

NORIMA

December 2nd, 2020

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Trends in the Global & Nordic Insurance Market

Today's Panel



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Property Practice Leader, Continental Europe



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Placement Leader, Norway

AGENDA

- * **Market Update**
 - GIMI Q3 2020
 - Insurers Combined Ratios 2019
 - Covid-19 Impact on Insurance Industry
 - Overview per LoB
 - Covid/Communicable Diseases Exclusions
 - Silent Cyber

- * **Outlook for the Market in 2020 and beyond**

- * **Key strategies in Managing the Market**

- * **UK High Court BI Test Case**

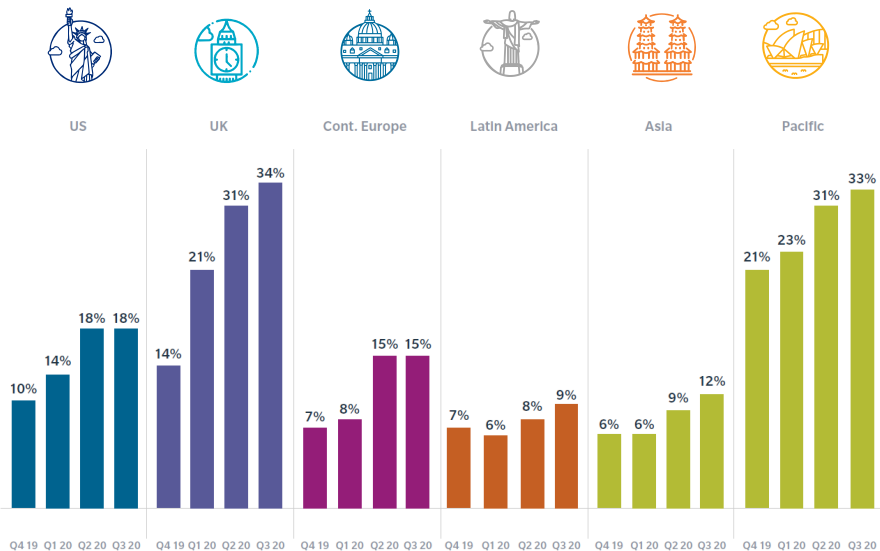
- * **Q&A**

Q3 2020 Marsh Global Insurance Market Index

Global commercial insurance prices increased nearly 20% in the third quarter of 2020



Composite Insurance Pricing by Region – Q4 2019 – Q3 2020



Market Overview Q3 2020



Pricing increased in all 3 major product lines – Property, Casualty and FINPRO



Property 21%



Casualty 6%



FINPRO 40%



12th consecutive quarter of price increases. The third quarter rise in pricing was the largest year-over-year increase in the Marsh Global Insurance Market Index since its inception in 2012.



All Marsh regions reported **composite pricing increases**:



US 18%



Asia 12%



UK 34%



Pacific 33%



CE 15%

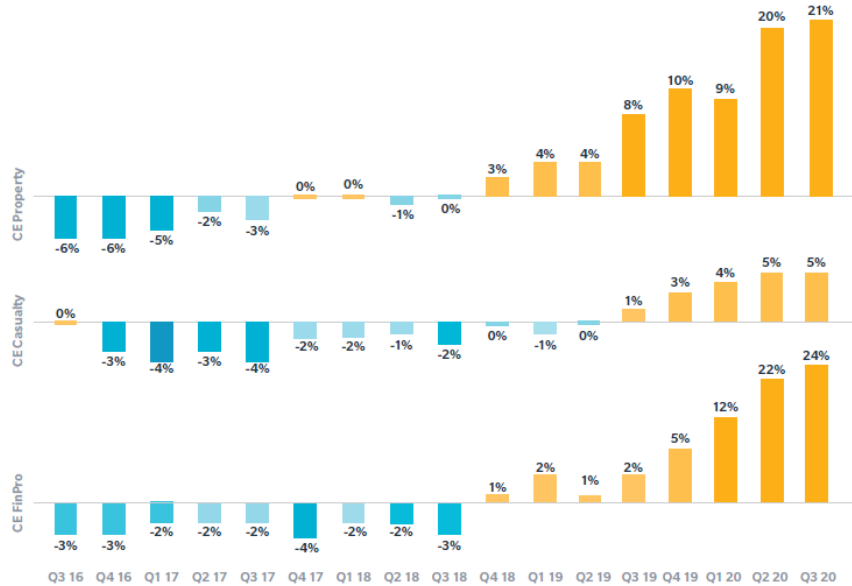


LATAM 9%

Q3 2020 Continental Europe Insurance Pricing Change by Major Coverage lines

Commercial insurance prices in Continental Europe increased 15% in the third quarter of 2020

