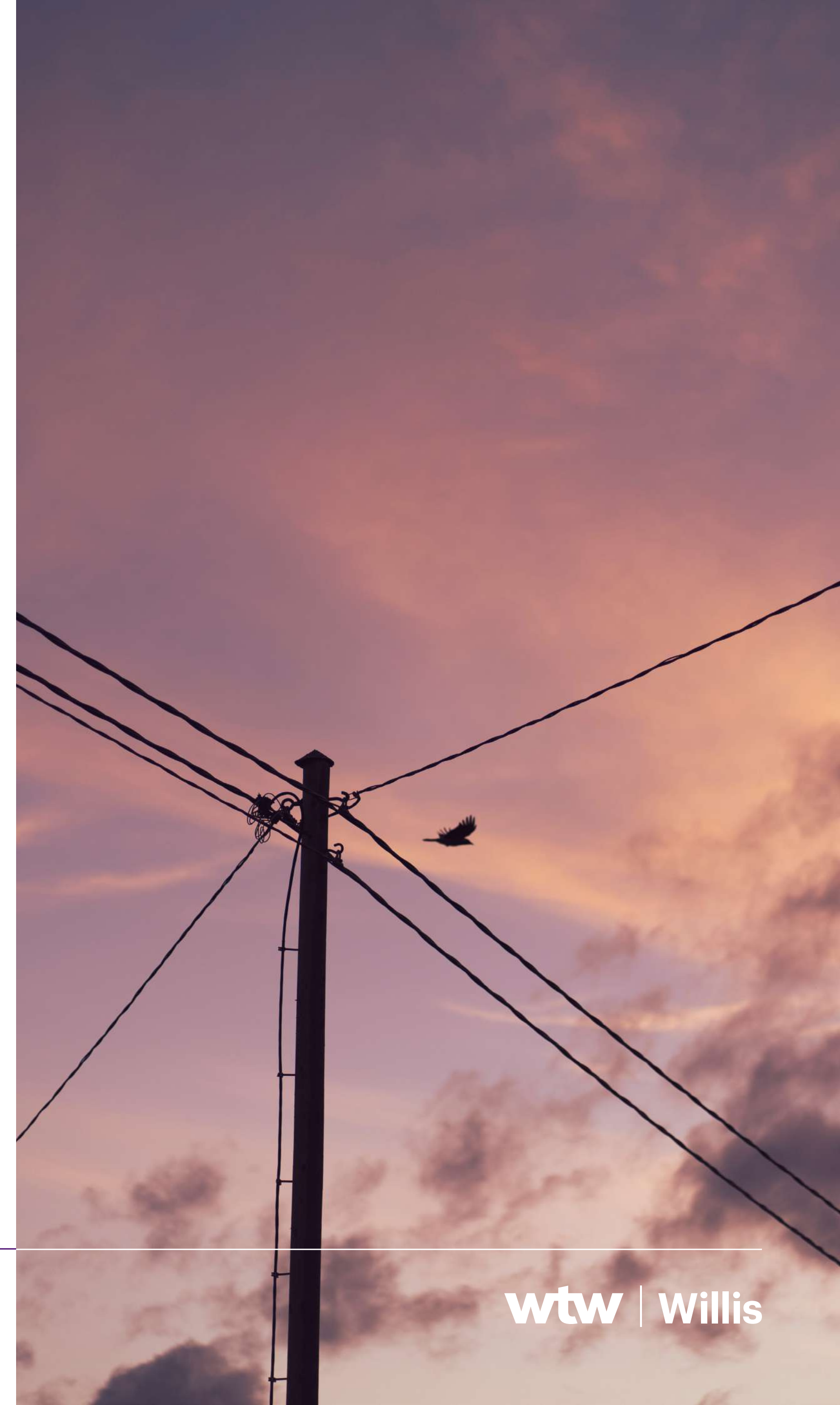


# Beneath the surface: Underwriting undercurrents in a softening power liability market

Off the back of a further 12 months of relatively low loss activity, sustained insurer growth targets and increasing market capacity, liability conditions are favorable for sought-after business. But the reality is multi-faceted, and the ultimate focus remains on rate adequacy rather than change.

