Digging deep: How property market forces are driving competition

Last year, our outlook was one of cautious optimism, with a warning for buyers and brokers to prepare for any potential bumps in the road. In 2023 and early 2024, these predictions have come to fruition.

Headline losses — particularly in the final quarter of 2023 — countered the trend of profitability that was built in previous years, thanks to reductions in previous claims reserves. But other pressures have maintained a healthy appetite and competition across the mining markets.

The big picture

- Severe losses were compounded by an aggregation of smaller losses
- Losses overturned the trend of profitability built in previous years
- Despite this, (re)insurers are competing for business, maintaining competitive pricing and increasing capacity
- The three-layer tiering system is gaining traction as a way to better differentiate risk profiles
- Different exposures are coming under the spotlight

Data-driven conversations are key to building robust risk management and transfer insurance programs. These macro trends are driving change, both for mining businesses and insurance markets, and indicate the direction of travel for the year ahead.

Losses are higher than expected

But market appetite endures

While there haven't been any seismic shifts in new entrants or withdrawals from the market, two push-pull trends are playing out. A spike in losses since this time in 2023 would ordinarily be met with a hardening of the market, but a counteractive trend of increased competition for market share is maintaining the equilibrium across capacity, pricing and terms.

In Q1 of 2024, a tier-one account had a headline loss, compounding other large loss events incurring claims of roughly $1 billion throughout the year. Other losses across the sector between $25 million and $75 million make up another $200-300 million.

Market appetite is more robust than last year, despite these losses. Across the global property and specialty markets, healthy profitability in previous years has gone some way in accommodating for losses in 2023. Across the board, the mining sector is benefiting from being a smaller portion of the wider market which has recently performed well.

Despite the spike in loss events in 2023 and early 2024, there has been increased competition for tier-one businesses as insurers focus on managing volatility of the book.

Competition is building

The tiering system is differentiating opportunities

The mining market, both global and local, has a long-term understanding of the finite number of mining accounts. The three-tier system is bolstering decision-making with a clear grading of which risks are perceived well and those that aren't. For risks with a strong and positive perception in the market, insurers are willing to compete.

Recent profitable performance of wider property portfolios allied with expanded 2024 growth plans is manifesting itself in increased capital that needs to be deployed. Many of the non-specialist mining markets invariably apply lower loadings to business interruption (BI) rates, enabling them to present competitive pricing alternatives for miners that are experiencing a bull market in their respective commodity(ies).

For specialty mining markets, losses from tier-one businesses have had a more severe impact than on the general property market, which has the scale to flex its strategy. Come renewal, the general property market will be positioned to compete more aggressively for tier-one risks.

For tiers two and three, the general property and specialist markets are in closer alignment. There will be specialist markets which might be tempted to write tier two and three insureds because healthier loss records and prevailing premium rates (compared to certain tier-one businesses) are making these opportunities more attractive.

Global and domestic markets are stepping up

With more capacity, pricing is trending downward

Thanks to a general return to profitability globally in recent years, the property market is softening across all tiers. Domestic insurers are entering the market and providing additional capacity, often at competitive prices. Facultative reinsurance through the Lloyd's market is helping to support this dynamic as orders on direct renewal business get squeezed and those Lloyd's carriers look to make up lost income by writing reinsurance. In response, global markets (often net line insurers) are improving pricing and in some cases, broadening cover.

Nevertheless, domestic markets are limited by the available business in their geography, meaning they're more likely to feel the pinch of any losses on their property books.

For some regions with a high risk of nat cat losses, such as North America, this situation remains delicate. It would take a very large nat cat loss event to potentially turn the tide of recent trends towards softer market conditions. Where an influential market hardens and reverses the downward pricing trajectory, ripples will be felt across other markets — big and small.

Driven by stakeholder pressures and changing exposures, future-ready metals and mining businesses are embracing five steps to build resilience against climate risk.
Jump to our article here

A trend to watch:

For the first time, the general property market has been able to compete with the Singapore market. In the absence of any discernible driving force, we will be tracking this in the year to come to understand what's driving this change and what could happen next.

