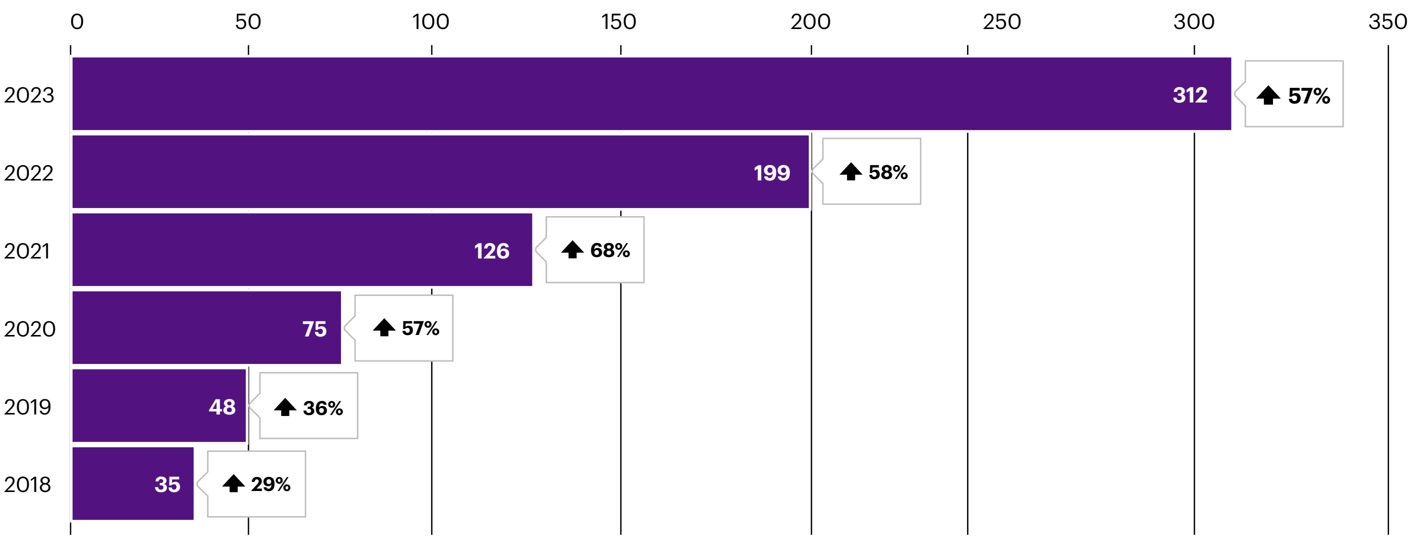
With key climate milestones rapidly approaching, the energy transition is at the forefront of many oil and gas companies' minds, as they continue investing in carbon capture and storage (CCS) projects to abate their emissions. Between 2022 and 2023, the number of CCS projects in construction and development increased by 57%.

The pace of deployment will continue to increase with over 855 Mtpa of carbon capture capacity to be in operation by 2030 globally, 74.5% of which will be from projects based in the U.K. EU, or U.S. — see Figure 2 overleaf.

Figure 1:

Year-on-year growth in capture capacity of CCS projects in construction and development (Mtpa CO_2)

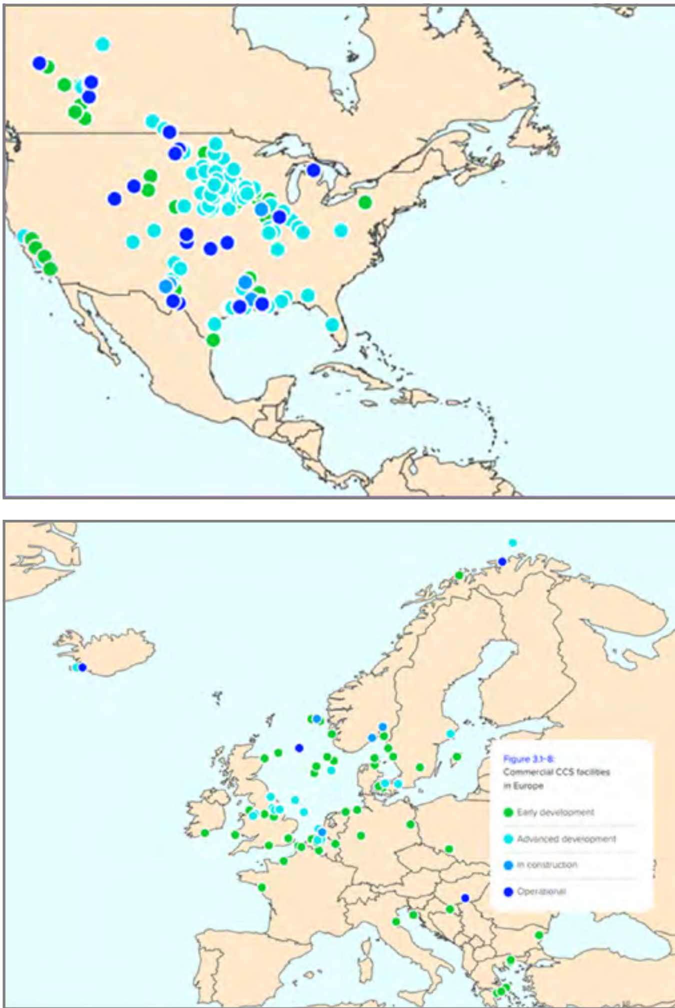
(excludes capacity in operation).



Source: Global status of CCS 2023 — scaling up through 2030 (2023) Global CCS Institute.
https://www.globalccsinstitute.com/wp-content/uploads/2024/01/Global-Status-of-CCS-Report-1.pdf

Figure 2:

Global status of CCS projects, 2023



Source: Global CCS Institute

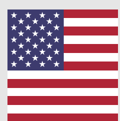
The coming years will be crucial in the implementation of this technology as 83% of global CCS projects are still in the development stage (1). With potential projects ranging from small local solutions to large new international CCS networks, what should CCS stakeholders be conscious of when prioritising regional investment decisions and the associated risks? We will examine how the different regulatory regimes in the key CCS jurisdictions of the U.K., EU, and U.S. incentivise CCS investment and how these regulatory differences alter the risk requirements potential investors should consider.

The regulatory regimes

The U.K. is one of the top five countries globally for CCS deployment.[1] A staunch supporter of the technology, it has committed to ‘20 in 20’ by investing £20 billion in the next 20 years to boost the early development of CCS projects.[2] The North Sea Transition Authority (NSTA) is responsible for regulation that drives the energy transition and ensures that upstream emissions are cut by 50% by 2030, of which CCS is billed as an important solution.[3,4] Its sole stakeholder is the Department for Energy Security and Net Zero (DESNZ), who provide funding support on behalf of the U.K. Government for CCS projects and stipulates the insurance requirements for such projects. To be eligible for funding support, the transport and storage operator (T&SCo) must follow an insurance schedule.[5] This includes the “specification for insured risks and insured losses” for which they must evidence a regular attempt (“at least every twelve months”) at gaining commercial insurance coverage from insurers of a “good standing”. If commercial insurance is in place but a claim is larger than the limit of the policy, the Secretary of State (SoS) will pay the excess (only if the ‘primary insurance provider(s)’ have settled the rest of the claim). The SoS has the right to review whether the T&SCo has adequately tested commercial insurance. Confirmation can come from independent brokers, emphasising the importance of appointing a trusted broker who can evidence market testing, possibly achieve coverage, and support your bespoke CCS insurance needs.

Europe is a region that has seen many early adopters of CCS technology and regulation, particularly in the Nordics. The region’s CCS regulatory landscape is largely influenced by the European Union (EU), with most of the countries in Europe also member states of the EU. Whilst the EU’s CCS Directive outlines the regulatory framework for CCS, the choice remains with the member states to decide which carbon storage sites are permitted.[6] The operator of the site must establish an agreed level of financial security before the injection of CO_2 starts, to ensure that the requirements of the Emissions Trading Directive are met.[7] Business interruption policies can provide key support to injectors if the injection process is disrupted. Here, a key consideration is the environmental liability that lies with the operator, with the risk of surrendering emission allowances (as part of the Emissions Trading Scheme) in the case of leakage.[6]

The regulatory regimes



The U.S. is the top country globally for CCS deployment[1] and like the U.K., CCS has received firm policy support, most beneficially at a federal level. Here, the Inflation Reduction Act (IRA) offers $369 billion to support infrastructure reinvestment and clean energy development, including CCS.[8] Any project that commences construction in the next ten years will be eligible for an increased credit value of the current Section 45Q tax credit as well as an extension of its coverage to include CCUS alongside enhanced oil recovery (EOR) and direct air capture (DAC) and allowing smaller facilities and the owners of the facilities, not just the operator to be eligible.[9] The credit can be claimed by the taxpayer per metric tonne of carbon oxides captured and stored that would otherwise have been emitted into the atmosphere. For example, if a leakage occurs and the CO_2 fails to be stored, liability is the taxpayer's, i.e. the party who is seeking to claim the credit (the T&SCo).[10] The federal support detailed has led to a boom in exploration of CCS opportunities, which has only been tempered by the complexities of Class VI well status being controlled by the federal level U.S. Environmental Protection Agency (EPA), with few states having primacy over these decisions.

Cross-territory CCS networks are now emerging as a business model. Networks capture at the emission site before transporting the CO_2 to a different facility, either by pipeline or ship, the first example of a project of this nature is Northern Lights in Norway. Shipments are transported to the storage site from the Netherlands and other emitters in Norway via liquified CO_2 vessels.[11] One key challenge for the future development of CCS networks is a piece of legislation called the London Protocol. This is an international treaty that categorises CO_2 streams for sequestration as a waste product to protect and preserve the oceans.[12] As a waste product, CO_2's transportation to offshore storage facilities and the storage below the seabed was prohibited. To be able to do both crucial components of CCS networks, contracting parties must apply for provisional licenses for projects in their jurisdiction, notify the International Maritime Organisation of their intention to store CO_2 subsea and sign a bilateral agreement with the country they wish to send/receive a shipment from. So far, seven countries have applied for a provisional licence, namely the U.K., Netherlands, Belgium, Republic of Korea, Denmark, Sweden, and Norway.[13] The key risks associated with marine shipment of CO_2 relate to the liquification and compression processes that allow a greater quantity to be moved. With this comes the need for specific marine transportation insurance products covering marine cargo, pollution liability, marine general liability, marine hull, and Protection (P&I) and Indemnity.

CCS insurance considerations

For the capture and storage stages of the CCS value chain, the insurance market considers many of the associated risks to be within business-as-usual appetite. Whether this be risks associated with the construction of capture technology, or the transport of CO_2 through pipeline, the market has comfortably understood these risks for several years and provided cover on this basis. One potential coverage gap in this space, is the risk associated with the tax incentives claimed for the emitter of CO_2. In the instances where this CO_2 is not captured at the expected rate, or the volume of CO_2 permanently stored does not equal the volumes claimed, there emerges a tax liability that the emitter may be responsible for. Tax insurance markets are emerging to fill this gap but is it a nascent product area given the relatively new changes to the 45Q credits.

Conversely, insurance coverage for the storage project is much more troublesome in some areas. If injection of CO_2 into a storage site is prevented, for example by leakage (perhaps through a geological fault or inadequate storage integrity), then many regulators require the T&SCo to fix the leak before it resumes operations to store CO_2. In this case, the T&SCo will not receive income during the outage period and a business interruption (BI) policy can be purchased to cover the lost income during the leakage, indemnifying the T&SCo for lost income. This coverage could be extended to cover the emitters whose income stream may be impacted by their inability to offload CO_2. In U.K. and EU regulation (U.K. licensing was created in line with the EU Directive 2009/31/EC under Section 7 of the 2008 Energy Act), the T&SCo does not owe the emitter as the regulatory models provide for this coverage. In the U.S., the ultimate responsibility falls on the T&SCo to repay the 45Q tax credit.[9] The precise terms of this will depend on the terms agreed in the contract between the T&SCo and the emitter.

For damage caused to the environment such as groundwater pollution or marine life degradation, environmental impairment liability insurance (EIL) can provide coverage. This incorporates cover for the costs associated with clean up (for sudden and gradual pollution), third-party claims, legal costs, and expenses. This may be a necessary purchase for CCS T&SCo's in the U.K. (if it is commercially viable), Europe and the U.S. as the T&SCo is the one who is liable in the case of environmental damage.

After the useful life of the asset is complete and the CCS storage facility and wells are closed, there is still the potential for (long-term) liability post closure, for example from the leakage of CO^2. Despite emerging research from the U.K. showing exceptionally low leakage probability from the geological studies that have been conducted, the T&SCo remains responsible until the relevant authority agrees the license can be terminated (up to 20 years) post-closure.[14] In the U.S., some states have a similar timeframe, but the Federal regulator has limited long term liability responsibilities. For example, in Wyoming liability ends after 20 years post completion[15]; whilst in North Dakota it is not even half that at 10 years.[16] California requires T&SCo's to monitor CO_2 plume movement for 100 years after injection is completed.[17] On the contrary, in Illinois the state assumes liability immediately after the well is closed.[18] In the EU, Member State governments must cover, at a minimum, the anticipated cost of monitoring for a period of 30 years.[6]

Given the long-term responsibility for liability on the T&SCo post-closure in the U.K. and U.S. (and potentially EU depending on the terms of the T&SCo to Government handover), the emphasis firmly remains on the operator to protect themselves, possibly via long term insurance against CO_2 leakage. Good collaboration between Government and insurance stakeholders has helped to bridge the technical knowledge gap between the two and is certainly appreciated by the latter. The insurance market and T&SCo's must continue to work together to find appropriate liability solutions to match corporate, regulator and insurer risk appetite. Employing new and long-term monitoring technologies post-closure of a carbon capture site will provide insurers with confidence when quantifying leakage events. This is reliant upon the degree to which financial liability support from government regulators is provided as this will provide clarity concerning the gap in support which insurers must respond to.