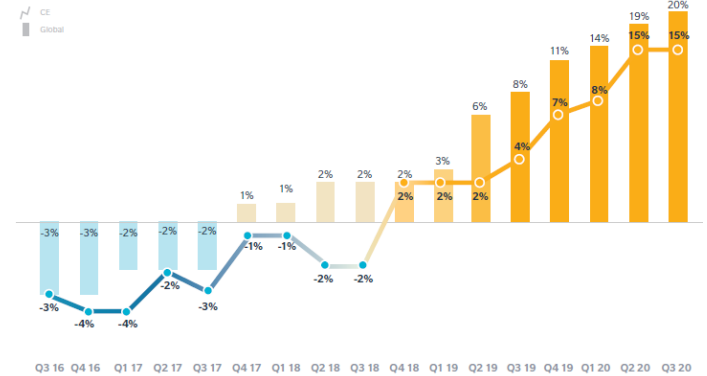
Composite Insurance Pricing Change – Q3 2016 – Q3 2020



Market Overview



Pricing increased in all 3 major product lines – Property, Casualty and FINPRO



Property 21%

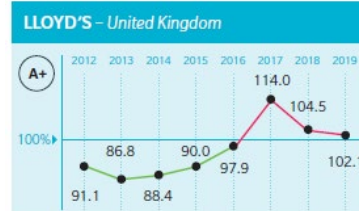
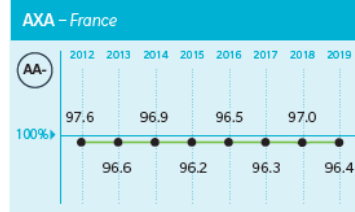
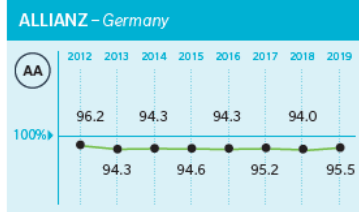
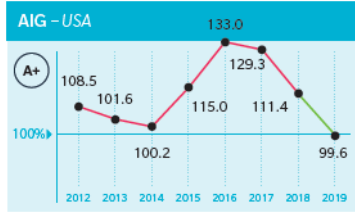