Markets are reacting to changing risks

Different exposures come under the spotlight

Typical mining exposures such as mechanical/human, tailings, fire, ship-loader failures, derailments and natural catastrophes are all well-established and generally well-managed. But more recently, corrosion (structural integrity) and geotechnical stability of leach pads have become focus areas for insurers, with coverage clauses being adapted in reaction to loss events.

> **Weather is driving volatility in Australia. Intense rain has been a theme in the past 12 months, with a number of flood and weather-related claims on foot.**
>
> Brett Forrest, Associate Director Risk Advisory and Risk Financing, Natural Resources Global Line of Business, WTW

While catastrophe exposures fall within the realm of known risks for the mining sector, a particular 2023 loss has impacted some markets and has and has caused a tightening of wording in policies for flood through man-made portal openings. This is being rewritten and applied by some and may gain ground in the year ahead.

More recently, the London market has renewed its focus on the risk of BI volatility. In recent years, BI volatility clauses have migrated from the oil and gas market to become more widely applied by (re)insurers for mining risks. The Lloyd's market has recently published an updated clause (LMA 5515A), further reinforcing the need for accurate BI declarations both at inception and during the period of a policy. Importantly, this updated clause imposes a limitation on clients accessing the capped BI value in the event of a partial loss.

As geopolitical unrest continues to impact global trade, a new sanctions clause — largely driven by lessons learned from the discrepancies in applying the Russian sanctions clauses — will address the variances and create a more standardized approach. The treaty market is also reacting to geopolitical and civil unrest by tightening their approach to strikes, riots and civil commotions, which is increasingly becoming an exclusion under property damage and business interruption (PDBI) programs.

As new clauses and exclusions gain traction, mining businesses need to stay in the loop with regular market updates to understand what this means for their business and how they can best position themselves to limit the impact of a reactive market.

Conversations are opening up

With closer alignment between insurer and business priorities

Underwriters have shown more flexibility in their information requirements. Historically, businesses which did not meet the threshold for information requirements, such as value clauses, were unable to secure the breadth of coverage previously enjoyed. But the conversation is opening. A specialist broker will provide critical support in navigating these conversations.

Insurers and miners both share a key objective: decarbonization. The mining sector is investing in new technologies to keep pace with change and insurers are assessing the composition of their portfolios in terms of various emissions parameters.

> **In LATAM, ESG remains a major headwind. A narrative of social responsibility is on the rise, underscored by environmental disasters that have fueled opposition to mining activities. Advancements in industry automation, digitalization, circular economy initiatives, and the integration of hydrogen and green mining practices are driving innovation across the sector, enabling a transition toward sustainability and delivering benefits to local communities.**
>
> Francisco Aguirre Leiva, Regional Practice Leader, Casualty, WTW

A clear understanding of the business's position on their ESG pathway will be increasingly important in having transparent conversations with the insurance market. This transparency will highlight where additional information is required on the specific ESG exposure for any given operation. Miners with newer operations will have different exposures and providing information on how these exposures are adequately addressed will help to articulate this as a tier-one risk.

Markets and businesses need to prepare for emerging trends

There's a smarter way to risk

Clients can position themselves for success by:

1. **Investing in analytics.** Risk and analytics can provide catastrophe analysis to allow miners to make sense of their exposures, creating knowns amid volatility. As technology-enabled analytics gain momentum, harnessing these insights and overlaying a specialist qualitative perspective is critical to building an understanding that achieves both depth and breadth. With these insights, clients and markets are better positioned to build a robust insurance program.

2. **Identifying strategic objectives.** Forward-thinking businesses are focusing on strategic priorities that will help to elevate their business into the tier one class.

3. **Balancing global and regional strategies.** It is critical to develop a personalized strategy which effectively manages risk and supports growth objectives, and this is best achieved by balancing the agility of a boutique broker with the scope to deploy specialist resources across the world.

Building resilience now and into the future will bring new demands to the mining sector and insurance markets alike. While pressures and demands have the potential to change, and fast, data and specialist sector-focused expertise will remain at the core of a sophisticated insurance strategy.

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