Conclusion

The differences in regulation between the U.K. and Europe are minimal with strong alignment between the two regions. However, there is a wide variation between the US and the U.K. & Europe, whereby transporters, operators, insurers, and other stakeholders must be alert to these differences when considering their insurance requirements and investment decisions. The key insurance implications from this article can be categorised into pre- and post-injection. Pre-injection insurance considerations concern physical damage, business interruption, tax insurance and third-party liability policies to cover for damaged plant, lost income, and potential environmental liability for CO_2 leakage. Post-injection insurance requirements should focus on the liability of leakage from a sealed reservoir.

The CCS market is forecast to grow rapidly over the coming years, and the insurance market will need to match this pace of development if the technology is to deliver the intended benefits to society and the environment.

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Upstream energy: The quality gulf widens

An uneventful reinsurance renewal season

Compared to last year, the 2024 reinsurance treaty renewal season was decidedly benign, with most markets seeing flat renewals or small rises in their reinsurance protections.

The increased treaty retentions that were imposed by reinsurers during the 2023 renewals have clearly borne fruit during the last year and protected treaty reinsurers from picking up most of the direct losses. Whilst this strategy proved to be successful in protecting the treaty account, direct insurers have felt the pain of this change. This is especially the case for those markets writing a book of smaller accounts where treaties are now much less likely to be exposed due to the size of the insured values and the carrier's line size. Additionally, signed lines on the most favoured business have been reducing due to increased competition for market share and this has also reduced the proportion of a market's line which is protected by its reinsurance treaty. As result, a number of direct insurers had their worst net results in a decade in 2023, despite there being no major losses excess $1 billion.

It appears a new baseline of treaty retentions has been established and there has been no sign of retention levels coming back down again, much to the dismay of direct carriers. We have seen markets respond by carefully reviewing the deductible levels on direct placements and, in some cases, pushing to increase deductibles they deem insufficient. It remains to be seen whether markets will be successful in achieving any increases in deductibles in the competitive market environment in which we currently find ourselves or whether they will need to continue to bear the exposed gap with their treaty protection.

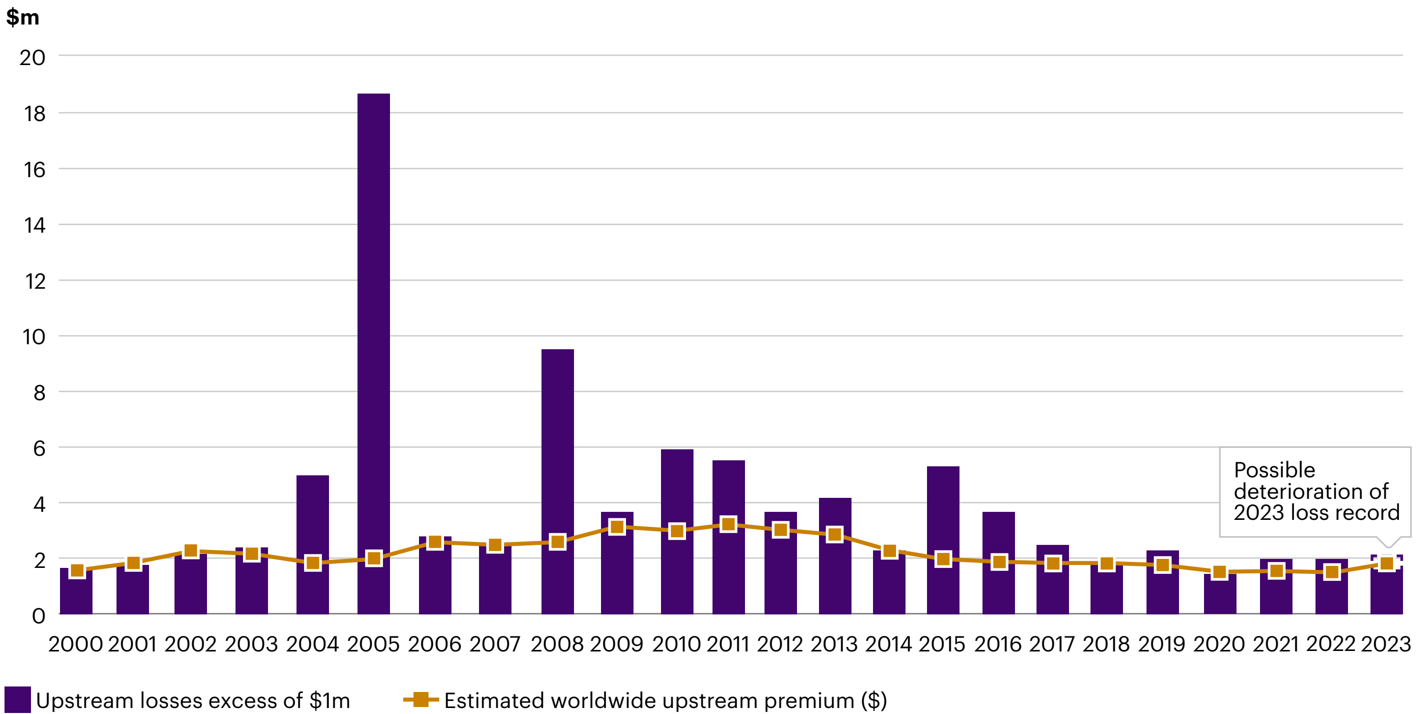
The large loss that didn't move the market

However, despite all of this, many markets still made money in 2023, primarily due to another fairly benign year on the loss front.

As anticipated in our November update, further 2023 loss activity has now materialised in the above statistics. However, despite there being two large losses totalling at nearly $1 billion between them, the market does not appear to have hardened as a result.

Figure 1:

Meaningful offshore construction activity bolstered 2023 premiums



Approximately $2 million of total upstream premium provides some headroom for insurers but the tail of construction projects may yet come to bite

Source: WTW/WTW Energy Loss Database as of October 16th, 2023 (figures include both insured and uninsured losses)

Figure 2:

2023 loss record has shown expected deterioration

Upstream losses excess of $10 million, 2023

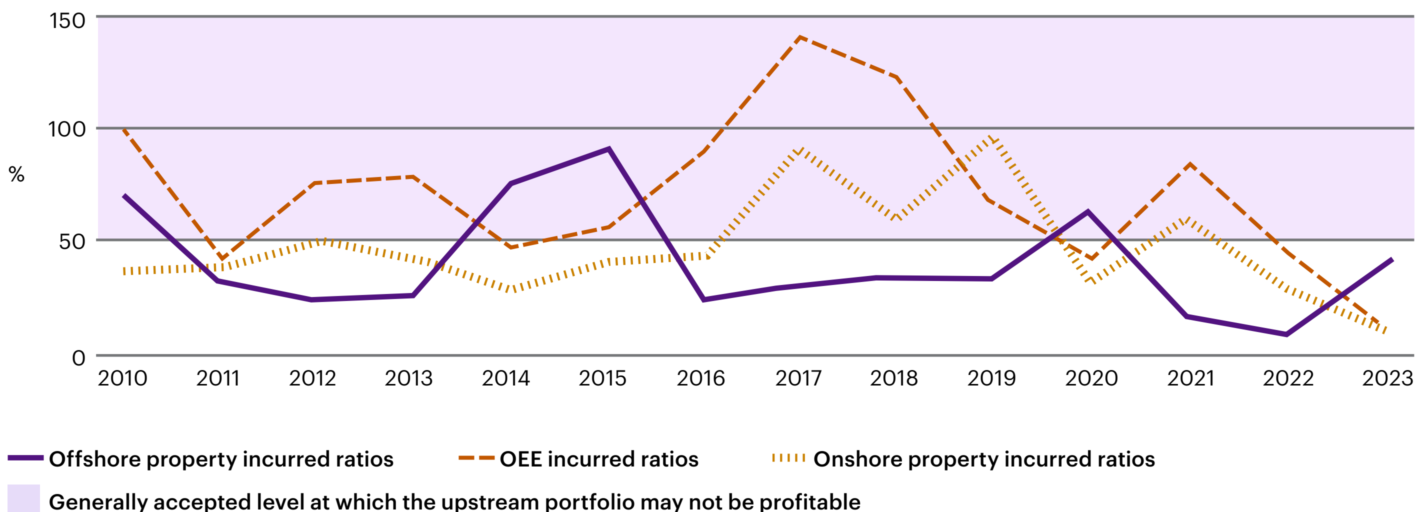
Type	Cause	Country	PD $	OEE $	BI $	Total $
Platform	Fire + explosion/VCE	Latin America	725,000,000	—	—	725,000,000
Plant	Fire/lightning/explosion	North America	220,436,490	—	—	220,436,490
MOPU	Unknown	Asia Pacific	55,625,000	—	—	55,625,000
Rig	Capsize	Africa	55,000,000	—	—	55,000,000
Platform	Unknown	Australsia	54,890,000	—	—	54,890,000
MOPU	Unknown	Europe	—	43,000,000	—	43,000,000
Rig	Collision	Europe	25,500,000	—	—	25,500,000
Rig	Mechanical failure	North America	22,571,240	—	—	22,571,240
MOPU	Corrosion	Africa	20,000,000	—	—	20,000,000
MOPU	Unknown	Europe	20,000,000	—	—	20,000,000
Pipeline	Faulty work/op error	Africa	20,000,000	—	—	20,000,000
Well	Blowout no fire	Asia Pacific	—	—	18,800,000	18,800,000
Platform	Heavy weather	Middle East	17,000,000	—	—	17,000,000
MOPU	Corrosion	Latin America	15,000,000	—	—	15,000,000
Well	Blowout no fire	North America	—	—	13,340,000	13,340,000
Vessel	Collapse	Middle East	12,600,000	—	—	12,600,000
Rig	Fire no explosion	North America	12,500,000	—	—	12,500,000
MOPU	Corrosion	Latin America	12,000,000	—	—	12,000,000
Well	Blowout no fire	Latin America	—	—	11,780,000	11,780,000
Rig	Contamination	North America	11,600,000	—	—	11,600,000
Well	Blowout + fire	Asia Pacific	—	—	11,500,000	11,500,000
Well	Blowout no fire	North America	—	—	10,850,000	10,850,000
MOPU	Unknown	Europe	10,100,000	—	—	10,100,000
Rig	Heavy weather	Europe	10,000,000	—	—	10,000,000

Source: WTW Energy Loss Database as of March 6th, 2024 (figures include both insured and uninsured losses)

Figure 3:

Lloyd's upstream PD portfolio profitable despite loss uptick

Lloyd's upstream incurred ratios, 2010-23



Offshore property incurred ratios **OEE incurred ratios** **Onshore property incurred ratios**

Generally accepted level at which the upstream portfolio may not be profitable

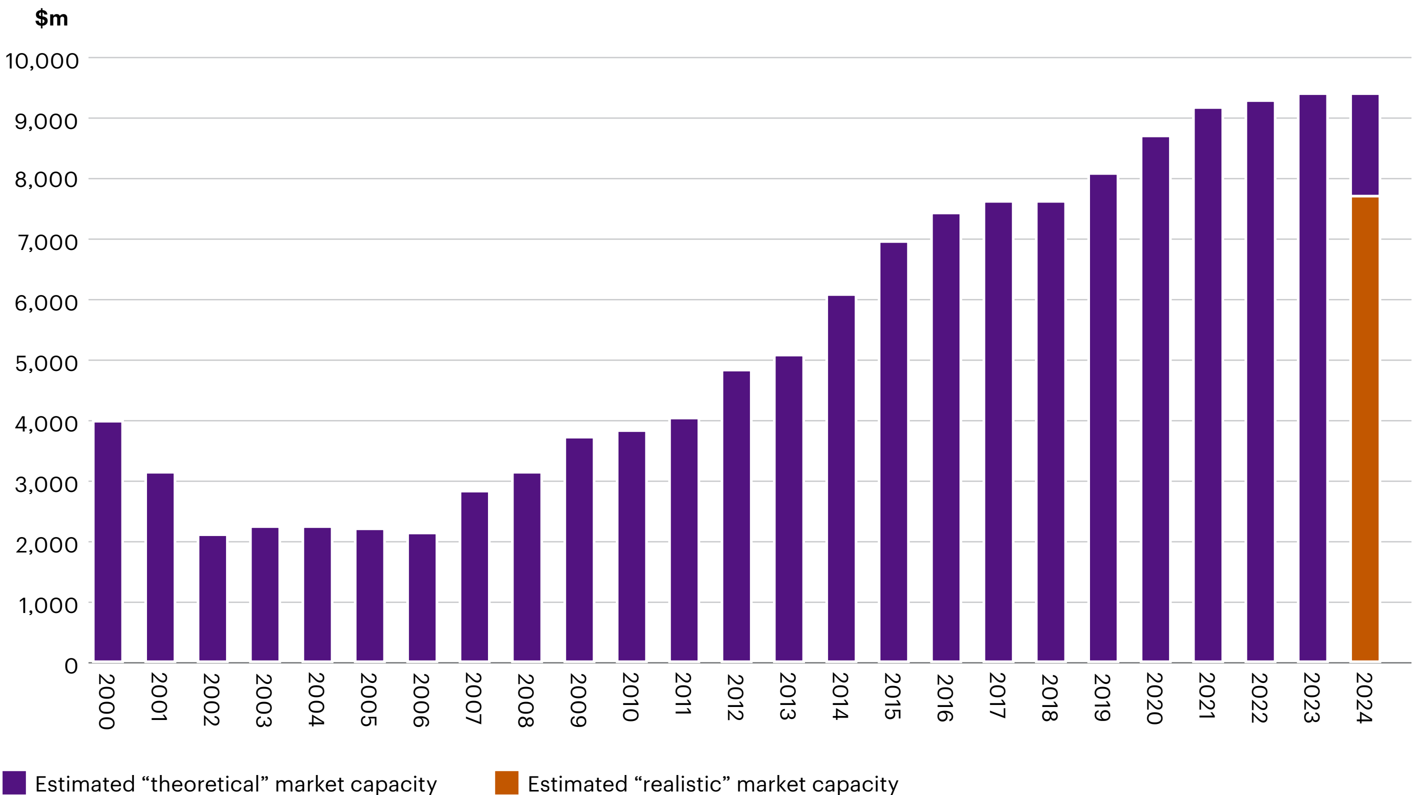
On the other hand, the OEE loss ratio for 2022 sits squarely in the red

Source: Lloyd's Market Association Quarterly Loss Report Q4 2023. "Offshore Property" — combination of ET/EC/EM/EN Audit Codes "OEE" — combination of EW, EY and EZ Audit Codes. "Onshore Property" — EF audit code.

