# Balancing sustainability and competition in a dynamic environment

## WTW Mining Risk Review

June 2024

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# Introducing the Mining Risk Review 2024

## From the desk of Global Mining Leader, Natural Resources, Will Fremlin-Key

Midway through 2024, we're seeing last year's outlook come to life. Market dynamics continue to change, but appetite to innovate and grow is making steady progress for (re)insurers and mining companies alike.

### Key themes this year

- Climate change and the decarbonization imperative is an issue that cannot be shelved. Driven by stakeholder pressures and changing exposures, future-ready metals and mining businesses are embracing five steps to build resilience against climate risk.
- Emerging risks such as technologies and geopolitical pressures cannot simply be fed into a standard risk framework, and future-ready mining businesses are exploring new ways to identify and address changing exposures.
- Natural catastrophes and geographical exposures are under the spotlight in regions such as Latin America and Australia.

These factors are driving the mining sector and insurance markets to consider the next chapter in their evolution.

### The insurance markets, at a glance

- Despite headline loss events in 2023, competitive pressures among (re)insurers are keeping property insurance in check and capacity stable.
- The three-tiered model is differentiating risk profiles in the market, creating incentives for mining companies to pursue tier-one ratings.
- The casualty insurance market has achieved profitability for a second consecutive year after an 8-year stretch in the red.
- Rates may be reaching their peak in the international liability market, attracting more capacity and encouraging existing market participants to make full use of maximum line sizes.

## Since last time

- 2023 bucked the trend of profitability that had been sustained in previous years, largely due to headline loss events which have influenced market perspectives and priorities for 2024.
- In the property market, several large events were compounded by an aggregation of smaller losses, driving (re)insurers to renew their focus on structural integrity and geotechnical exposures. For international liability markets, social inflation and ESG have created headwinds, with claims increasing in frequency and quantum.
- But now, the market has increased its general resilience to unknowns, resulting in a more profitable and sustainable relationship with insurance buyers.

## Looking ahead

- Uncertainties about technology development, geographic concentration, labor shortages, changing regulations, rising costs and falling prices of critical minerals could create execution risks.
- But strong M&A activity and partnerships are emerging as a highlight for the sector.

The metals and mining sector has an essential role in transitioning to a sustainable future, and is getting better at articulating its net positive impact. Insurers are acutely aware of the part they will need to play in enabling transition and innovation.

We are keeping our finger on the pulse of the mining market and risk trends, and will continue to deliver insights to help leaders make decisions to build a sustainable future.

If you have any comments or questions, please contact a member of our team. We look forward to sharing more insights in the coming months.

**Will Fremlin-Key, Global Head of Mining, Natural Resources Global Line of Business, WTW**
william.fremlin-key@wtwco.com

# Unearthing emerging and interconnected risks: prospecting new frontiers

The mining sector is navigating a matrix of change and elevated uncertainty. Emerging risks cannot be simply fed into a standard risk framework, and future-ready mining businesses are exploring new ways to identify and address changing exposures.

## Preparing for emerging risks can be the difference between success and failure

Miners have warned of potential copper deficits in recent years. A rising demand for the metal in transition technologies, from grid expansion to electric vehicles, continues to put new demands on resources. Copper is just one key metal, and when the timeline for discovery to production for metallic mines can average 15.7 years, understanding the risks and opportunities from emerging and interconnected risks is a business imperative.[1] But business leaders are conflicted. Pressure to deliver on short-term stakeholder expectations can prevent organizations from looking beyond their most immediate challenges. Inaction will be costly.

Emerging risks are a product of innovation and change, bringing opportunities for a short- and long-term competitive advantage.

In preparing for emerging risks, leaders will need to consider geopolitics, technology, climate and environmental risks. By combining insights from our Climate Transition Analytics and WTW Research Network colleagues, leaders will be positioned to take practical steps in identifying opportunities to secure a competitive advantage amid the ongoing volatility of the energy transition.