Casualty 5%



FINPRO 24%

Insurers Combined Ratios 2019



Tryg
85,1%

Gjensidige
83%

Codan
87,6%

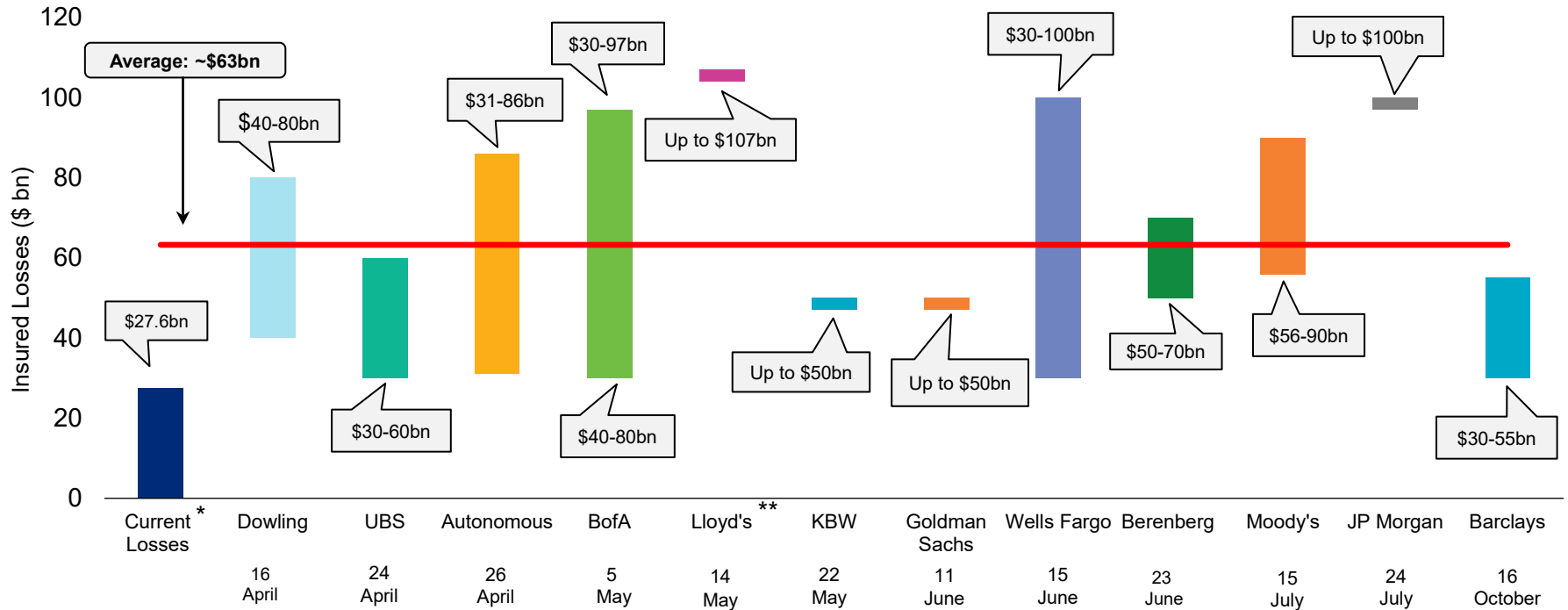
If
84,9%

Protector
80%

Impact of COVID-19 on Insurance Industry

Loss Estimates released by major companies

Covid-19 announced losses versus top-down Industry estimates



Source: Dowlings, Autonomous Research, Barclays, Bank of America, KBW, UBS, Lloyd's, Wells Fargo, Goldman Sachs, Berenberg, Moody's, JP Morgan; Updated as of 6 November 2020

Note 1: *Represents the consolidated CV-19 losses in BI Q1 2020 Earnings Summary list, as of 6 November 2020.

Note 2: **Lloyd's estimate is for underwriting losses from CV-19. This includes claims as well as anticipated lower profits due to lower premiums.

Overview by LoB

Property & Casualty, Financial Lines, Power & Energy, Marine

Property & Casualty Considerations



CONTINENTAL EUROPE

- Pricing increases accelerated, driven by complex placements and CAT-exposed programs.
- Communicable Disease, Cyber and SRCC exclusions/limitations approach is not uniform across the market.
- Capacity is reducing in some areas. Some market has stopped writing Property.
- Pressure on rates, retention and capacity drove an increase in the use of traditional wholesale markets, as well as demand for alternative structures.

- Excess casualty is the main driver of rates increase, particularly for organizations with North America exposure. But also general liability is seeing more increases.
- Auto pricing was generally stable. Workers' compensation increased is contained.
- Covid19 impact is still uncertain, with exclusions applied generally on a case by case basis.
- Social Inflation trends are receiving more attention.

NORDICS

- Less need for rate adjustments, however depending on industry and/or program size in terms of capacity, global and Nat. Cat. exposure
- Less appetite for new business.
- Uncertainty on direct insurance side due to challenging treaty renewals.
- Discussions on CD exclusion driven internationally and Nordic carriers impacted by pressure from Re-Insurers and some still being flexible.
- Similar situation for Cyber
- Strong demand for proper Risk management and risk quality from carriers.

- Hardening market for risks in specific industries and/or large US exposure, but not in general.
- Both CD & Cyber exclusions being introduced by some carriers creating uncertainty & gaps in coverage
- Rate increases for (high) excess capacity.