Figure 4:

Abundant capacity maintained

Upstream operating insurer capacities 2000-2024 (excluding Gulf of Mexico Windstorm)



Theoretical and realistic capacity levels for operating assets remain stable at record high levels

Source: WTW

In fact, it is more likely the smaller sized attritional losses that will move underwriters’ positions, as they will be borne entirely by the direct markets without protection from their reinsurance treaties. When looking at carriers’ combined ratios, we can see a clear correlation between higher loss ratios and those markets writing the mid-market business that has seen the bulk of the recent loss activity.

Construction losses, especially those relating to subsea, remain at the forefront of mind for underwriters and their senior management. A recent pipeline construction loss in Australasia, which does not yet feature in the above statistics, will adversely affect the 2023 numbers further and will do nothing to alleviate the market’s concern about this subclass of upstream business.

Capacity remains abundant — but not for all of the portfolio

Upstream operating capacity has remained largely stable, both on a theoretical and a realistic level. Compared to 2023, increases in capacity from existing carriers have been more moderate in both the number of carriers and the amount of increase, which points to a stabilisation of the upstream market capacity.

There have been no new entrants to the upstream market as of 1st January 2024; however, we are expecting some further capacity to enter during the course of 2024 from both new MGAs and existing carriers that have set up new ESG vehicles.

For the most sought-after placements, the continued oversupply of capacity puts increasing pressure on smaller insurers, especially those who only write a narrow book of upstream business, who are increasingly being deselected by clients in favour of larger carriers who are able to support the breadth of the client’s risk portfolio.

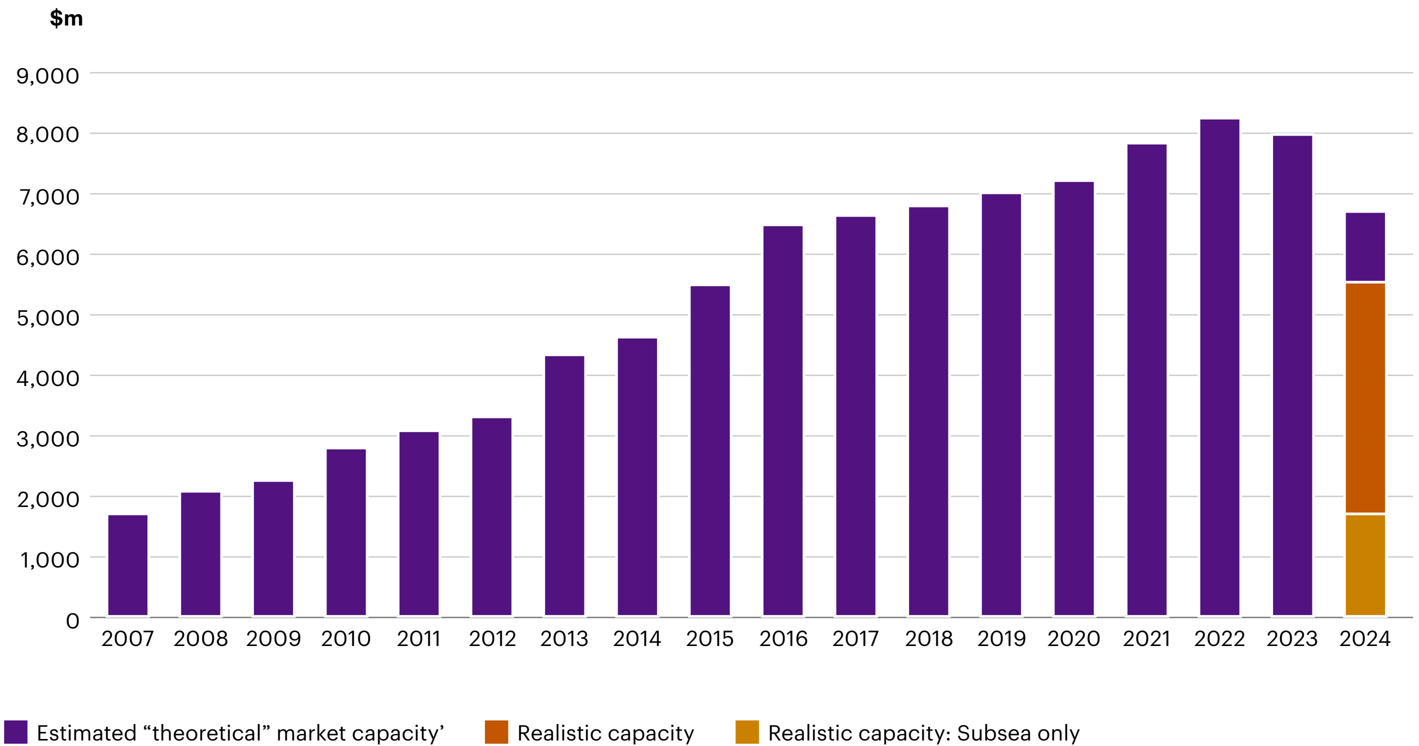
As competition for the most desirable business continues to increase, these smaller carriers face an increasing struggle to remain relevant to clients and brokers alike. If these markets are deselected or signed down significantly on this core Tier 1 business, they may well struggle to support the smaller risks in their book for which their capacity is very much required.

As a result, we see these markets becoming increasingly user friendly with quick response times as well as proactive interaction with brokers and clients and offering to support all of a client’s activities, be they operating or construction, in order to maintain an ongoing partnership with the core client base.

Figure 5:

Offshore construction capacity starting to reduce

Upstream construction insurer capacities 2007-2024



Theoretical capacity levels are reducing with realistic line deployment even more subdued

Source: WTW

One way for smaller insurers can build significant goodwill from their client base is by supporting their offshore construction projects. This subclass of the upstream portfolio has historically been marred by poor loss records, exacerbated by the long tail nature of the risk. As the class struggled with profitability over the last few years, we have seen a gradual falling decline in capacity for offshore construction.

In real terms, whilst theoretical capacity remains high, underwriters are deploying lines significantly below their maximum available capacity. This is most keenly felt on subsea only construction projects, which are seen as the least desirable part of the portfolio due to their loss record. We have recently observed several clients place their subsea construction alongside their sought-after operating programmes to ensure that they partner with markets willing to support them across their activities. Even with this incentive, many markets are only willing to deploy reduced capacity for construction and some would rather be signed down on the high-quality operating business than write construction at all.

How long will market discipline hold?

Despite the continued oversupply of capacity and the meaningful growth targets many insurers have for 2024, markets remain reluctant to challenge existing leaders on accounts on which they already have a position, albeit not with their desired line size. However, if an insurer does not currently participate on a risk, certain markets are willing to quote aggressively to win new business.

Until some of this discipline unravels and new leaders emerge, we are unlikely to see universally offered rate reductions on the upstream book of business as most of the portfolio is already well subscribed to by the current leadership candidates.

Market appetite: The desirability gulf widens

Whilst some other insurance market sectors are currently yielding significantly larger rate increases than upstream energy, carrier appetite to grow in the upstream business persists due to the ongoing profitability of the upstream portfolio. This continued investment in the sector can be seen through the hiring of new and additional underwriters to supplement existing teams at several insurers, with a veritable war on talent to attract the most skilled underwriters.

However, when looking at markets' specific risk appetite, we note that there is now almost no differentiation in individual carriers' risk preferences. Almost all markets are seeking to grow their participation in the most desirable Tier 1 business with large premium volumes, clean loss records, and excellent risk management and market engagement, leading to aggressive competition for the limited lines available on this business. Huge pressure on signings on these accounts ensures that they can get placed with the following markets even following meaningful rate reductions provided that the placement remains led by a credible lead insurer because markets cannot afford to hold out for better terms and risk losing the significant premium income generated by these large accounts.

On the other hand, it is extremely challenging to find carriers looking to grow their book of risks in offshore construction, land rigs, or midstream subsectors, which are viewed as less desirable on account of the loss performance, and this business is likely to still see rate rises. As such, the divide in appetite between the most sought-after business and the remainder of the portfolio is getting wider.

Markets that had to historically be highly aggressive to come onto Tier 1 risks, have now successfully secured their position on this business and are shifting their focus to profitability over further growth. However, this is likely to be followed by a new tranche of markets seeking to do the same, and the market cycle will inevitably continue.

ESG considerations are now well understood

In our day-to-day discussions with underwriters, ESG appears to be less in focus than it has been over the last few years. The reason for this is twofold. Firstly, ESG information is now more readily available to insurers, either directly from clients who now routinely include ESG information in their market roadshows or through separate ESG teams within the insurer who review available information internally and advise the underwriters.

Secondly, most insurers now have a well-established ESG stance which they are confident will not alter significantly in the near future. The majority of carriers have adopted a collaborative approach of supporting clients through their energy transition journeys rather than seeking to exclude certain clients and risks from their portfolio, which has been welcomed by the client base.

What will 2024 bring for upstream buyers?

2023 saw the majority of carriers meeting their ambitious premium growth targets, driven by a significant uptick in offshore construction projects coming to market. This new business has bolstered the overall premium pool but concerns remain about the long tail risk and loss record of this subsector. Most insurers report overall rate rises across their upstream book in 2023, however, this is likely a balance of Tier 1 accounts at flat rates or reductions and less favoured or loss affected business with rate increases.

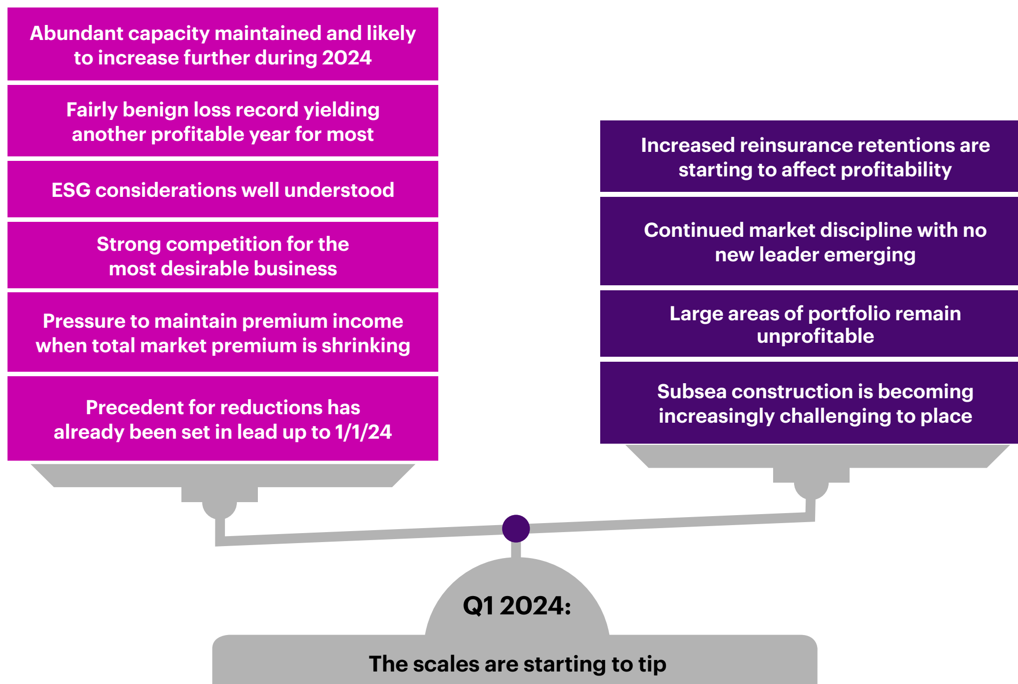
However, leading up to and at 1st January 2024 expected premium was significantly below insurers' expectations due to several large accounts, which had not been tendered in years, renewing at reduced rates, and a large capacity excess placement not being renewed. The latter has resulted in a number of markets missing out on one of the biggest placements in the market altogether with the majority of carriers seeing at least a reduction in the line size they were able to write. Consequently, many carriers would have entered 2024 significantly below their budgetary expectations and would have to commit to new risks or try to secure larger lines on existing risks to compensate for this shortfall, which will prove challenging in the current market dynamic.

This, coupled with the ongoing trend towards increased captive retentions which further compresses market income, has caused a heightened search for alternative income sources at 1st January to fill the gaps in the budget with markets chasing Tier 1 income.