[1] https://www.spglobal.com/marketintelligence/en/news-insights/research/discovery-to-production-averages-15-7-years-for-127-mines

## Theme: Technologies are changing the demand for critical minerals

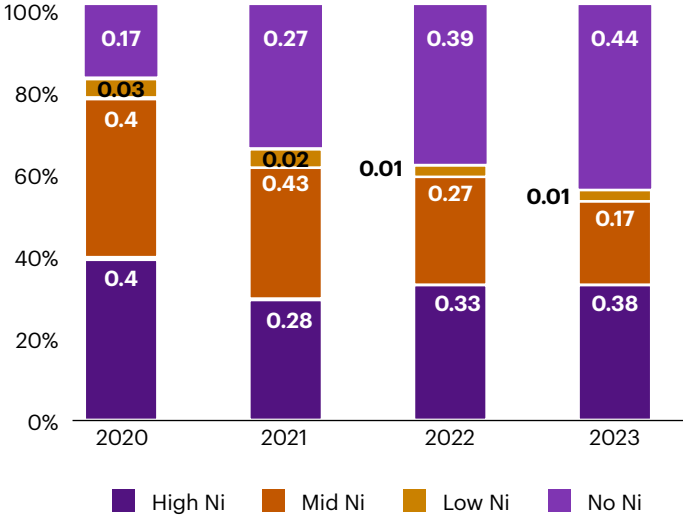
A number of national strategies for critical minerals have been published in recent years,[2] geared toward de-risking supply chains and increasing mining and processing capacity. Much of this activity is driven by efforts to secure critical minerals for the energy transition.

The list of critical minerals will vary between countries, but the energy transition is increasing demand for copper, nickel, lithium, cobalt, and rare earths. In recent years, price volatility and environmental, social and governance (ESG) concerns around nickel and cobalt have led battery and car manufacturers to look at alternative chemistries, where the dominant nickel-manganese-cobalt (NMC) has been overtaken by nickel-cobalt-free batteries, mainly lithium-iron-phosphate (LFP), which has moved from a market share of around 17% in 2020 to around 44% in 2023 (Figure 1).[3]

Meanwhile, increased production of LFP batteries in China is adding new competitive pressures for both the domestic market, where consumer preference favours shorter-range vehicles, and export markets looking for cheaper alternatives.[4]

Figure 1:

### Changing EV battery chemistry




Source: Bloomberg NEF Zero-Emission Vehicles Factbook[5]

### A spotlight on the future of nickel

While nickel is considered critical for the energy transition and an opportunity for the mining industry, technological drivers pose a risk to overall nickel demand over the medium and long term. WTW analysis suggests:

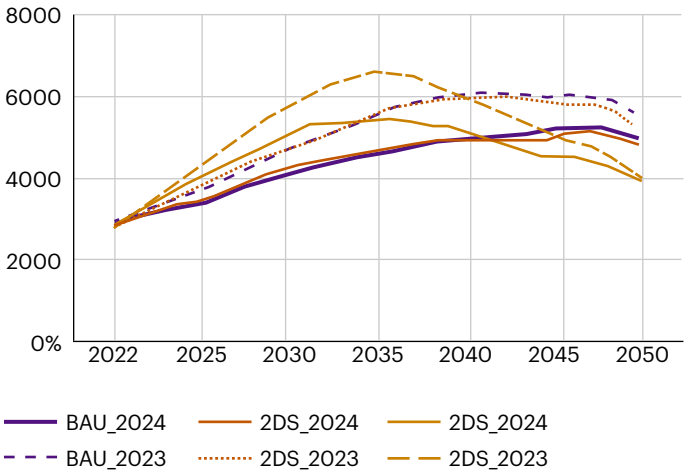
- Demand for nickel could now be up to 500kt per annum, lower than previously expected between 2025 and 2035.
- Changes in long-run expectations are even starker, with demand between 2035 and 2050 potentially reaching 1000kt per annum, also less than previously expected.

Understanding the factors driving changes in demand expectations — which will drive price volatility — will be fundamental to robust investment decisions.