Directors and Officers

Dominant Market Features Set to Continue



Major capacity contraction and withdrawal



Very significant upward premium shift



Material reduction in active competition between insurers



Widespread changes to underwriting appetite



Tightening of terms and conditions



Company self-insured retentions increasing markedly



Significant underwriting latency and deterioration in service levels



Reduced line sizes and capacity commitments



Increasing unwillingness for insurers to “drop down” to lower attachments on programmes



Side C coverage availability diminishing



Increasing shift to “A+B” structures and, in some instances, Side A only



Increasingly limited marketplace for primary D&O



Increasingly rigid and inflexible approach from many excess carriers regarding attachment point

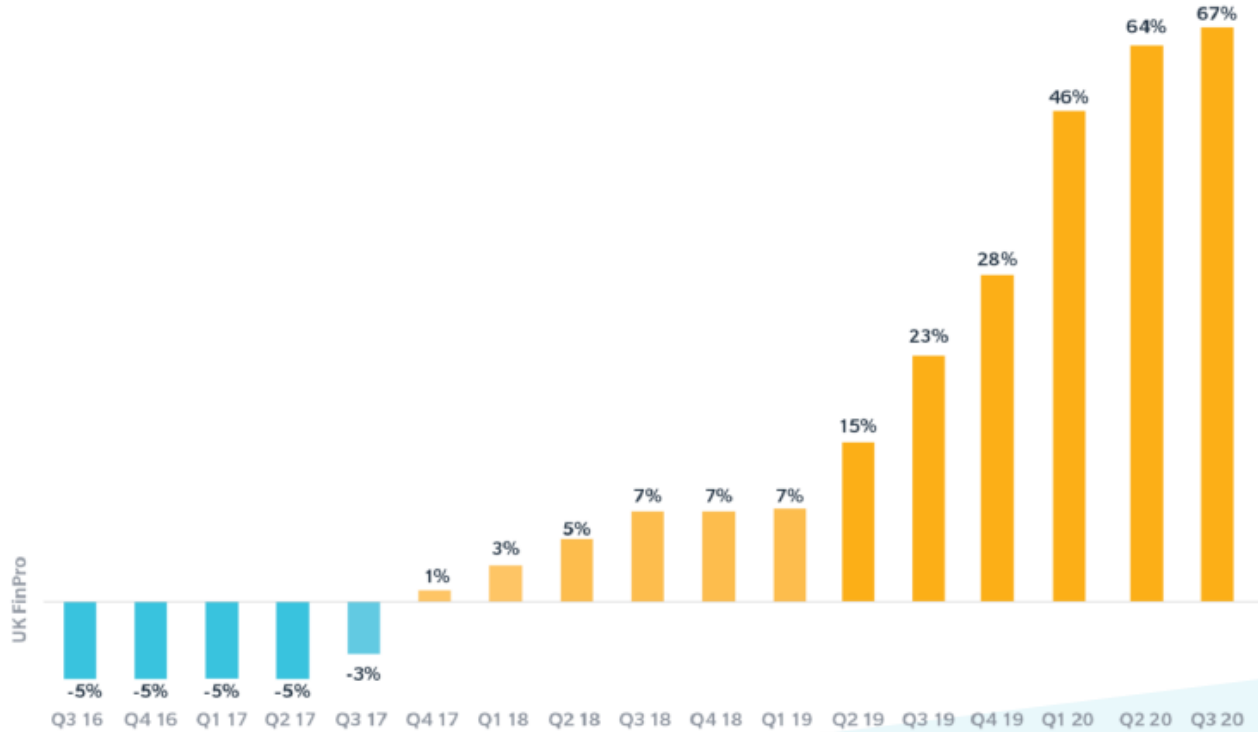


Substantial increases in underwriting reserves and deterioration on prior years of account



Significant Side A/DIC premium inflation evident across the board.

Pricing Change in Financial Lines



Covid-19/Communicable Diseases Exclusions

Covid/Communicable Diseases exclusions

Clauses	Type of exclusion	Comments
LMA 5391	Covid-19/SARS2	First LMA clause – replaced by 5393 as most Insurers found it too narrow in definitions and the exclusionary language
LMA 5393	Communicable Diseases (including virus, bacterium, parasite or other organism)	Most commonly used
LMA 5505	Property Treaty clause with carve backs	First Treaty clause with write back language for Named Perils (Marsh Amended version is based on this)
Various Lloyds's clauses for specific LOB's e.g.	JR-2020-016 LMA 5396 LMA 5397	Energy Liability Construction
Insurer Amended versions	Various Insurer amended versions	Insurers clauses are often referring to a specific LMA clause but it is often amended.