The question is whether this drive for premium income and the resulting rate reductions will continue as 2024 progresses. We could well be at the beginning of a new market softening spiral as the fundamental softening factors, being an oversupply of capacity, a benign loss record and a resulting desire to grow, continue to be present. These factors may well tip the balance further in the buyers' favour.

Figure 6:

The upstream underwriting environment, April 2024



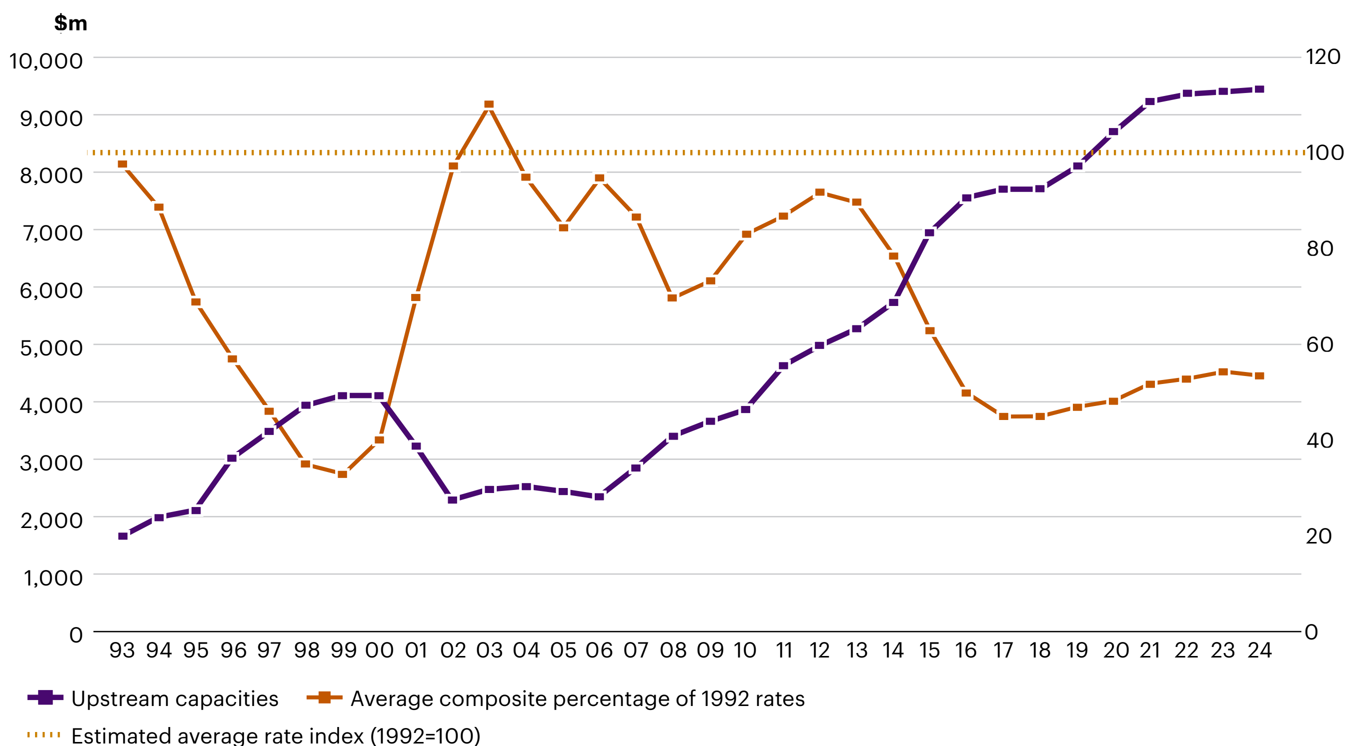
Reductions are on the horizon, but only for some of the portfolio

Source: WTW

Figure 7:

The outlook for later in 2023

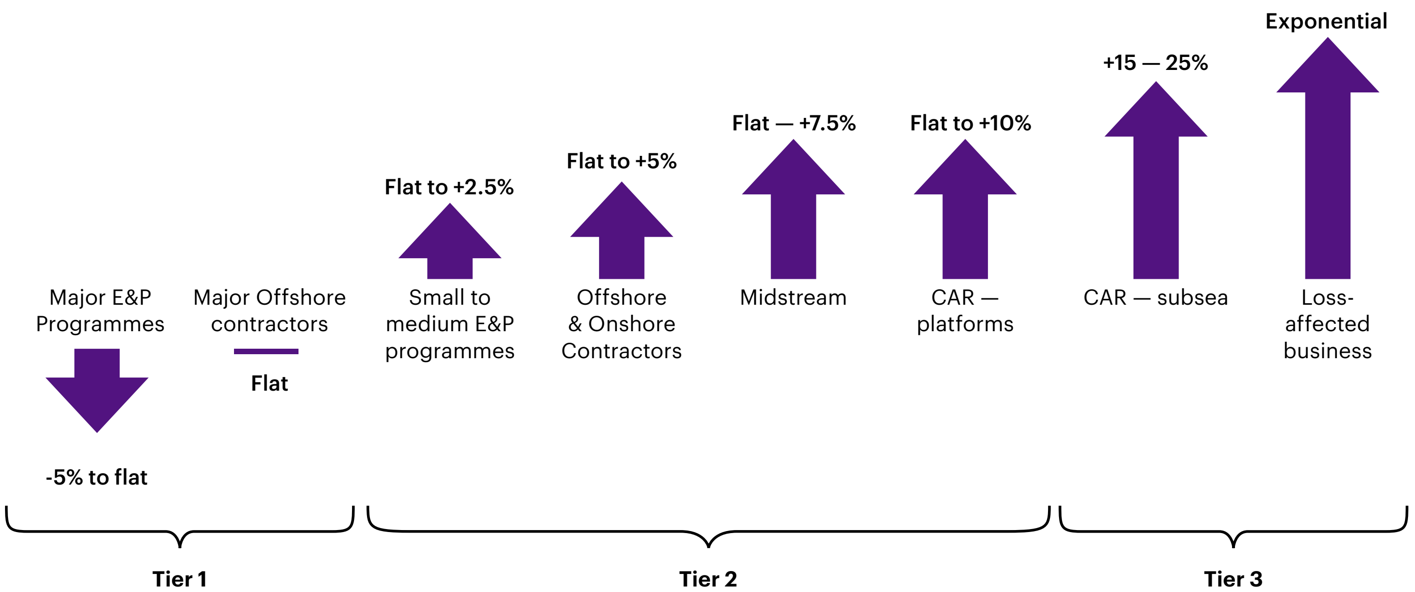
Upstream capacity versus rating levels, 1993–2024 (excluding Gulf of Mexico Windstorm)



Source: WTW

Figure 8:

Three-tier market differentials, April 2024



A widening gulf in rating between the best and the rest

Source: WTW

However, as yet, we are not seeing many outright rate reductions being offered by lead insurers. Instead, brokers are achieving reductions through restructuring of placements, application of new discounts, and changes to coverages, limits, and deductibles, which are receiving more generous credits than they have been in prior years. Insurers are considering all aspects of the placement in their renewal evaluations and the art of broking is very much required at the current point in the market cycle to achieve the best balance of renewal terms and conditions for upstream clients.

Looking forward into 2024, the old adage that a flat market seldom stays flat for long, continues to apply. The expectation for the best Tier 1 business should now be reductions even if markets continue to push for flat renewals, and this is especially the case on accounts where the broker can create competition between different leaders.

Unfortunately, the same cannot yet be said for the remainder of the upstream portfolio, which is still seeing, albeit more moderate, rate rises, causing a widening of the gulf between the different parts of the portfolio.

It is even more important than in the past for clients to work with their broker to positively differentiate their placement in the eyes of the market and allow them to be considered as belonging to the elite Tier 1 which is benefiting from the most favourable rating environment.

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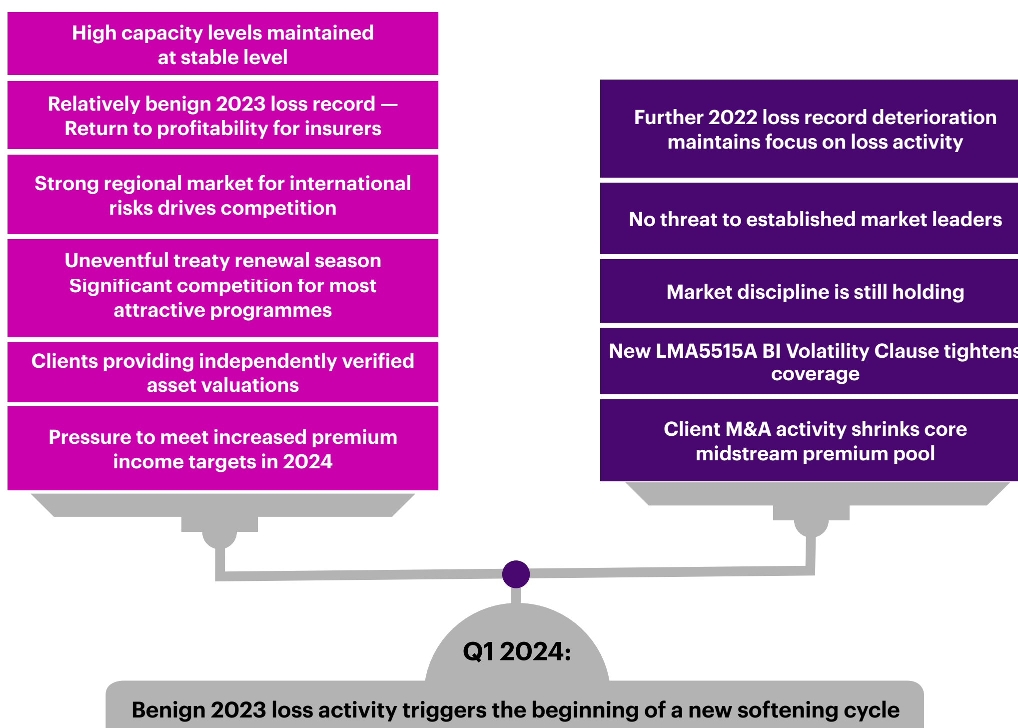
Downstream energy: Light at the end of the tunnel

The last couple of years have been tumultuous for downstream energy clients, however diligent clients who focus on risk quality and accurately assess their asset valuations and business interruption calculations can look forward to a calmer approach to this year's renewals. Whilst insurer discipline remains strong, and the market is highly verticalized, we will discuss below how clients can make savings by smartly controlling their placement structure and using their own retention appetite rather than relying on pure capacity supply pressure.

Figure 1:

The downstream underwriting environment, Q1 2024



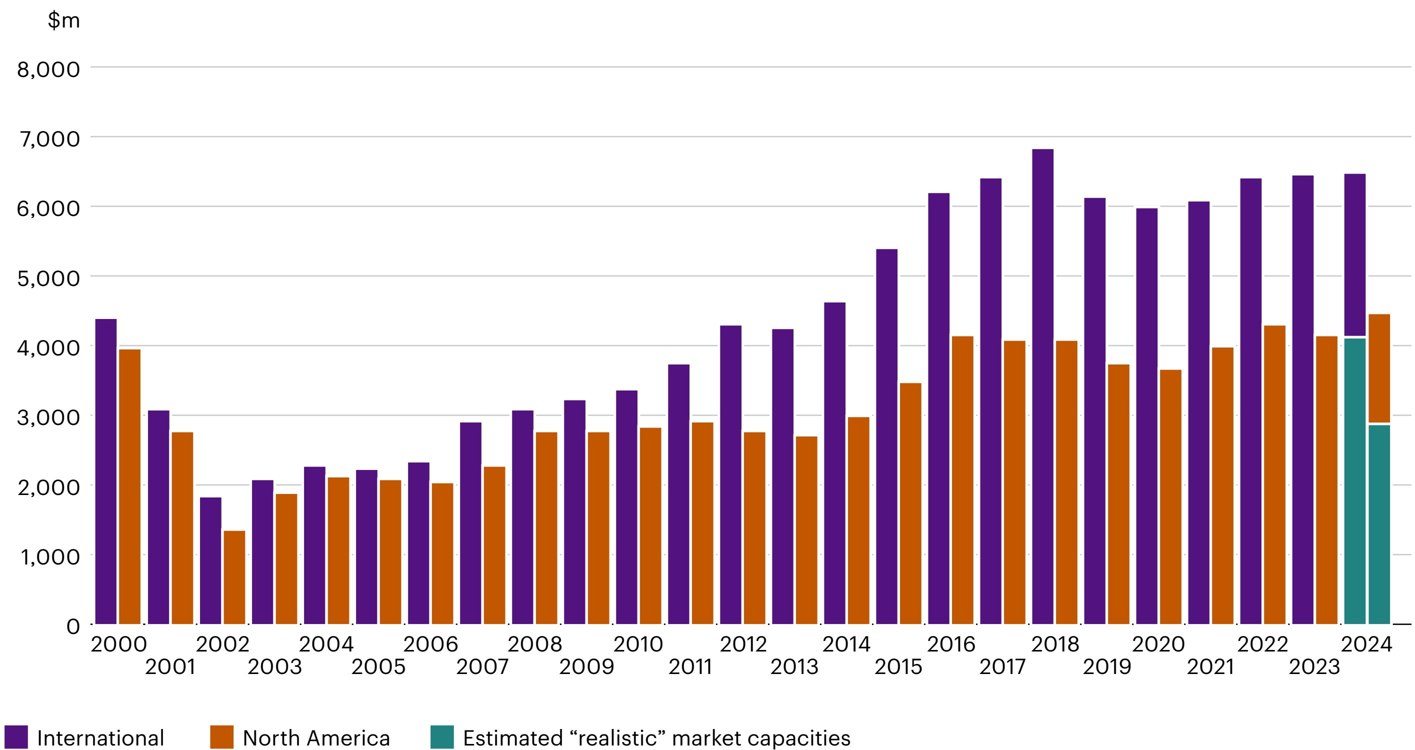
Rate softening will initially focus on the best risks, but how soon will it apply to all?