## Key takeaways:

- The international power liability market is softening on the surface, with Lloyd's a third consecutive year of underwriting profit, but changing climate conditions and decarbonization are impacting insurer appetite
- Most of the movement in the softening market relates to price rather than coverage, with underwriters holding firm on wordings related to PFAS, climate and pure financial loss and failure to supply
- While rate moderation is expected in some U.S. casualty lines, the power and utility sector will likely continue to face elevated pricing and limited capacity for high-hazard exposures



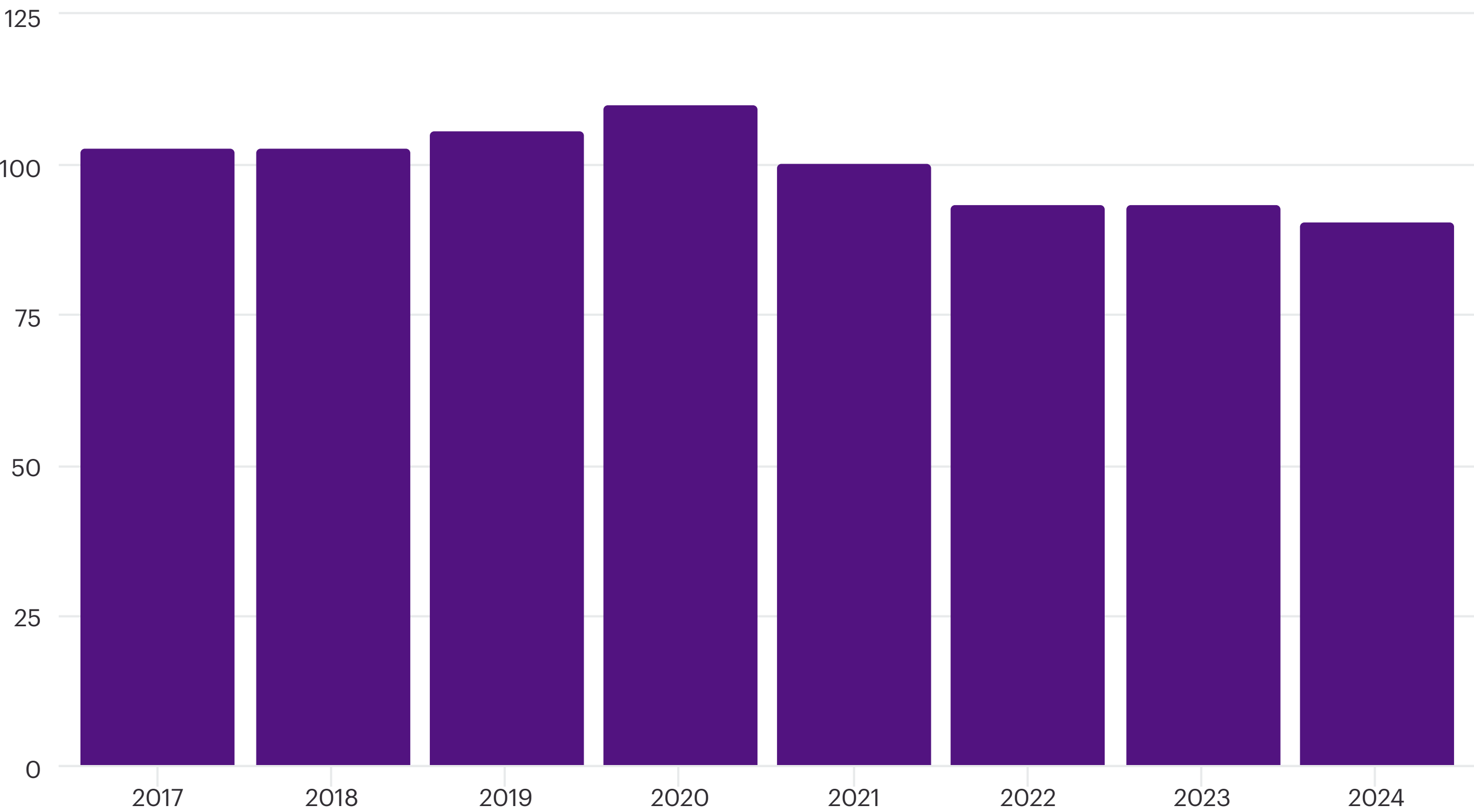
International liability:  
A favorable but segmented market

The international liability market in London continues to be favorable for buyers, with a small uptick in capacity and a continuation of softening market conditions, leading to greater competition and downward pressure on rates.

