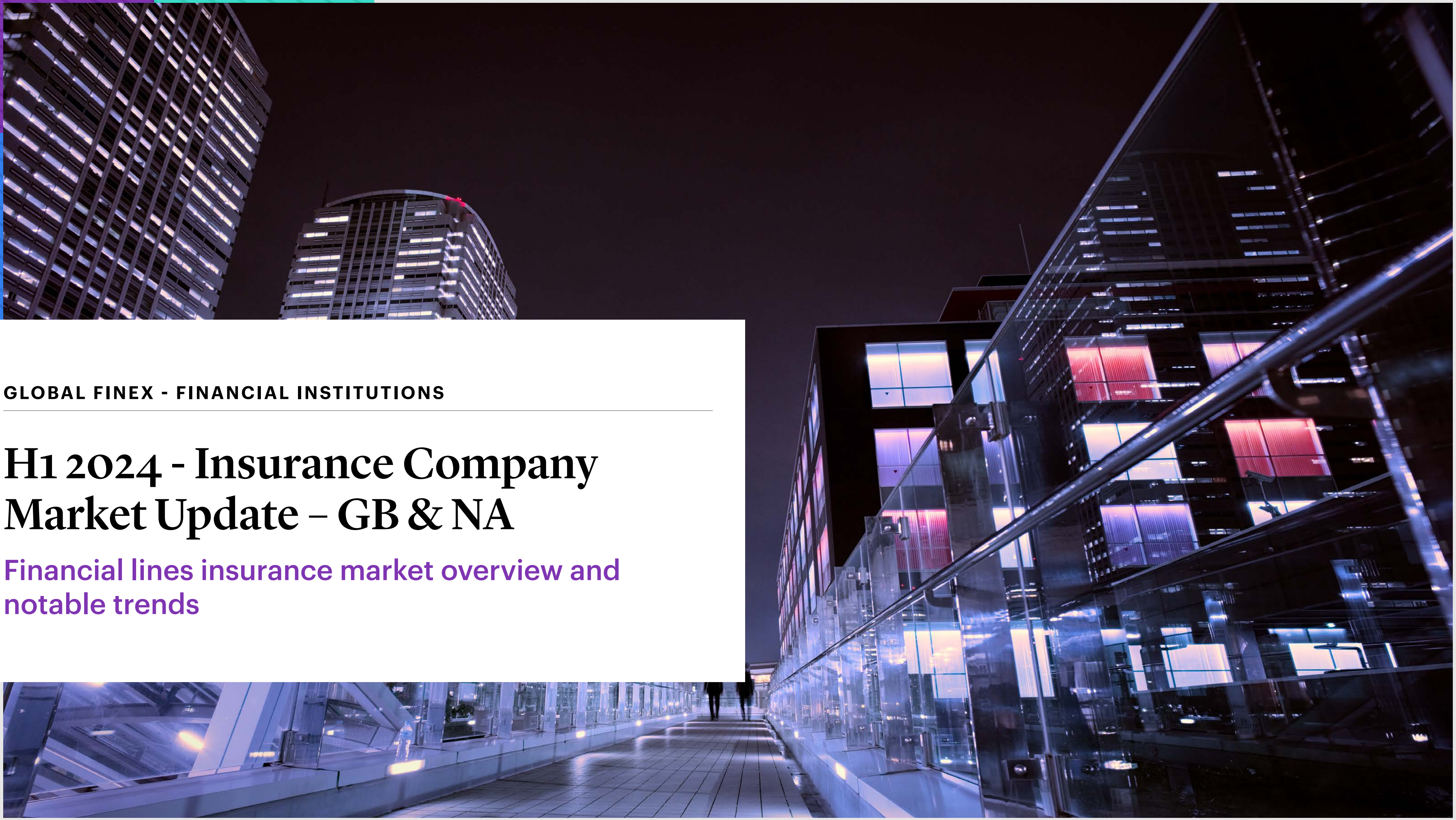

GLOBAL FINEX - FINANCIAL INSTITUTIONS

H1 2024 - Insurance Company Market Update – GB & NA

Financial lines insurance market overview and notable trends

wtwco.com

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

Insurance company industry

State of the market and risk trends

Rate Predictions

	Trend	Range
Primary	▼	-5% to flat
Excess	▼	-15% to flat

Market volatility	
Premium	Strong competition is driving down rates across the insurance company sector, on all lines.
Market	Ambitious insurance growth targets for 2024 are driving fierce competition for quality risks.
Retentions	As competition drives insurer risk appetite up the risk curve, buyers are being offered lower self-insured retentions.