Source: WTW

Figure 2:

Increased deployed capacity

Global downstream insurer capacities, 2000-2024 (excluding Gulf of Mexico Windstorm)



Capacity remains stable, dampening the hardening market dynamic

Source: WTW

Reinsurance treaty renewals: Nothing to write home about

This year's reinsurance treaty renewals can be summarily described as organised compared to the chaos of last year, where most markets had to accept both large rate rises and increased retention, and prolonged negotiations ensued. Most treaties were renewed well in advance and direct markets knew their treaty position early in the lead up to 1st January which gave them the certainty to be able to commit promptly to direct placements.

Most insurers saw their treaties renewing at flat rates or small single-digit increases, driving improved loss performance in the downstream energy space. Despite this, treater reinsurers continue to be affected by multiple non-energy nat cat events which would have been factored into their renewals, especially on whole account reinsurance treaties. As a result, nat cat continues to be a big driver of treaty pricing, and the amount of nat cat limit purchased will directly affect the renewal terms.

Reinsurers did not seek to impose any new terms or coverage restrictions at 1st January.

Capacity is stabilising

Overall, downstream energy market capacities have remained stable both in theoretical and realistic terms with line size growth from some carriers offsetting a reduction in working capacity being utilised by others.

Midstream and LNG risks attract the most capacity as they are within appetite for most of the market due to the benign nature of these risks and increased competition driven by larger captive involvement.

Overall, this continued stability of capacity is good news for buyers as there is still plenty of capacity for most risks, and we continue to see the best placements being significantly oversubscribed.

Figure 3:

2023 loss record deteriorated but the year remains profitable

Downstream losses excess of $20 million, 2023

Type	Cause	Country	PD $	BI $	Total $
Refinery	Fire + explosion/VCE	North America	35,000,000	862,296,000	897,296,000
Petrochemical	Fire + explosion/VCE	North America	275,000,000	275,000,000	550,000,000
Refinery	Fire no explosion	Europe	63,600,000	309,000,000	372,600,000
Petrochemical	Fire no explosion	Europe	54,000,000	254,000,000	308,000,000
Chemical	Unknown	Middle East	20,000,000	150,000,000	170,000,000
Petrochemical	Fire no explosion	Middle East	55,000,000	95,000,000	150,000,000
Refinery	Fire no explosion	Europe	5,200,000	100,000,000	105,200,000
Refinery	Fire no explosion	Europe	25,000,000	66,000,000	91,000,000
Refinery	Impact	Australasia	4,550,000	68,640,000	73,190,000
Pipeline	Fire + explosion/VCE	North America	39,200,000	15,000,000	54,200,000
Chemical	Fire + explosion/VCE	North America	11,500,000	26,000,000	37,500,000
Chemical	Collapse	Australasia	10,000,000	24,600,000	34,600,000
Renewables	Explosion no fire	North America	17,800,000	16,250,000	34,050,000
Refinery	Lightning + fire	North America	27,600,000	4,200,000	31,800,000
Refinery	Impact	North America	15,000,000	12,000,000	27,000,000
Chemical	Mechanical failure	North America	10,000,000	16,500,000	26,500,000
Refinery	Fire no explosion	Europe	24,000,000	—	24,000,000
Gas plant	Mechanical failure	Middle East	20,000,000	3,000,000	23,000,000
Renewables	Fire no explosion	North America	20,000,000	—	20,000,000

Continued profitability despite some major losses, but attrition is creeping up.

Source: WTW Energy Loss Database as of February 23rd, 2024 (figures include both insured and uninsured losses)

Claims: A profitable year at last

2023 can be described as a fairly benign year by downstream energy standards with a total of $3.27 billion of insured and uninsured claims so far recorded within our Energy Loss Database. Whilst this is still a substantial amount, when mapped against the total market premium of circa $4.5 billion, it reveals a profitable year for insurers.

Figure 4:

2022 loss record shows continued deterioration

Downstream losses excess of $75 million, 2022

Type	Cause	Country	PD $	BI $	Total $
Gas plant	Fire + explosion/VCE	North America	225,000,000	1,231,200,000	1,456,200,000
Gas plant	Fire + explosion/VCE	North America	456,750,000	890,250,000	1,347,000,000
Refinery	Mechanical failure	Europe	40,000,000	639,800,000	679,800,000
Refinery	Fire + explosion/VCE	North America	75,000,000	495,500,000	570,500,000
Refinery	Fire + explosion/VCE	Europe	123,000,000	440,000,000	563,000,000
Petrochemical	Mechanical failure	Middle East	10,000,000	360,000,000	370,000,000
Gas plant	Fire no explosion	Middle East	13,600,000	228,440,000	242,040,000
Gas plant	Fire + explosion/VCE	North America	160,000,000	45,000,000	205,000,000
Tank farm/terminal	Unknown	Latin America	100,000,000	72,000,000	172,000,000
Refinery	Fire + explosion/VCE	Asia Pacific	28,000,000	122,500,000	150,500,000
Tank farm/terminal	Lightning + fire	Latin America	138,000,000	—	138,000,000
Chemical	Mechanical failure	North America	50,000,000	78,558,800	128,558,800
Gas plant	Heavy weather	North America	8,438,835	118,000,000	126,438,835
Pipeline	Impact	Asia Pacific	2,000,000	109,000,000	111,000,000
Chemical	Unknown	North America	3,100,000	103,500,000	106,600,000
Chemical	Contamination	North America	8,300,000	95,700,000	104,000,000
Petrochemical	Mechanical failure	Asia Pacific	59,500,000	43,800,000	103,300,000
Refinery	Fire no explosion	Europe	4,238,000	90,000,000	94,238,000
Pipeline	Ruptured pipeline	North America	11,000,000	80,000,000	91,000,000

A further $650 million deterioration compared to the autumn update

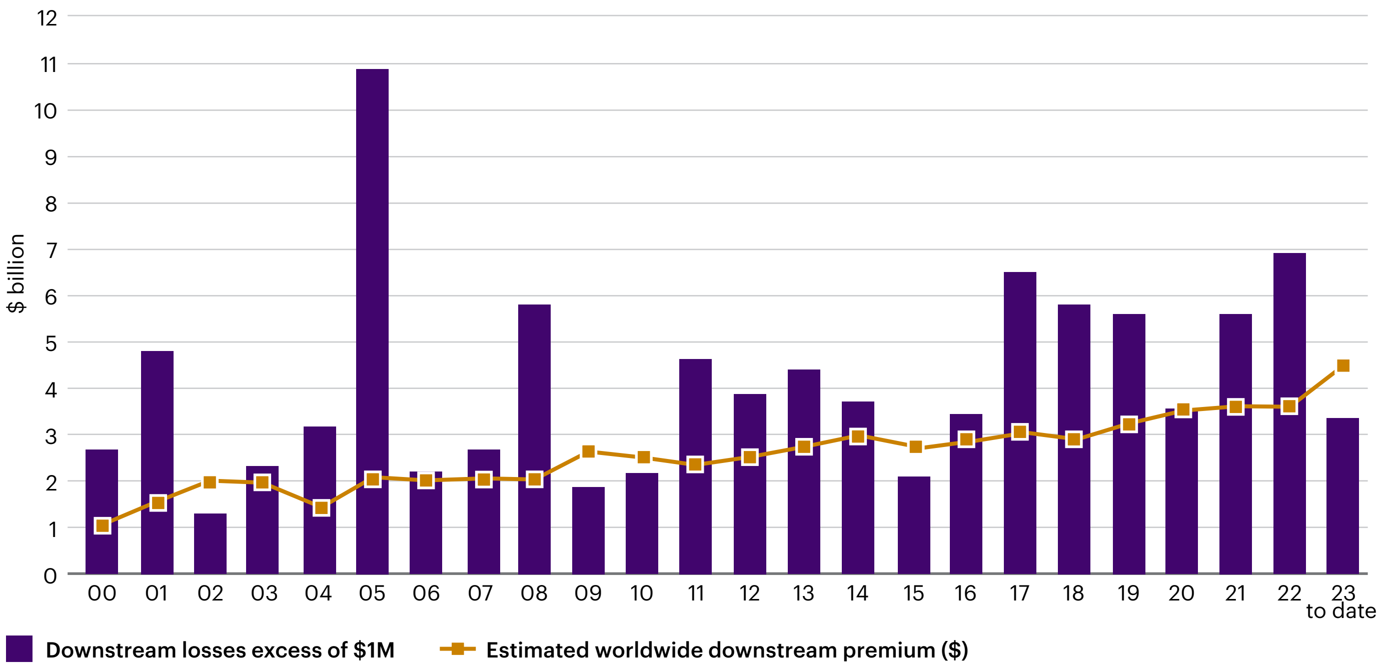
Source: WTW Energy Loss Database as of February 23rd, 2023 (figures include both insured and uninsured losses)

However, with increasing operating costs and the market still recovering from te substantial losses in 2021 and 2022 (some of which have deteriorated further), downstream insurers are not yet sharpening their pencils to aggressively attack rating levels again.

Figure 5:

Losses and premium income

WELD downstream losses 2000 — 2023 (excess of $1 million) versus estimated global downstream premium income



2023 provided insurers with a profitable year following the destructive loss activity of 2021 and 2022

Source: Willis Towers Watson/WTW Energy Loss Database as of February 23rd, 2024 (figures include both insured and uninsured losses)

With the increased reinsurance retentions imposed during the 2023 treaty renewals, we are also seeing direct insurers being hit more severely by smaller attritional losses, which are now fully borne by their bottom line rather than being passed on, at least in part, to treaty reinsurers.

Terms and conditions: A more considered approach to volatility

Insurers continue to focus on asset valuations both for PD and BI, and ensuring insured values are accurate is becoming increasingly important in a market environment where markets are no longer getting large rating increases that provide premium to pay for loss volatility. Thus, insurers are looking to tightly control claims recovery, predominantly due to the inclusion of BI volatility clauses as we have discussed in our most recent reviews. Whilst the leeway percentage in these volatility causes has progressively reduced as 2023 progressed, the downstream market has now taken a slightly different, more considered approach.

On 1st February 2024, the LMA released a new BI Volatility Clause LMA 5515A, which specifically addresses partial losses. This is particularly poignant, as in most loss scenarios, the client can maintain partial production. This was not previously properly considered within the market volatility clauses and the new clause is intended to provide greater clarity of loss recovery in event of a partial loss, effectively proportionally adjusting the recovery on a month-by-month basis to account for any partial production achieved by the client. We expect the LMA 5515A to be proposed on all or most BI placements going forward, however, we do envisage the market being more generous with percentage leeway in return for accepting new provisions, as there are possible scenarios where the clause could be more stringent than an average clause. Often, clients' businesses treat profit and costs in a different manner, for example, storage terminals may be treated as costs with profits attributed to refinery locations. As we know, BI losses are not always linearly proportional to production levels and multiple end products and margins to meet contractual requirements. We should not forget that the administration burden of BI declaration and adjustment is high, and there is uncertainty when a new clause is introduced. Insurers should carefully consider each individual insured and have confidence in their understanding of their business, ensuring that they remain focused on providing indemnity to clients applying the right rate to the right value.

ESG continues to loom large over the downstream market, however, there is not yet any consistency in approach between the different insurers. In fact, ESG appears to no longer be the focus it was a few years ago

with the Russia-Ukraine conflict shifting focus towards energy security. We have observed some retrenchment from the markets who moved early on to declare their position with insurers re-evaluating whether their strict initial position was the right approach compared to a strategy of supporting clients through the transition. We are even seeing markets that declined business on ESG grounds just 2 years ago, and are now coming back to the same business. Whilst this by no means indicates that ESG considerations have been forgotten, it does show a shift in focus by the market and a return to the more holistic underwriting of the risk itself.

Market discipline is holding...for now

If all things come together and a client comes to the market with an international placement featuring good local market or captive participation, excellent engineering, up-to-date valuations, and a clean loss record, it is possible to obtain rate reductions in the current market.

As downstream energy continues to be a highly verticalized market, these reductions would likely be achieved through a combination of market rate reductions and the removal of the most expensive towers from the placement structure.

Local markets continue to aggressively pursue business in their region, be it the Middle East or Asia, and both markets offer robust pools of capacity totally in excess of $750 million in each region. In addition, the Middle Eastern market recently saw some movement of established underwriters to smaller insurers, which resulted in an increase in local capacity and risk appetite.

Placements that fully utilise the available local market capacity in both Dubai and Singapore are likely to see the best renewal outcomes as this will allow for the most competitive placement structures to be used. As a result of this substantial local market capacity, even some of the larger limits are oversubscribed and some of the core placements are coming to London with only small orders in the region of 20-30% left to fill. On the most desirable business, this is driving competition between London markets and the start of some bidding for share.

However, the same cannot be said for European or North and South American risks, which are not able to utilise the Middle Eastern and Asian markets because of licensing requirements or underwriting authority restrictions. These risks are heavily reliant on the cornerstone capacity provided in central Europe and London, and placements with limits exceeding $1.5 billion continue to be very challenging to place absent any meaningful captive participation.