[Earlier in 2025, Lloyd’s of London announced a third consecutive year of underwriting profit for casualty as a class of business.](#) Lloyd’s’ segmentation of casualty incorporates other classes such as directors and officers (D&O), financial lines, cyber and accident and health (A&H). The results point to a sustained period of profitability, underpinned by a buoyant underwriting environment, benign loss activity and additional market capacity, which has led to further softening of the market.

Lloyd's result 2024: Casualty insurance segment

Aggregate combined ratio reported by Lloyds casualty segment since 2017



[Lloyd’s annual reports](#)

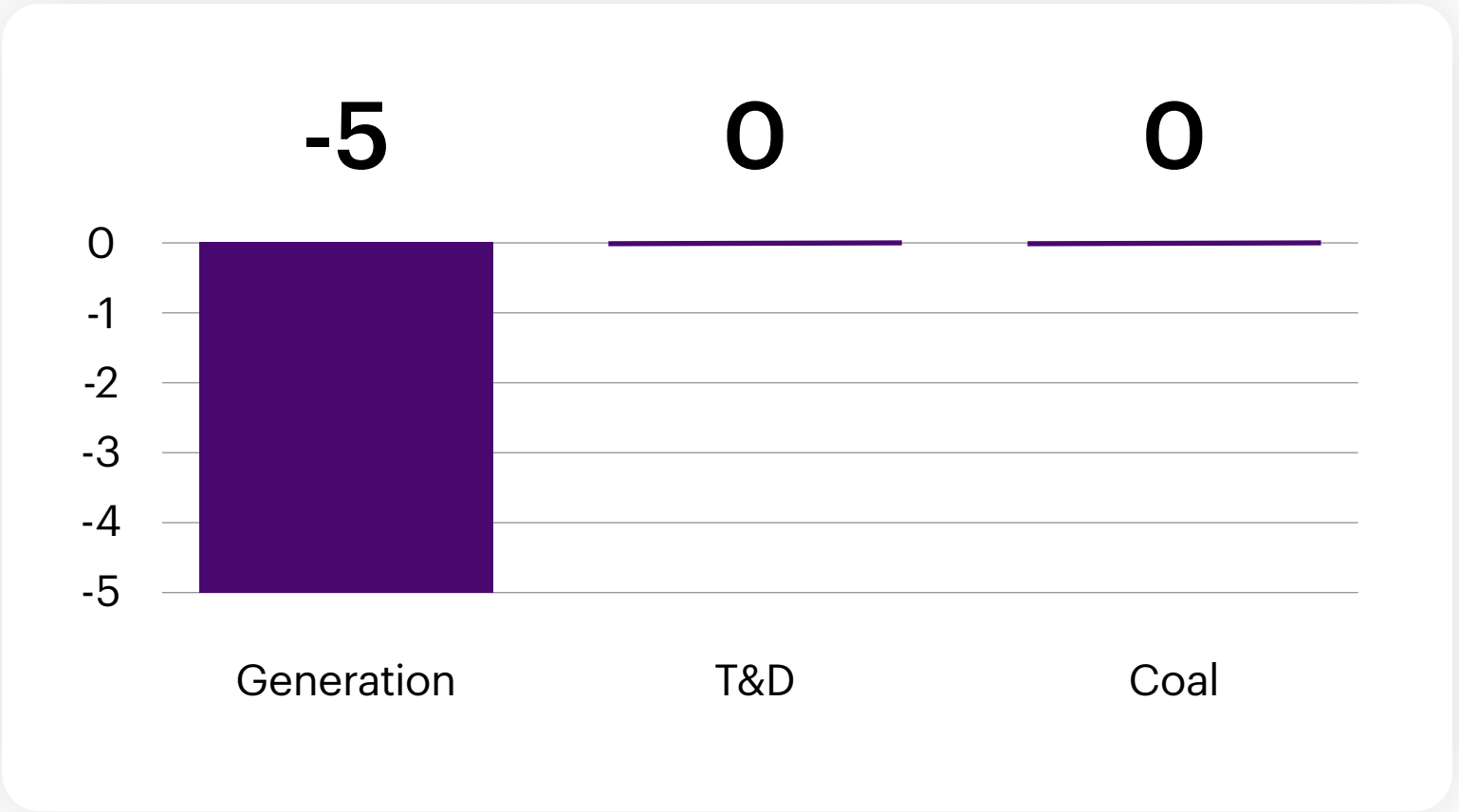




While on the surface, the international liability market appears to be signaling a positive trajectory and seemingly favorable conditions for buyers, the outlook for the power sector is more nuanced. This is best viewed through three lenses:

- 1. Power generation:** Ample liability capacity exists for most placements, with in excess of \$1 billion capacity available. Most programs can be placed multiple times over, meaning that insurers are increasingly willing to challenge technical pricing, particularly on risks that have had no/minimal losses and are well-perceived in the market default rate change is typically within the flat to -5% bracket but can be even greater depending on the characteristics of the risk.
- 2. Transmission and distribution (T&D):** Greater scrutiny and increased information requirements continue to be applied, particularly for placements exposed to wildfire/ bushfire. This is due to increasing frequency and severity of wildfire-related events and is particularly relevant to Australia and Western U.S., alongside a growing focus on wildfire exposures in Southern Europe. Although placements with large losses can be subject to increases, the comparatively restricted pool of capacity, coupled with a more data-driven approach to minimum rates, is balanced by increasing competition from local and London markets meaning that underwriters are typically defaulting to flat as a starting point for loss-free risks.

**3. Coal:** Capacity for liability risks that are predominantly related to coal remains significantly lower than for other power risks, particularly where the risk is new to the market (as some insurers are afforded greater underwriting flexibility for risks that they already participate on). The lack of capacity and reduced competition compared to generation and T&D can lead to opportunistic pricing, however, as program limits have recalibrated in recent years, the default for renewals is typically flat. This said, the outcome can vary significantly depending on the location of risk (with underwriters recognizing the reliance on coal in certain regions, particularly in view of the current global political climate). In some cases, buyers are opting to retain more risk – either via a captive or simply on their balance sheet in the form of greater retentions – where terms are not deemed favorable.





## The impact of a changing climate and decarbonization on liability exposures

Against the backdrop of complex and interconnected risk factors, two key evolving exposures are impacting the international liability market for power:

### Changing climatic conditions:

Underwriters are paying increasing attention to the uncertainty and increased frequency of extreme weather events resulting from changing climatic conditions and the additional exposure that this creates.

- **Wildfire/bushfire exposures are spreading:**

While historically, this has predominantly impacted the U.S. and Australia, wildfires in Greece, Spain, Portugal, Croatia, Italy, Turkey and most recently southern France have expanded the areas of focus for underwriters.

- **Cyclones are elevating failure to supply exposures:**

Although typically considered in the context of a property damage/business interruption (PDBI) peril, the increasing prevalence of tropical cyclones, such as [cyclone Alfred](#) in Brisbane earlier this year (the first in Brisbane since 1974), has highlighted the elevated ‘failure to supply’ exposures caused by system damage, as well as increased flooding.

- **Floods and droughts are increasing frequency and type of failures:**

An increase in both floods and droughts has demonstrated the hydropower market’s vulnerability to climate change as increasing rainfall and melting snow can lead to dam overtopping, as highlighted by the partial [Braskereidfoss Dam collapse](#) in Norway in 2023 caused by storms. The inverse can also create risk. A lack of water can significantly impact the ability to generate power, thereby increasing ‘failure to supply’ exposures.

### Power sector decarbonization:

#### The risk of reduced grid inertia

As well as the risk of overtopping and the inability to generate power, increasing likelihood of floods and droughts can contribute to the heightened risk posed by reduced grid inertia as network operators struggle to maintain steady levels of power across the system. But a greater risk to reduced grid inertia is arguably the growing reliance on renewable energy sources, as demonstrated by [the recent power outages in Portugal, Spain and parts of southern France](#).

With traditional electricity generation, the energy within the generators and motors provide inertia as they synchronously rotate, whereas solar and wind require synthetic inertia as they are connected to the grid [without rotating mass](#). In the pursuit of decarbonization and net

zero goals, many countries are pushing their national grids to work in ways that they were not designed to operate, and which are outside the stable inertia limits. This could result in increased frequency fluctuations, heightening the risk of grid instability and the subsequent possibility of a rise in liability claims, particularly when considering pure financial loss and failure to supply exposures.



As underwriters increasingly focus on evolving exposures within the power sector, there is a continued expectation for insureds to evidence monitoring and mitigation measures to ensure compliance with regulatory standards and demonstrate the highest levels of risk quality.



**Matt Clissitt**, Deputy Head of Liability and Senior Director, Willis Natural Resources

## Consistent coverage: Underwriters are holding firm

The international liability market for the power sector has showed signs of softening, but the majority of most of the movement relates to price rather than coverage, with underwriters holding firm on core areas of policy wordings.