Risk trends	
Regulatory and conduct	The Edinburgh Reforms bring a welcome development to Solvency II capital treatment, but certain impacts of these reforms around supervisory expectations remain uncertain.
Cyber	Cybersecurity remains a key focus for insurers on both the life and general sides, from a regulatory as well as resilience standpoint.
Climate risk and environmental, social and governance (ESG)	Regulatory oversight, compliance and due diligence are key exposures across the disciplines of investment. corporate governance and underwriting.
Theft and fraud	Fraud, especially social engineering type loss continues to plague the industry.

Insurance company industry trends

Risk trends – both life and general insurance - GB

Observations

- Inflation has driven claim costs higher, reducing underwriting profitability.
- The industry's pivot to technology continues requiring huge capital investment and adaptation to address the disruption caused to established industry working practices.
- Firms will be judged on their ESG initiatives, transparency and accountability.
- The challenging economic environment is driving demand for insurance whilst putting huge cost pressure on clients, especially the small and medium-sized enterprises (SME) sector. Efficient distribution and tight cost controls are key to market share.
- Insurance is part of our financial infrastructure, and as such threat of sophisticated criminal and state-sponsored cyber-attacks on the insurance industry is a concern.
- That threat to operational resilience is enhanced by current geopolitical turbulence.

Concerns

- A growing commitment of time and resources is demanded in an effort to stay abreast of the evolving economic environment, regulation, public expectation, and to avoid claims for mismanagement, fines or reputational damage.
- Cybersecurity and resilience remain a key focus in all jurisdictions, as the global financial system's infrastructure is a popular target for fraudsters and rogue states
- There is increased scrutiny from regulators, business counterparties and investors who require insurance firms to demonstrate operational resilience to cybersecurity risk.
- Increasing regulatory oversight and the complexity of due diligence for ESG related activities and reporting will likely lead to increased regulatory investigations.

Considerations/ suggestions

- Ensure you have broad form professional indemnity and directors' and officers' liability and employment practices liability insurance, and in particular, appropriate coverage for investigation costs.
- Consider the adequacy of limits and the impact of self-insured retentions against your clearly defined risk appetite.
- Review each of your financial lines policies in line with your digital risk profile to ensure that activities and exposures are covered as broadly as possible and are in line with your risk appetite.
- Consider the purchase of a cyber insurance policy if cyber insurance is not already a part of your risk transfer strategy.
- Understand the limitations/ boundaries of each policy and ensure that coverages dovetail as far as possible.

Insurance company industry trends

Risk trends – general insurance – GB

Observations

- The severity and frequency of natural disasters have dominated headlines over the past year. This multi-dimensional exposure issue represents both an opportunity for the industry and a risk in both underwriting and investment portfolios to physical and transition risks, liability risks, the impact on asset valuations, consumer pressure and reputational risk.
- Emerging exposures in intangible assets classes including cryptocurrency, and virtual activities in/on the metaverse, suggest plenty of room for growth for those willing to consider new risks.
- Merger and acquisition activity is expected to pick up if as anticipated, interest rates ease later this year. It seems likely therefore that pent-up demand will trigger another lively spate of M&A activity in Q4.

Concerns

- Climate protestors and activist shareholders are applying pressure for insurers to be sustainable and responsible.
- Material changes to exposure introduce new risk which may need to be reviewed and addressed independently to insurance adequate insurance risk transfer.

Considerations

- As ESG activities and reporting gain momentum it is important to monitor any corresponding impact on Financial Lines insurances to ensure that coverage remains as robust as possible, particularly your D&O policy and the breadth of cover provided for Regulatory Investigations.
- Check the cover afforded under current policies and inform your insurance broker of material changes to your business.