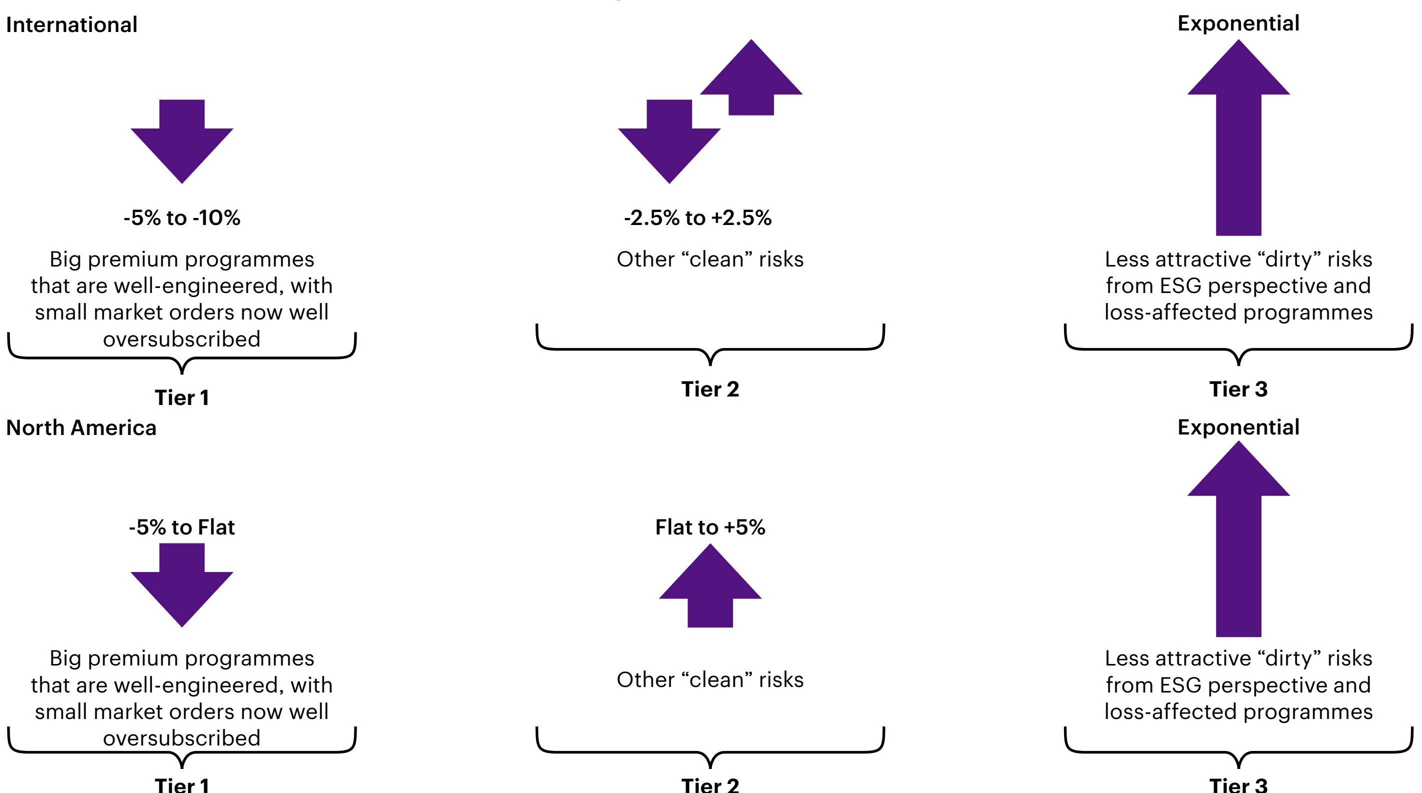
As a result, we are continuing to see a clear difference in downstream market's competitiveness for business where local markets can be used compared to placements relying solely on London and European capacity.

Despite this, we anticipate that 2024 will bring some harmonisation in programmes with renewal terms for the bulk of the Downstream portfolio ranging between small reductions and small rises.

Of course, every risk is different, and the observations we have made below will be subject to deviation dependent on limits, territory, clauses, and deductibles.

Figure 6:

Current downstream market rating movements, April 2024



With loss activity understandably still a key focus, it will be those accounts that have suffered recent losses, which will continue to see the brunt of the rate increases.

However, despite the market starting to soften once again, market discipline persists, and markets not yet starting to compete so aggressively that they undercut each other. Whilst 2023 looks to be a profitable year for most and some carriers have ambitious growth targets for 2024, insurers do not yet have carte blanche from senior management to provide significant rate reductions and grow the book at all costs.

For now, at least, markets will continue to fight for flat renewals, with insurers not wanting to be seen as the ones setting the market on a downward trajectory. However, this market discipline will unlikely last for long and reductions are already going through the books albeit on a case-by-case basis. While some of the early placements in the spring season will require some complex rearranging of towers to achieve the above reductions, as the year progresses, we expect that markets will come to terms with the new reality of the market.

And if 2024 proves to be another good year, we will likely see markets start competing for share which could send the Downstream market once again into meaningful softening. However, based on current sentiment, we are more likely to see a persistent but steady decline in rates than the freefall of recent years as underwriters do not want to return to rates falling off the cliff again only to spend several subsequent years working hard to recover to a reasonable base rating level.

"While some of the early placements in the spring season will require some complex rearranging of towers to achieve the above reductions, as the year progresses, we expect that markets will come to terms with the new reality of the market"

What will the future bring?

As we look further into the future of the downstream market, we see a trend of client merger and acquisition activity, particularly in the U.S. midstream market. This is a concerning trend for insurers as in any combination of two large clients, in insurance terms, one plus one rarely equals two. Such erosion of the Downstream premium pool, especially when relating to some of the market's preferred business, will of course be of concern.

Similarly, the trend of increased self-insurance, either via increased risk retentions or through larger captive participations, also continues, and this will further chip away at the reducing premium pool.

If the overall premium base reduces, insurers can mitigate the effect either by maintaining rating discipline and pushing for rating increases (which they are unlikely to achieve if the current oversupply of capacity persists) or by searching out new sources of income. To this end, many downstream markets are keeping an eye on developments in hydrogen space, as clients are considering retrofitting hydrogen capacity to their existing installations. Hydrogen is viewed as a key future revenue driver by many markets; however, the technology is still reasonably nascent in its development, and it is too soon for hydrogen to be a relevant revenue stream in the market.

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International liability: The end of the hard market?

Our 2024 Review contains a certain canine and zoological theme, as we seek to analyze the current status of the energy liability market. As always, it is helpful to first consider the key drivers for market conditions. These are, most particularly, treaty renewal costs, market profitability and available capacity.

2024 treaty renewals: A shaggy dog story?

There was significant doom-saying prior to the 1 January 2024 liability treaty renewal season, with a number of treaty reinsurers talking-up the market.

Much stemmed from the same very valid concerns facing direct insurers, namely social inflation; adequacy of reserving and the ever-increasing claims stemming from the U.S., most particularly in respect of U.S. auto and workers, comp.

One particularly interesting feature was the emergence of U.S. claims from books of ostensibly international treaty business. A case in point being the successful class action claim relating to the collapse of a condominium in Miami in June 2021 for which the international security company responsible for alleged negligence of the guard, was found liable for almost half of the $1 billion claim. This has prompted many reinsurers to analyze their books more closely. In particular, one reinsurer, who was hit three ways on this loss (via their direct, facultative and treaty participations) has cut back its overall maximum direct liability line size as a result.

Despite worst fears, treaty negotiations were conducted in an orderly fashion with adequate capacity and no major changes to conditions or retention levels. Pricing was on average higher than for the property treaty renewals, with risk-adjusted rate increases for liability treaties being in the mid-single digit range.

Market profitability: The patient is recovering well...

The Lloyd's of London financial results are a good barometer of the overall health of the various lines of Insurance business, more broadly. In our 2023 energy market review update we noted that for the first time in eight years, casualty as a class finally returned to an underwriting profit.

Figure 1:

Lloyd's annual results for the casualty sector:

Year	Gross written premium £M	Combined ratio %	Underwriting result £M
2014	4,959	98.1	74
2015	5,764	100.1	(5)
2016	7,131	102.7	(146)
2017	8,464	103.1	(189)
2018	9,094	102.9	(183)
2019	9,459	105.7	(390)
2020	9,067	110.3	(688)
2021	10,360	100.3	(17)
2022	12,987	93.7	536

Source: Lloyd's Annual Report 2022

This trend has continued, with positive H1 2023 casualty results reported by Lloyd's in September 2023:

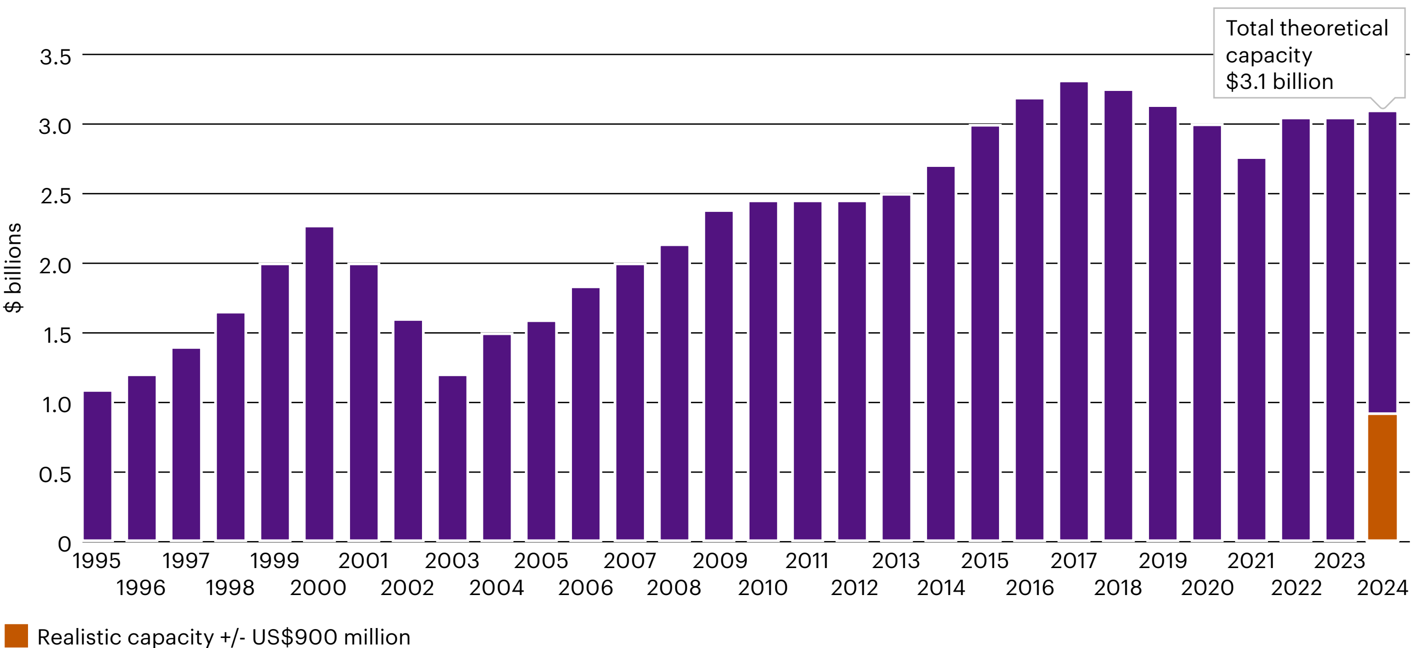
Year	Gross written premium £M	Underwriting result £M
H1 22	6,030	425
H1 23	6,530	404

Source: Lloyd's Half Year Results 2023

Whilst Lloyd's definition of casualty includes directors and officers, financial lines, cyber and accident and health as well as liability, it nevertheless reflects the general recent trend of improved profitability within the liability sector alongside other lines within the class. This positive news on profitability should however be caveated with recent concerns regarding reserving adequacy, which we consider below.

Figure 2:

Global liability capacity



Source: WTW

Market capacity: Hidden undercurrents of change

Total headline global liability capacity shows a modest uptick in 2024 from $3.05 billion to $3.1 billion. Likewise, we estimate that realistic capacity has increased from $850 million to $900 million. These small changes, however, hide greater underlying changes, with opposing dynamics at play.

On one hand, we have seen a recent reduction in maximum line size by some of the major insurers, for one of two reasons: treaty renewal costs and maximum exposure concerns. Certain insurers with higher than anticipated treaty renewal costs in 2023 elected to buy less. Other major insurers, particularly those hit by unexpected U.S. losses to their international book (as in the case described above) have chosen to cut back their overall participations per risk. As a result, approximately $80 million of existing capacity has been lost from the market.

On the plus side, some insurers have expanded their line sizes (particularly more recent entrants, having built up a satisfactory premium reserve pool) and others, most notably TMK HCC, Sompo and Probitas have expanded positively into the energy liability sector.

Whilst the net result appears as a minimal uptick in capacity, the reality is an increase in insurer choice and greater competition, which is positive news for buyers.

Reserving concerns: Tail bites dog?

In newspaper parlance, 'dog bites man' is not a story, but 'man bites dog,' most certainly is. In the liability world, the headline narrative is the concern that the 'casualty canine' may be bitten hard by its tail.

Economic inflation has been a common factor across most lines of business, with raw material shortages, increased rebuild costs and wage inflation driving up the cost of claims.

The liability sector faces the additional challenge of social inflation with the increasing propensity to claim, fuelled further by social media and third-party litigation funding, combined with higher court awards, 'Thermonuclear' verdicts in the U.S., and the erosion of tort reform to favour plaintiffs, all having a significant impact on the frequency and quantum of liability claims.