### PFAS

The incorporation of per- and polyfluoroalkyl substances (PFAS) exclusions into reinsurance treaties, and subsequently some market standard wordings, has led to a widespread and consistent application of PFAS exclusions which are, with exclusions typically being applied by default.

### Climate change

Although climate change exclusions are not necessarily commonplace across power generation- and T&D-exposed risks, there is increased scrutiny from underwriters due to ESG concerns for coal-exposed risks. The application of a climate change exclusion, often although not exclusively on the market standard LMA5570 form, is becoming increasingly prevalent.

## Pure financial loss and failure to supply

The ability to obtain pure financial loss cover resulting from failure to supply remains under more underwriting scrutiny, including the provision of comprehensive underwriting information. This includes details around third-party contractual exposures and supply agreements and can attract significant additional premium.

## Liability insurance buyers have cause to be optimistic

As new capacity continues to enter the market, particularly for generation risks, increased competition and further softening of market conditions is expected. Rates for T&D and coal-exposed risks are likely to stay steadier.

For risks with adequate pricing and clean loss histories, some markets may consider increasing line sizes and/or offering long-term agreements which typically incorporate a small rate reduction in the second year.

The market may see a rise in captive deployment for risks that are heavily exposed to coal as buyers seek to avoid opportunistic capacity and reduce potential fluctuation in capacity demonstrated in recent years.

## A spotlight on North America

The power and utilities sector in North America are challenged by exposures that are amplifying casualty insurance market pressures:

- Aging infrastructure: Many utilities are operating with infrastructure that is reaching or exceeding its lifespan. This elevates the risk of catastrophic equipment failures that can lead to extensive liability claims, property damage, and service disruptions.
- Grid modernization: ongoing efforts to upgrade and expand transmission and distribution networks introduce increased construction-related exposures. These projects often involve multiple contractors and third parties, raising potential for injury claims and liability losses.
- Extreme weather: The frequency and severity of wildfires, hurricanes, floods, and other natural catastrophes are increasing due to climate change and directly impacting liabilities.
- Litigation: The sector is vulnerable to nuclear and thermonuclear verdicts especially in cases involving public safety or environmental damage. Increasing regulatory scrutiny and social inflation (rising jury awards) are pushing claim costs higher.





In response to these risk pressures, insurers have tightened coverage availability and terms, particularly in the first \$100 million of casualty limits. This response includes added coverage restrictions regarding wildfire coverage, attachment levels, total capacity, and rate increases upwards of +10%.



**Elizabeth Upah**, Director & Client Advocate, Willis Natural Resources

To address these pressures, future-ready power and utilities companies are:

- Expanding captive use and exploring alternative risk financing mechanisms to retain more risk internally and reduce dependency on the volatile commercial insurance market.
- Leveraging predictive analytics to model loss scenarios to optimize retention levels and tailor risk management strategies.
- Working closely with insurance brokers to improve submission quality, articulate risk controls, and navigate tougher underwriting requirements. Providing a robust vegetation management plan and any engineering/survey reports performed on site and along overhead transmission lines will be a differentiator and help to enhance the likelihood of obtaining capacity on acceptable terms.

While rate moderation is expected in some casualty lines, the power and utility sector will likely continue to face elevated pricing and limited capacity for high-hazard exposures. But strong carrier surplus levels and improved underwriting profitability offer a glimmer of hope for long-term market stabilization.

To succeed, power and utilities companies must embrace innovation, strengthen risk controls, and engage strategically with insurers.

## Partner with a specialist power liability broker to optimize your placement strategy

Headline trends are generally positive, particularly for power generation, but the undercurrent of continued social inflation, concerns around loss reserving and prior year loss deterioration continue to remain a balancing factor for the international liability market.

The value that a sector-specialist broker that understands the technical nuances of the power industry cannot be understated. As well as helping buyers to accurately assess, quantify and mitigate risks that could adversely affect their liability risk, a sector-specialist broker can articulate data-driven risk information to insurers to make a meaningful difference in negotiations and capitalizing on market conditions.

By building a strategy that can balance the value of existing relationships with long-term strategic partners with competitive pressures created by accessing new, non-incumbent capacity, is critical.



To find out how to buyers can best- position themselves your business to unlock the optimal insurance program for their liability risks, contact:



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This update analyses our observations of the current global market conditions for renewable energy insurance and the impact this has on insurance buyers. This update is based on our observations of the market for our WTW clients and is not a whole of market review.



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