In general very broad exclusionary language:
Excluding loss/damage, directly or indirectly arising out of, attributable to, or occurring concurrently or in any sequence with a Communicable Disease

Silent Cyber

Executive Summary

Traditional P&C Insurers Restricting Cover in Response to “Silent Cyber”

- Regulators in the UK identified “non-affirmative cyber” loss under traditional property and casualty (P&C) insurance as a threat to insurer solvency.
- Lloyd’s of London mandated that, traditional P&C policies either expressly cover or exclude, these “silent cyber” exposures.
- Many major insurers around the globe have also reviewed their P&C policy wordings, whether subject to the Lloyd’s mandate or not.
- Insurers are generally defaulting towards broad exclusionary language that can create significant coverage gaps in traditional P&C policies, **even for clients that purchase stand-alone cyber insurance.**
- Marsh has worked with many insurers to create alternative versions of exclusions and strategies to limit potential coverage gaps and maximise recovery.
- Clients should be aware of the potential gaps and how they impact all P&C insurance.
- Clients should consider purchasing stand alone cyber insurance but should understand that gaps may still exist.

Regulators Identified “Non-Affirmative Cyber” Coverage as a Threat to Insurer Solvency

Regulators and Insurers Are Now Addressing This “Silent Cyber” Exposure

- Regulators and global insurers have reviewed non-affirmative cyber risks and exposures for many years.
- Rating agencies such as Fitch* have cited failure to manage these exposures as rating criteria.
- In the UK, the PRA and Lloyd’s have driven the agenda and timeline as shown on the right.
- **In 2019, Lloyd’s mandated that *all policies must be clear on whether coverage is provided for losses caused by a cyber event. Clarity is to be provided by either excluding, or affirmatively covering the exposure,* from all P&C policies.**
- EIOPA (European Insurance and Occupational Pensions Authority) likely to issue similar directive.

January
2019

- **UK Prudential Regulatory Authority (PRA)** letter to UK insurers.
- Required “action plans to reduce the unintended exposure that can be caused by non-affirmative cyber cover.”

July
2019

- **Lloyd’s Market Bulletin Y5258** set out new mandate.
- All policies to be **clear** on whether coverage is provided **for losses caused by a cyber event**.
- This **clarity** should be **provided** by either **excluding coverage** or by **providing affirmative coverage**.
- Phase 1 effective date 1 January 2020.

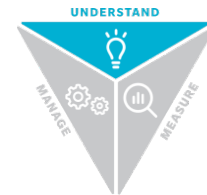
January
2020

- **Lloyd’s Market Bulletin Y5277** updated the timeline for the phased implementation across all lines of business.
- Phase 2 effective date 1 July 2020.
- Phase 3 effective date 1 January 2021.
- Phase 4 effective date 1 July 2021.

*Source: <https://www.captive.com/news/2019/12/17/cyber-risk-analysis-inhibited-silent-cyber-risk-exposure>

Data/Cyber exclusions

Clauses	Type of exclusion	Comments
NMA 2914/2915	Electronic Data Exclusion	Old Y2K clauses. No cover for loss/damage of data and ensuing physical damages to insured property, however write back language for listed perils. No distinguishing between malicious and non-malicious events
LMA 5400	Cyber & Data exclusion with write back for Fire & Explosion for only “Cyber Incidents”	Full exclusion, however only write back for ensuing damage for non-malicious events (Cyber Incident). Malicious events not covered (Cyber Act)
LMA 5401	Cyber & Data exclusion without write back	Full exclusion – no cover for ensuing damage
Various Lloyds’s clauses for specific LOB’s e.g.	JR-2019-012 LMA 5402	Energy Marine
Insurer Amended versions	Various Insurer amended versions	Insurers clauses are often referring to a specific NMA/LMA clause but it is often amended.



Understand the Impact and Consequence of a Cyber Event

Cyber Event

Malicious attacks or accidental events to your digital system (incl. IT & OT), data (in house or outsourced), or technology

Resulting in:

Impact

Non-physical



Confidentiality issues



Integrity issues



Availability issues

Physical



Property Damage



Bodily Injury

Leading to losses/claims:

Consequence



Loss of Turnover



1st Party Costs



3rd Party Liability



Fines & Penalties



Extortion Demands



Negligence in Services



Shareholder Litigation

Outlook for the market 2020 and beyond

Hardening Market

Outlook for the market 2020 and beyond



Uncertainty is the big driver: new waves of Covid19, wildfires in the US, hurricane season not yet finished may exacerbate the challenging conditions.