According to Advisen loss data, the median cost of awards over $10 million increased by 35% from 2015 to 2020, rising from $20 million to $27 million and this trend continues.[1]

There is a view that loss reserving for the liability sector in general has been insufficient over the past decade, most particularly for the period from 2016 onwards. Many insurers have been increasing their reserving as a result. One of the strongest voices of concern has been Swiss Re, who announced in its February 2024 Annual Results that it will strengthen in its casualty reserves by over $2 billion. This is on top of the $6.1 billion of casualty reserving since 2015. Other insurers are following suit. However, concerns remain that if the tail deteriorates, including the last four years which, despite pricing corrections, may be less benign that hoped, then insurers may be forced into a re-evaluation of the current moderating price levels.

Clearly this is a macro level view of liability sector profitability, but it informs and directly influences the liability energy sector. In energy-industry-specific terms, whilst there has been an absence of major energy cat liability losses, pollution losses remain a concern, particularly in the midstream/pipeline sector where there have been a series of small to mid-size pipeline pollution claims of $10 million to $25 million in magnitude which have directly impacted the net retentions of many primary energy insurers.

Auto liability remains a source of claims concern, particularly for international clients with U.S. exposures, as do wildfire losses from a potential cat perspective.

The Peruvian terminal operations oil spill pollution event in 2022 is a topical example of the issue of claims inflation and reserving adequacy. Previously reserved at $350 million, most insurers have increased reserves to $600 million+ and face the prospect of class action, filed in the Hague in January for $1 billion. This would seem to underline the continuing concerns many insurers have regarding the validity and sufficiency of current reserving levels, more broadly.

Fac tap: Flow reduces

Whilst market capacity remains relatively abundant, a subtler trend to watch is the diminishing appetite of the facultative reinsurance market for energy liability business. Facultative reinsurers, wary of the increasing ESG issues on the horizon for many energy insurers, have chosen to trim their capacity, become much more selective and focus more on other industry sectors.

Push-pull of conflicting forces

Those readers of a certain age may recall a famous fictional character named Dr Dolittle who, during his travels, encountered a strange animal with two heads at opposite ends of its body, called the Pushmi-Pullyu. This rare beast illustrates well the conflicting dynamics in the current energy liability market. On one hand, the positive factors of increased capacity, greater competition, positive recent results, broker pressure and a desire for income growth are pushing towards a softening of the market, or at least, a moderation in the level of previous rate increases. On the other hand, concerns about social inflation, reserving adequacy and treaty cost increases and facultative capacity reductions are acting as a slight break.

The net result is that the liability pushmi-pullyu is edging slightly nearer to a softer market but has not quite arrived there yet. So, what does this actually mean for buyers, in renewal pricing terms?

Pricing: It's all relative

Over the past 12 months, renewal price increases have moderated from, on average, mid-to-high single digit in 2023, to mid-to-low single digit increases in 2024, with average base price negotiation starting points having reduced from +7.5% to +5%.

We have however noticed an increased level of volatility and insistency, with significant fluctuations around the norm. Clearly, increases or reductions in material exposures will affect the average rate as will the nature of an insured's activities.

Clients with greater midstream exposures, oilfield service operators and wildfire-exposed risks are favoured less that those with benign, less loss-exposed industry profiles. Equally, international accounts with U.S. exposures are treated much more cautiously, as insurers grow increasingly concerned about the growth in quantum and frequency of U.S. originated claims.

Insurers are also increasingly focused on rate relativity rather than default rate change requirements.
Those accounts that are considered adequately rated by insurers will receive more favourable treatment than those that are still viewed as underpriced.

[1] In The Know: Social Inflation and the Increasing Cost of Large Jury Awards: VMG Insurance per Advisen Casualty Loss Data
https://www.vgminsurance.com/handlers/secure-document-handler.php?file=6df54e5133b55d0c152da603804232a8.pdf

There are also sector-within-sector differences. From a broader natural resources perspective, renewal changes for mining accounts or energy clients with significant mining exposures are seeing minimal rate change, as this sector has already had significant rate increases factored in over the previous five years.

New accounts and those with small limits are achieving the most favourable terms as insurers fight for market share. Insureds requiring significant limits are benefitting from some rate moderation and experiencing, on average, mid-single digit increases. They are, however, no longer held to ransom for the final capacity on larger progams and are able to fill gaps or push back up limits, using the new and/or increased capacity.

Climate of change: Coverage considerations

The most common coverage issues continue to be the increasingly widespread imposition of exclusions relating to PFAS (Per-and polyfluoroalkyl substances) and climate change liability. Whilst PFAS exclusions are increasingly broad blanket, buyers that can articulate their exposures have the most success in limiting any exclusions to fire retardant activities. Climate liability exclusions are also becoming increasingly commonly imposed. This is illustrated by the most recent JL London Umbrella form JL2022-016, which amongst other changes, includes exclusions in respect of both PFAS and climate change.

ESG and energy security: Devil or the deep blue sea?

Environmental, social and governance considerations remain very much on the radar with clients and brokers carefully tracking the market appetite for energy business.

There is certainly an increased focus and selectivity by insurers as to how they deploy their capacity. Coal — fracking — and Arctic drilling-exposed insureds have already experienced serious capacity constriction and some carriers have exited the hydrocarbon sector completely. Many insurers are, however, seeking a greater degree of self-governance, in order to have discretion to positively discriminate and support coal or hydrocarbon risks with a credible transition plan and/or a strong renewable energy mix. This was illustrated by the withdrawal of Lloyd's and many insurers from the Net Zero Insurance Alliance in 2023.

Some insurers have suggested that the recent moderation in energy market pricing conditions could be short lived followed by an 'ESG' related rate-bounce as future capacity exits the energy liability sector, driving back up pricing. We are yet to see any immediate signs of this materialising and the increased focus upon energy security remains as a counter pressure to less-nuanced environmental concerns.

Conclusion

In summary, it is good news for buyers. Capacity, although only up slightly, includes a greater variety of participants, increasing competition and choice. Rate increases are currently still the norm, but moderated from 2023, with an anticipation that further moderation may continue throughout 2024 — provided that back year reserving clouds do not rain on the parade. Could 2024 see a final end to the dog days of the previous hard market? It is certainly directionally heading that way, though differences remain by sub-class and by territory with international and North American exposures in particular continuing to have differing dynamics.

Whatever the weather, whatever the change, one certainty remains: insurers continue to favour buyers with strong market relationships, a compelling carbon transition plan and a well-articulated risk management strategy.

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North American energy casualty: A tale of two markets — oilfield services

Primary liability

A tale of two markets...oilfield services...and everyone else

Due to a combination of manageable primary limits (which has helped to reduce the impact of increased U.S. liability claims severity), a sharper focus on risk-transfer attachment points and an abundance of available capacity, the primary liability marketplace (workers compensation, general liability & auto liability) continues to find itself in a relatively stable position overall from both a pricing and capacity standpoint in many of the natural resources sectors in 2024. After experiencing a challenging 2023 with a major loss in primary capacity, the upstream segment appears to have stabilized as we move into 2024. Midstream, downstream, power/ renewables and chemical accounts continue to find themselves in a stable position regarding market capacity year-over-year, as ample capacity exists to provide competition which will offset an underlying need for larger rate increases in U.S. casualty. As was the case in 2023, the new-business growth goals and ample overall primary liability capacity should keep rates within low single digit increases for workers compensation and general liability as those lines of business remain profitable for most individual sectors. Auto liability remains a major concern for U.S. natural resources liability insurers, and early 2024 indications are leaning towards many carriers seeking low double-digit rate increases to offset the impact of claims inflation on their portfolios.

As we move into 2024, an area of concern that bears watching is capacity availability and subsequent renewal pricing within the oilfield services (OFS) segment, as that sector is quickly experiencing capacity and limit challenges stemming from both general liability and auto liability losses that continue to plague insureds within the industry. The OFS segment was historically one of the most competitive U.S. liability markets with ample capacity in recent years, but in 2024 OFS capacity appears to be decreasing as certain primary carriers have started to reconsider the viability of continuing to insure OFS companies as they struggle for profitability. Insureds with challenging loss histories and/or larger auto fleets are seeing more pressure on retentions and rates when capacity can be found because of increased claims inflation and litigated claims from workforce injuries and auto accidents.

Auto liability

Despite eight consecutive years of high single-digit or low double-digit rate increases for almost all clients in the energy sector, auto liability remains a large issue for most primary liability insurers and continues to be a major area of concern. While a lower ($1 million or $2 million) combined single limit helps manage severity, the industry continues to see an alarming uptick in litigated auto claims and settlements continue to increase, oftentimes outpacing rate increases from the prior year. As the pandemic-induced backlog of court cases continues to decrease, auto liability judgements and settlements continue to trend in a troubling direction in both prior years and in the 2022-23 policy years as combined ratios have once again climbed over 100%. A well-funded plaintiff's bar continues to focus on commercial auto litigation, and accident frequency continues to trend upwards for many insured in the energy industry which does not bode well for auto liability rates. Jurisdictions that used to be considered neutral are now becoming plaintiff-friendly venues in places like the Permian Basin, where activity is concentrated and frequency of losses is high, and areas such as Louisiana and South Texas continue to be challenging. The industry does not expect the 2023 auto liability combined ratio be profitable despite eight years of steady rate increases, as Fitch Ratings* predicts the commercial auto insurance combined ratio to exceed

106% in 2023[1]. Despite seeing a tapering of rate increase needs in 2022 and 2023 (where many carriers were offering 5-7% rate increases for profitable business), 2024 auto liability rates appear to be trending upwards, with certain incumbent insurers seeking double-digit rate increases on their auto liability renewals as they attempt to return to profitability in a continuously challenging environment. Hired auto claims in which the failure of a client-hired carrier to maintain or certify sufficient insurance limits has resulted in large judgements against the hiring company's corporate programs and attorneys have begun targeting 'deeper pockets' in recent years. In addition to larger rate increase asks, we expect insurers to continue to focus on risk transfer attachment points as well in efforts to 'right-size' their portfolios.

OFS companies with larger fleets are seeing more intense scrutiny when their accounts are being underwritten in 2024 as losses within this segment appear to be greater than other segments in the oil patch. As this segment is generally more sensitive to increasing retentions and posting collateral for large deductible loss picks, it is vital that hiring driver criteria, fleet safety practices/training and telematics/drive camera usage are highlighted to carriers to differentiate risk.

General liability

Incumbent insurers in the midstream/downstream, power/renewables and chemical segments are currently seeking low single-digit rate increases for general liability renewals for historically profitable business and in certain cases are offering flat-rated renewals to incumbent insureds as capacity remains stable year-over-year. After a very challenging 2023, offshore operating has seen an increase in general liability (and lead umbrella) capacity with the return of the JH Blades facility, which will increase competition and put pressure on 2023 rating for insureds who moved into the London primary general liability marketplace. We do expect all carriers offering offshore liability capacity to continue their focus on operator's stricter adherence to Marcel Exceptions regarding the Louisiana Oilfield Anti-Indemnity Act due to an increase in litigated claims severity for contractor injuries. Domestic onshore operating capacity has also increased with the return of the JH Blades facility, with multiple carriers in both the U.S. and London willing to offer general liability coverage at competitive pricing for profitable insureds with proper controls in place. The combination of an increase in capacity and an expected profitable year for most primary onshore operating carriers leads us to believe that the market will be competitive in 2024 for onshore companies.

As stated above, the OFS sector continues to see a troubling uptick in the severity of 'action-over' claims amounts and carriers are beginning to scrutinize certain classes within the sector to combat the rising claims costs for litigated workplace injuries. In addition to the challenges faced by OFS companies due to fleet sizes, locations and claims severity in auto liability, the increase in litigated claims for workforce injuries has put tremendous pressure on primary carriers as well, as general liability profitability is no longer offsetting the profitability challenges stemming from auto liability losses. As a result, incumbent general liability rate increases are beginning to rise higher in this sector and carriers are increasing scrutiny on controls in place for accounts who have sustained losses over the last few years. Insureds in this sector should focus on workplace safety initiatives and programs to differentiate themselves from competition as claims inflation is becoming a major issue in the OFS sector and carriers are beginning to exercise more caution during the underwriting process.

Workers' compensation

Workers' compensation has remained a consistently profitable line of business for primary liability insurers for midstream, downstream, chemicals, power/renewables and upstream and has subsequently remained stable from a rating standpoint, with carriers seeking small rate increases (up to 5%) on renewals in an effort to subsidize loss activity on other primary lines of business. However, due to the combination of capacity and profitability (plus rising wage inflation year-over-year), carriers are settling for 'flat' renewals (or close to 'flat') in 205.

OFS companies and industrial contractors are seeing larger rate increases if they have negative loss records as the sector is seeing an uptick in severity of workplace injuries. Carriers are putting pressure on retentions and pricing for clients with losses in this segment, as the industry is seeing an uptick in a workers compensation claim turning into a litigated general liability 'action-over' claim.

[1] https://www.fitchratings.com/research/insurance/us-commercial-auto-insurance-profits-struggle-amid-inflation-litigation-27-09-2023

Market outlook: Excess liability

Claims inflation has continued to have the largest impact on excess liability, as the continued 'frequency of severity' on an increased number of litigated claims has put tremendous pressure on lead umbrella liability carriers. As settlements continue to increase in size and scale, and nuclear verdicts continue to occur more frequently when claims are actually tried, carriers in all segments are increasing their scrutiny on limits deployed and premium charged in order to continue offering a sustainable lead umbrella product.