Figure 2:

### Projected nickel demand

Total nickel demand (kt)




BAU = Business-as-usual, a 'market expectations' scenario aligning to current policies and investment plans, with temperatures exceeding 2°C by 2100

2DS = <2 Degrees Scenario, orderly global transition limiting warming to well below 2°C by 2100

1DS = 1.5 Degrees Scenario, orderly global transition, limiting warming to 1.5°C by 2100 and global net zero emissions by 2050

Source: WTW Analysis

[2] https://www.iea.org/policies?topic=Critical%20Minerals&type%5B0%5D=Strategic%20plans
[3] https://assets.bbhub.io/professional/sites/24/2023-COP28-ZEV-Factbook.pdf
[4] https://iea.blob.core.windows.net/assets/aa21aa97-eea2-45b4-8686-ae19d8939161/GlobalEVOutlook2024.pdf and https://www.greencarreports.com/news/1142723_gm-seeks-american-catl-ev-battery-deal
[5] https://assets.bbhub.io/professional/sites/24/2023-COP28-ZEV-Factbook.pdf

## Theme: Geopolitical priorities are disrupting supply chains

China dominates supply chains for the transition metals across mining and processing,[6] but the United States' Inflation Reduction Act (IRA) is incentivizing batteries with components sourced in the U.S. or other Free Trade Agreement (FTA) countries.

While Indonesia controls around 50% of the nickel mining and processing, much of this has been driven by Chinese investments in Indonesia after it imposed an export ban on unprocessed nickel ore.[7] As a result, it is currently largely ineligible for IRA incentives. Indonesia's policy aimed to encourage downstream investments to increase domestic share of the value chain. However, the increase in production capacity of nickel has generated a short-term oversupply, leading the price to halve in a year and placing some mines at risk of closure.[8] A risk for some and an opportunity for others.

Carbon intensity of production processes is likely to come under increased international scrutiny. With countries such as Indonesia reliant on a power system that is still dominated by fossil fuels, implications could be amplified across global supply chains.

> **Organizations looking to make investment decisions in these areas will benefit from richly informed scenario analysis. 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.**
>
> Ali El Hadi Berjawi
> Senior Associate, Climate Transition Risks
> WTW

## Theme: Climate change is putting sites at risk

It is estimated that natural catastrophe (nat cat) losses breached the 10-year average by approximately 40% in 2022.[9] Events once thought rare are occurring at scales previously unseen and unexpected.

### Site dynamics will need to deliver

Water is a key part of mining: operators need to be mindful of an asset's design to strike the optimal balance between deficiency and excess. Mines are often in remote locations with limited historical data to project future extremes of flood and drought. Compounding these exposures is an increase in severe weather, making it harder to estimate parameters for design.

Adapting the latest climate and hydrological modelling techniques can inform planning considerations and risk calibration — a deep dive can be found in this review in 'Preparing for a new climate: Building resilience in the mining sector'. These data-driven insights enable business leaders to:

- Uphold ESG obligations. Reviewing change and taking action can provide assurance to regulators when seeking approvals and improve ESG disclosures during operation, whilst protecting local environments and the communities who depend upon them — a key area of interest for broadening financial disclosure questions.
- Build a robust risk management strategy to address geological hazards. Much of the risk comes in the form of structural stability of mine workings and secondary effects, such as increased susceptibility to landslides or subsidence affecting overlying development and infrastructure. These are hazards that must constantly be considered during the lifecycle of a mine's operation and do not cease when it is decommissioned. In addition to long-term structural stability of disused mine workings or remediated land, there is also a priority to ensure there are no contamination risks to either the overlying geology or groundwater.

### Businesses are rethinking their opportunities

Emerging risks are a product of change. With change, comes opportunity. For mining companies, identifying and aligning these opportunities with lifecycle planning can be the gateway to success.

[6] https://iea.blob.core.windows.net/assets/c7716240-ab4f-4f5d-b138-291e76c6a7c7/CriticalMineralsMarketReview2023.pdf
[7] https://carnegieendowment.org/2023/04/11/how-indonesia-used-chinese-industrial-investments-to-turn-nickel-into-new-gold-pub-89500
[8] https://www.miningweekly.com/article/glencore-to-close-unprofitable-new-caledonia-nickel-mine-2024-02-12
[9] WTW (2023). Mining Market Review, 2023. https://www.wtwco.com/-/media/wtw/insights/2023/05/mining-market-review-2023.pdf

Work is currently underway to understand the potential for disused mine workings. Mine water heating is a form of low-temperature geothermal energy which involves filling disused subsurface mine workings with water and distributing the heat generated underground to heat homes and businesses. Studies by the British Geological Survey and Coal Authority have identified that heating accounts for 40% of energy use in the U.K. and estimate that 25% of homes and businesses in the country are located above former coal mines.[10] It is estimated that mine water projects currently in development or operation will save around 1800-2600 tonnes of $CO_2$ per year.