Insurance Company Professional Liability

State of the market and risk trends - NA

Rate Predictions

	Trend	Range
Primary:	▼	-5% to flat
Excess:	▼	-10% to flat

Market Volatility	
ESG	Property and casualty (P&C) and life insurers alike were among those most scrutinized for adherence to ESG principles. Recent political and societal developments have forced companies to revisit the popularity, profitability and legality of previous commitments both in terms of insuring and investing.
Private equity (PE) Investment	Several oversight bodies (including the Financial Stability Oversight Council (FSOC), International Monetary Fund (IMF) and the National Association of Insurance Commissioners (NAIC)) are evaluating the increased partnership between alternative asset managers and insurance companies for potential impacts upon policyholders and systemic risks to the broader financial system. PE firms own approx 137 US insurance companies with $534bn in assets.
Artificial Intelligence (AI)	Advancements in the capabilities of AI have introduced many viable uses within the insurance industry ranging from underwriting and sales practices on the front end to customer service and claims handling on the back end. Alongside these opportunities are a host of new risks which need to be thoughtfully managed by insurers.

What to expect...	
Premiums	Rates are generally improving, particularly on excess layers. Poor loss experience could yield higher pricing.
Retentions	Retentions have stabilized after years of significant pressure. Buyers with a favorable loss history should push carriers to offer lower retention options. Where granted, sales and marketing coverage for life insurers is subject to a higher retention but the associated threshold may not be as high as in prior years.
Coverage	2024 presents an opportunity for insurance company clients to challenge incumbents on meaningful coverage enhancements for the first time in years. Historically challenging exposures such as silent cyber and cost of insurance adjustments are on the table for negotiating where viable primary competition exists.
Capacity	Remediation efforts over the last several years mean that carriers are likely content with current limit exposure. Blending of additional coverages such as cyber can meaningfully impair the availability of limits.
Appetite	Competition has improved both in terms of primary and excess layers, predominantly driven by new entrants to the US market. Bermuda offers additional interest while UK insurers will consider US-centric risks but prefer to avoid life insurance exposure.

Challenging venues and jurisdictions

According to the American Tort Reform Foundation - NA

#	Venue	Details
1 (tie)	Georgia	• Proliferation of nuclear verdicts • Phantom damages provide windfalls to plaintiffs and attorneys • Expansion of premises liability • Georgia Supreme Court issues more liability-Expanding decisions • Predatory lawsuit loans
1 (tie)	The Supreme Court of PA and the Philadelphia Court of Common Pleas	• Litigation tourism • Flood of medical liability litigation in Philly • Uptick in nuclear verdicts • Liability-expanding decisions by High Court
3	Cook County, IL	• Biometric Information Privacy Act (BIPA) lawsuit abuses bog down business • New wave of no-injury lawsuits on the horizon • Food and beverage litigation • Liability-expanding legislation
4	California	• Prop-65 litigation targets a variety of industries • No-injury lawsuits • Unique Lemon Law • Arbitration under attack • Environmental litigation

#	Venue	Details
5	New York City	• Nuclear verdicts • Expansive liability laws • No-injury consumer and Americans with Disabilities Act of 1990 (ADA) Litigation, and excessive premises liability • Legislature continues to pursue trial bar agenda
6	South Carolina asbestos litigation	• Extraordinary pro-plaintiff rulings • Lax causation standard • Routine imposition of sanctions • Frequent appointment of receiver • Appellate court bolsters outlier rulings
7	Lansing, Michigan	• High Court expands premise and workplace liability • An expansive approach to medical liability • A barrage of liability-expanding legislation
8	Louisiana	• Coastal litigation • Insurance claim fraud and manipulation • Transparency legislation vetoed by governor

Source: [American Tort Reform Foundation - 2023/24]

Insurance company industry trends

Artificial Intelligence (AI) - NA

Observations

- Advancements in the capabilities of AI have introduced many viable uses within the insurance industry ranging from underwriting and sales practices on the front end to customer service and claims handling on the back end.
- In a fiercely competitive and mature industry, insurance companies are increasingly likely to explore the integration of machine learning and automation within their operating model.