Low interest rates environment is expected to continue which won't help insurers profitability. Rates increase is not yet at the level to support this.



Reinsurance pricing is trending upward at a higher pace in respect to last year renewals (*Moody's*).



Injections of **new capital** in the market can have a positive impact on competition and in some sectors slow down the rates increase.



U.K. on the spotlight: **Brexit** and **FCA test case** on BI claims related to Covid19 increase the level of uncertainty in the market.

Hardening Market Impact on the Insurance Market



Adherence to technical pricing: insurers now mandate the use of technical pricing models in order to reach an underwriting profit.



Capacity supply has reduced globally for most lines. Some insurers closed LoBs and were not replaced by new entrants. Market consolidation has not helped.



Increased costs: insurers focus on profitability requires an increased use of treaty reinsurance at lower attachment points which increase reinsurance costs.



Insurers becomes more selective in choosing risks to quote.

Underwriters are asking more **questions** and **technical information** becomes necessary to receive a quotation.



Policy Terms & Conditions have tightened as UWs are reducing limits, including sub limits and exclusions (Communicable Disease, Cyber, SRCC).

Key Strategies in Managing the Market

Key Strategies in Managing the Market

Be prepared

HISTORIC MARKET — SOFT

Oversupply of capacity.	Strong competition for business.	Pricing flat or reducing.	Coverage extensions include at no/low cost.	Limited requirement for additional data/analysis.
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CURRENT MARKET — TRANSITIONING

Capacity reducing by insurer and on specific lines of business.	Withdrawal of underwriters from loss making portfolios / classes.	Pricing increases sought across all lines.	Significant increase in data / analysis required to support placement.	Multiple layers of sign off required on complex risks.	Increased time need to get agreement from insurers.	Increased retentions and coinsurance requirements.
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KEY STRATEGIES



1

Start of the process.



2

Identify risk appetite.



3

Prepare a high-quality underwriting submission tailored to industry trends and challenges.



4

Understand claims and articulate lessons learned.



5

Focus on risk management achievements and plans.



6

Establish high-quality claims management protocols.



7

Have a thorough market engagement plan, including potential use of our international hubs.



8

Involve the C-Suite, especially for D&O.



9

Market the programme effectively and look through a cross-class lens.



10

Stick to agreed milestones to keep control.

Bowring Marsh

Regionally focused – Globally connected



We connect international markets through regional placement hubs to deliver insurance capacity to Marsh clients, working as an extension of the local service team.



We use our global portfolio experience, technical expertise, relationships with decision makers, and our industry knowledge to innovate, customize, and design solutions.



UK High Court BI Test Case

UK High Court BI Test Case

Oppsummering:

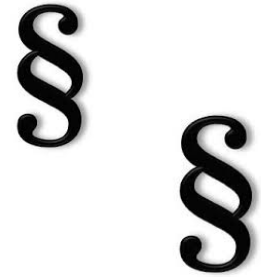
- ➡ Definisjon på “Occurrence” – når har en hendelse intruffet?
- ➡ En eller flere events?
- ➡ Tap sfa myndighetenes restriksjoner eller selve Pandemien?
- ➡ Geografiske krav i polisen (innenfor angitt radius)
 - *Utelukker dette større hendelser?*
 - *Gjelder dekningen kun hendelsen, eller frykt og restriksjoner?*
- ➡ Ulik ordlyd i ulike vilkår – ulik effekt på forskjellige typer virksomheter;
 - *Ordinære restauranter vs Take-away*



UK High Court BI Test Case

- ➡ Generelt har retten gitt medhold til forsikringstakernes argumenter
- ➡ Vilkårutvidelser skal i hovedsak ikke tolkes innskrenkende
- ➡ Den enkelte virksomhet rammet skal ikke bære bevisbyrden
- ➡ Uklarheter i wording er i hovedsak forsikringsselskapets risiko

- ➡ **Dom i testcase vedr. Hotell i Sør-Afrika:**
 - Dekning for “infectious disease” innenfor 40 km
 - Første positive test innenfor angitt radius = Occurrence triggered



Q&A



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