While the onshore and offshore operating segments appear to have stabilized, OFS companies, specifically those with larger fleets or losses, are facing some of the capacity issues that impacted the upstream segment in 2023. Severe litigated auto liability claims continued to erode profitability for both domestic and foreign carriers and an alarming uptick in severity from 'action-over' workplace injuries has impacted the first $25 million of OFS insurers. As mentioned in the auto liability section, insurers are starting to see a concerning uptick in litigated hired auto liability claims, as plaintiff's counsel have begun to focus on hiring companies when a hired auto is involved in a serious accident as they seek 'deeper pockets' when filing lawsuits on behalf of injured parties.

OFS: The biggest challenge

The OFS segment continues to see the largest uptick in general liability/excess liability claims due to an increase in severity in both judgements and settlements for workplace injury lawsuits. An increase in activity in concentrated areas such as the Permian Basin has also led to an increase in severe auto liability claims, which is impacting insurers who provide excess liability capacity in the first $25 million of programs. Much like auto liability settlement amounts in years past, 'action-over' awards are now impacting lead umbrellas (and excess liability layers) where carriers used to 'feel safe' from any type of frequency event. The result of a continued erosion of profitability due to the double-edged sword of action-over/auto liability has been a constraint in lead umbrella capacity for this segment.

One of the last remaining (and extremely prominent) providers in the sector to offer $25 million lead umbrellas reduced their capacity in 2023 $10 million which increased costs for many insureds who renewed in the second half of the year. The same carrier has now decided to no longer offer lead umbrellas to OFS clients with over 250 autos in 2024, which has impacted larger OFS companies as they seek out umbrella coverage.

Another prominent primary/excess liability carrier is no longer offering lead umbrella coverage to any OFS companies due to sustaining too many portfolio losses and others still offering capacity are taking a much closer look and heavily scrutinizing their current OFS portfolios. Carriers still willing to write both primary and lead umbrellas are offering lower limits for larger clients, as we are seeing what used to be $10 million offerings starting to trend downwards to $5 million offerings.

Attachments are also under pressure as well, as carriers are seeking assistance from facultative reinsurance markets to increase their umbrella attachments on auto liability in this sector. Due to the combination of an increase in the frequency and severity of claims in both the general liability and auto liability segments of this class, this sector bears monitoring as 2024 progresses. While capacity remains in the sector (especially for insureds with smaller fleets and profitable loss histories), it is vital that clients differentiate themselves and highlight workplace and auto safety practices and hiring criteria.

Excess liability capacity above the lead umbrella remains stable year-over-year, with many companies in both the U.S. and London offering more limit than most insureds require.

Upstream

2023 was a very challenging year for the upstream segment (much more so for the offshore segment than for onshore) due to the exit of the Markel-backed JH Blades GL/$75 million excess facility. Pricing was negatively impacted for most Blades clients and offshore operators felt the greatest impact, with most renewals moving to the London marketplace for primary and lead capacity at an increased cost. Onshore operators who were utilizing the JH Blades facility were able to find ample capacity both domestically and in London, but the loss of the $75 million facility impacted many renewals negatively in 2023.

As we move into 2024, it appears that JH Blades has put together a new facility (currently GL/lead $10 million) and we expect that this will increase competition in the upstream space and will put pressure on 2023 rating metrics. Many companies in the industry were long-term Blades clients, so it will be interesting to see the impact of the facility's return on 2023 renewals who moved carriers. While we do not expect a monumental shift in pricing, we do feel the increase of capacity will be beneficial for insureds with profitable loss histories and will put pressure on incumbent markets.

Excess liability capacity above lead umbrellas remains at record levels both domestically and in London (and Bermuda for clients buying large liability towers) and while we do expect rate increases in the mid-single digits in Q1 and Q2, we do feel that rates will taper down as the year progresses.

Midstream & downstream

The midstream and downstream segments have both seen an uptick in third-party contracting claims, where large judgements and settlements have penetrated the agreed liability insurance limits and have impacted corporate programs. Despite an uptick in severe losses in 2023, capacity overall remains stable for downstream and has increased for midstream companies during the last 12 months, with risk-transfer attachment levels remaining consistent year-over-year. Certain carriers have begun to focus on third-party hauling company limits being both requested and evidenced, as claims against hiring companies have begun to increase. Despite these challenges, we do not foresee the market changing considerably in 2024 for clients with clean loss histories, as the marketplace began to flatten in the second half of 2023. We do feel that smaller midstream programs will see more of a rate increase need than larger programs.

Market summary

Primary liability capacity remains extremely stable and insurers are continuously looking to expand their books of business in the energy sector. Buyers with clean loss records are seeing very favorable results when marketing efforts are conducted, and favorable early renewal negotiations can be agreed with incumbent markets. As a result, outside of auto liability, we do not foresee the market shifting in an upwards direction for most segments outside of modest rate increase asks.

OFS clients (especially larger clients or clients with negative claims histories) need to begin the renewal process early. It is vital to communicate with incumbent markets early in the process to understand if a renewal will be negatively impacted, allowing enough time to seek alternative options. It is vital to differentiate OFS accounts via underwriting meetings to highlight proactive risk management practices to combat rising loss severity and 'loss fatigue'.

Excess liability capacity appears to have mostly stabilized for most segments (including upstream) and while there are still underlying concerns about loss severity in all sectors, we do not expect to see the market shift in a troubling direction in 2024 outside of OFS segments. Insureds should continue to differentiate their risks and proactively highlight risk management practices during the renewal process.

Market concerns

Claims trends

While North American energy excess liability pricing appears to have plateaued to an acceptable level for insurers in most segments, and capacity remains stable for most segments, the underlying issues that were a direct cause of the hard market in prior years still exists and does not appear to be going away anytime soon.

The perceived anti-corporate sentiment of juries over the last few years remains a prevalent concern for insurers and the normalization of larger awards and settlements bears monitoring. Desensitized jury pools and a highly organized plaintiffs' bar are impacting both jury awards and settlement amounts. Litigated claims frequency continues to trend upwards and settlement amounts continue to rise each year, as plaintiff firms clearly understand commercial insurance lawsuits is quickly becoming a 'cottage industry'.

Large jury verdicts for auto liability continue to put pressure on excess liability pricing and without the intervention of statutory laws to limit future liability, we expect that this trend will continue. An increase in judgements and settlements regarding workplace injury-related lawsuits is also a concern for markets as we move forward. Claims inflation does not appear to be abating, and pricing and limits deployed are under pressure as a result, especially regarding lead umbrella capacity.

Continued underwriting focus on fleet safety programs

As a result of the increase in auto liability settlements, insurers are paying closer attention to buyers' fleet safety programs. It is strongly recommended that buyers provide details of their auto safety programs in submissions and renewal presentations to differentiate themselves from their peer companies; they should also continue to focus on driver criteria improvement and consistency in applying standards for company vehicle use and polices. Driver training, consistent MVR reviews, telemetric devices in vehicles as well as in-cabin cameras in heavy tractors can assist in differentiating risks for both primary auto and, more importantly, excess liability markets. However, if buyers are not actively enforcing in-force company fleet safety procedures, plaintiffs' counsel have argued that lack of enforcement can increase the company's negligence in a lawsuit.

Contractual requirements for third-party on-site contractors and hired trucking firms

While many companies in the energy sector utilize 'tiered-limit requirements' for evidenced excess liability contractual limits, the increase in claims settlements and awards are beginning to outpace these historical limit requirements. Hiring companies' insurance programs are beginning to become more exposed to large workplace injuries or hired-trucking accidents, and clients should focus on revisiting these 'tiered limit' requirements that seemed acceptable for the past 10-15 years to offset exposure to their liability programs as the hiring or partially negligent party.

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Following a profitable year in 2023 in both the upstream and downstream energy sectors, capacity remains consistent with a few notable exceptions, including new capacity from Chubb in North America following the end of the MGA relationship with Starr Tech as well as the move of the Allianz downstream property book from Houston to London.

Business Interruption values and claims weighing heavily toward Business Interruption relative to property damage payouts continue to be an area of acute focus across the global market for both upstream and downstream, following a notable increase in business interruption loss severity driven by supply chain disruption and commodity price increases. Insurers are particularly concerned with policies being overly weighted towards BI and contingent business interruption exposures are being more heavily scrutinized and rated by the market.

The U.S. casualty market continues on its recent trend of capacity contraction both in terms of number of market participants and limits offered. This is especially acute in the downstream liability sector and for oilfield services placements, with the latter seeing a number of insurers non-renewing placements, requiring high retentions or seeking higher than market rate increases.

Norway

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The Norwegian upstream market generally provides both lead & follow capacity, however due to the restricted number of insurers, very few policies can be completed here without the assistance of other regional markets. There is a strong MGA market in Oslo in addition to local carriers which opens some London and the Middle East market capacity for Norwegian risks. Rating trends by and large follow the major upstream markets and we are seeing a general gradual softening on accounts that are profitable in insurers' books. Deductibles remain in focus, in particular due to inflationary costs seen in the claims world. We are still seeing plenty of activity from clients on the Norwegian Continental Shelf, providing good opportunities for offshore construction insurers.

The green transition is a major focus in Norway in general, but also in the oil and gas sector. Clients' plans for offshore wind and carbon capture and storage projects are becoming more visible and the insurance market is responding. Upstream insurers are moving towards the offshore wind sector as can be seen by Norwegian Hull Club establishing its own MGA in the form of NIORD in January 2024. NIORD will join both Gard and Risk Point, who are already significant insurers in this space.

Singapore

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Following five years of hardening market conditions, clients in Asia are frustrated with the gradual premium increases and stricter T&Cs, and are looking to partner with key insurers over the longer term to generate the best outcome. Long-term agreements are therefore once again starting to be offered by insurers on a selective basis and indeed taken up by energy clients. This mutual desire of building long-term partnerships marks a turning point for energy clients in the region.

We are seeing far greater focus from clients in articulating their ESG strategy and how they will materially transition over the coming years. This proactivity from the client base is supporting the energy insurance sector in better differentiating which clients they want to partner with in the long term.

Specifically in the upstream energy sector, we are seeing an uptick in offshore construction projects in the region as many of the previously delayed projects are finally coming to life and this is encouraging competitive tensions in the regional offshore construction sector.

Latin America

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Latin America's energy sector is undergoing a remarkable transformation, driven by a growing regulatory awareness of environmental issues and a shift towards renewable energy sources. Governments in Latin America have set ambitious energy transition targets, which clients are incorporating into their operations. This energy transition presents many opportunities for clients and insurance markets alike, but it also brings with it challenges around new technologies being deployed and new risks that emerge as clients' operations change.

Latin American insurers are proactively collaborating with local clients to develop solutions to address emerging risk in the fields of environmental liability, supply chain resilience and carbon emissions liability within the local regulatory confines. As clients' risk and insurance needs become more complex and interdependent, insurers are responding by offering more holistic risk solutions.

However, fossil fuels will remain a significant part of the energy matrix to meet the region's energy demands for years to come. As such, insurers are grappling with how to incorporate ESG considerations within their underwriting and risk assessment processes in order to promote sustainable practices among their clients and comply with their own net zero commitments.

Dubai

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The Middle East oil and gas sector is best described as dynamic as it continually expands with investments both within region and internationally. There are a vast number of projects planned within the region over the coming years, which will require the insurance industry to adapt and keep up with clients' requirements.

From a capacity providers point of view, the Middle East is an attractive territory to write business as risks tend to rate well from an engineering perspective and claims activity in the region has been fairly benign. This is mainly due to its low natural catastrophe exposure. Over the last year the region has experienced a period of positive transformation. The hub continues to attract international talent along with new 'A' rated capacity continuing to establish a presence in the Dubai insurance market. This new investment is supplemented by existing companies obtaining increased capacity, giving the region an even stronger foundation when competing with the world's other insurance hubs.

Taking previous points into account, along with the region's treaty renewals being concluded as expected, the Middle East market is in a positive mind set and the appetite for growth is certainly back on the menu. The outlook for regional clients is a positive one for 2024.

China

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Chinese market capacity remains strong with approximately $400-450 million for upstream risks and $5-6 billion for downstream risks. However, the trend of reducing appetite for non-Chinese interest business continues in both sectors and clients are now facing more restrictions and limited capacity if they cannot evidence a Chinese interest.

However, we may soon see a reversal of this trend as Shanghai is seeking to establish itself as a global (re)insurance trading hub with the aim to provide Chinese solutions for global risk protection and financial governance systems. To ensure this effort succeeds, measures will be taken to facilitate cross-border settlement of domestic reinsurance payments, reduce cross-border transaction costs and shorten the settlement cycle. So far the National Financial Regulatory Administration has granted approval to seven insurers to participate in the Shanghai reinsurance operation center and Willis Insurance Brokerage Co., LTD. Shanghai Branch became the first registered insurance broker.

We have also recently seen Generali successfully bidding to acquire a 100% stake in Generali China Insurance Company and, on completion, they will become the first foreign player to acquire a controlling stake of a property and casualty insurance company from a single state-owned entity in China. This may further pave the way for greater support of international placements.

In Memory of Robin Somerville

As some of our readers will know, Robin Somerville, the Editor of WTW's Energy Market Review, sadly passed away earlier this year after a short illness. Robin was instrumental in developing this publication (and our other Sector Reviews) which now have a wide international following. Robin also played a key role in managing and facilitating our global Natural Resources conferences, bringing insights and informed commentary to many companies and insurers operating across Oil, Gas & Chemicals, Power & Utilities, Metals & Mining and Renewable Energy.

We will continue to build on the work that Robin achieved and wanted to reassure our clients and strategic insurance partners that we will continue to publish these insight documents on an annual basis and host sector conferences moving forward.

For those who may wish to pay their respects, we have set up a tribute site to honour Robin's memory, where you can also donate to Pancreatic Cancer UK: https://rb.gy/acque4.

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