Concerns

- From an underwriting perspective, AI provides insurers with an opportunity to quickly and accurately make determinations regarding rates and whether to offer coverage at all. Without proper parameters and oversight, automated risk selection and pricing could also lead to unintentionally discriminatory practices.
- While AI promises to improve the claims process and reduce human error, the possibility exists that faulty data and or assumptions can lead to mistakes by technology which would otherwise be addressed by a human.
- AI is dependent upon the aggregation and review of large pools of data, including that of an insurance company's customers. There is an evolving group of strict regulatory frameworks in place governing the use of such data which must be adhered to.

Considerations

- As is always the case with new technology, insurance company clients must be able to clearly outline their strategy for thoughtful implementation and monitoring. The use of third-party law firms and other service providers is viewed favorably by Insurance Company Professional Liability (ICPL) underwriters.
- A careful review of ICPL policy language should be conducted in order to ensure that coverage for matters involving the use of AI is not excluded.
- Many carriers had introduced exclusions aimed at removing coverage for exposures traditionally addressed via Cyber insurance policies. Such wording should be revisited to evaluate unintended application to the use of AI. Likewise, Cyber products need to be considered to avoid any resulting gaps in coverage.
- Where possible, the discrimination exclusion wording should have a more limited for lead-in rather than broader-based upon, arising out of or attributable to limit applicability.

Insurance company industry trends

Personal lines distress - NA

Observations

- Several states are at a breaking point where climate change, social inflation and legislation are driving insurers out of the market for home and auto insurance.
- Carriers are struggling to secure adequate rate change – particularly in states which have capped or issued a moratorium on adjustments.
- Customers are increasingly unable to source affordable and or sufficient coverage.

Concerns

- Insurance commissioners are increasingly active in restricting the ability of insurers to non-renew policies or impose suitable rate adjustments – impairing the ability of insurers to operate profitably.
- Where insurers are taking significant action, they become vulnerable to suits from prospective policyholders and attorneys general. Allegations can include discrimination and unfair business practices.

Considerations

- Regulatory coverage is of paramount importance and ICPL policies may not respond as expected. Clients should ensure that claims can be brought 'on behalf of' their policyholders with no other barriers to coverage for regulatory actions.
- Puni-wrap policies written into the Bermuda marketplace should be considered as a means of securing coverage for damages otherwise not considered insurable under US law.
- Where possible, the discrimination exclusion wording should have a more limited lead-in rather than broader-based upon, arising out of or attributable to limit applicability.

Insurance company industry trends

Peer reviews - Canada

Observations

- In response to Office of the Superintendent of Financial Institutions (OSFI's) regulatory guideline, "Appointed Actuary: legal requirements, qualifications and peer review – guideline (2023)", there has been an increase in the number of WTW engagements for independent actuarial peer reviews.
- OSFI believes that regular peer review of certain work performed by the appointed actuary (AA) is of significant benefit both to OSFI and to a company's stakeholders as it contributes to the safety and soundness of insurance companies operating in Canada.

Concerns

- In requiring a peer review of the work of the AA, OSFI highlights they will assist in its assessment of the insurer's safety and soundness.
- The AA is responsible for the valuation of actuarial and other policy liabilities in the financial statements and future financial condition reporting as well as actuarial components of the regulatory capital test (LIMAT/LICAT, MCT, and MICAT).
- Peer reviews are of benefit to the AA by providing a source of independent consultation advice and an additional source of professional education. This aids in narrowing the range of practice by AAs and improving the quality of their work.

Considerations

- OSFI expects that all federally regulated insurance companies operating in Canada will appoint independent peer reviewers and implement formal peer review processes.
- Actuarial peer review is one tool OSFI uses in its assessment of the safety and soundness of federally regulated insurers.
- This will maintain and strengthen confidence in the work of the AA by the public, by insurance company management and directors, and by supervisory authorities.

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