## How to tackle emerging risks

To harness these uncertainties for competitive advantage, organizations need a process to identify emerging risks and then integrate them into their wider decision-making frameworks. Agility will be critical in seizing new opportunities. The newly released *ISO 31050 — Guidance for managing emerging risks to enhance resilience*[11] — provides a framework for organizations to develop processes that are:

- Customized to their own needs
- Interoperable with existing ISO 31000 risk management frameworks

Risk management starts with risk identification, and this requires clear definitions. ISO 31050 defines emerging risks as, "characterized by their newness, insufficient data, and a lack of verifiable information and knowledge needed for decision-making related to them." Emerging risks are not standard operational risks. Effectively identifying emerging risks demands a broader lens. This is addressed by ISO 31050's introduction of the risk intelligence cycle for emerging risk, a framework designed to detect changes in the environment and build an understanding of how they could impact organizational objectives; offering a structured framework to develop sustainable strategies.

Building foresight starts with identifying the data you need to capture, from micro to macro trends and from local to global issues. ISO 31050's risk intelligence cycle for emerging risk outlines two interconnected iterative cycles: an external cycle and an internal cycle.

1. The external cycle consists of 'continual scanning across multiple aspects of the organizational context' for changes that can 'signify an early warning or an indicator' of threats or opportunities to organizational objectives.

2. Early indicators can then become data sources to systematically track changes in context. Assigning values to measurable elements from these markers — including likelihood and consequences — builds the foundation for ongoing monitoring and review, as would be implemented for any other risk.
3. External signals provide inputs to the four stages of the internal cycle. Which involves:
    a. Identifying connections between external trends and internal issues
    b. Establishing the boundaries for data collection
    c. Building a data collection and analytics capability
    d. Assessing the data-driven insights with a critical eye
    e. Applying the knowledge to decision-making on emerging risks
    f. Integrating intelligence into the organization's broader ISO 31000 risk management process

[10] https://www.gov.uk/government/collections/mine-water-heat
[11] https://www.iso.org/obp/ui/en/#iso:std:iso:ts:31050:ed-1:v1:en

## The future of emerging risks: data will be the differentiator

Mining businesses are navigating headwinds. Keeping pace with this velocity will demand sophisticated analytics, expert judgement and decision-making frameworks to unlock competitive advantage.

Partnering with a specialist climate transition analytics team with access to leading academics will help businesses stay ahead of the curve. Achieving a clearer understanding of what's at stake if leaders make a misstep, will be critical. To reinforce leading analytic perspectives, access to a research network including wider academic partnerships can help to explore the intersections of geopolitics and climate transition.

Mining has always required the ability to discern long-term investment opportunities, whilst dealing with immediate issues. Implementing ISO 30150 for emerging risks will increase assurance and evidence for those enduring success factors.


**Hayden Taylor, Emerging Risks and Conflict Modelling Lead, WTW Research Network**
hayden.taylor@wtwco.com

**Ali El Hadi Berjawi, Senior Associate, Climate Transition Risks, WTW**
ali.berjawi@wtwco.com

**Neil Gunn Msc CWEM CEng, Head of Flood and Water Management Research, WTW Research Network**
neil.gunn@wtwco.com

**James Dalziel BSc (Hons), MSc, MRes, FGS, Earth Risk Research Lead, WTW Research Network**
james.dalziel@wtwco.com

# Five ways mining businesses can build climate resilience

The decarbonization imperative is putting pressure on the mining sector. Driven by stakeholder pressures and changing exposures, future-ready metals and mining businesses are embracing five steps to build resilience against climate risk.

## Climate change is driving the mining sector to think strategically

Climate change is impacting the extractives sector as businesses continue to:

- Appraise their role in a low-carbon future through mining the necessary metals and minerals
- Rebalance commodity portfolios and shift away from fossil fuels
- Drive to decarbonize their operations and supply chains
- Manage exposures to legal challenges associated with historical emissions, environmental degradation, potential 'greenwashing' allegations and directors' and officers' (D&O) insurance claims related to climate change
- Shore up the resilience of their assets, operations and supply chains to the physical impacts of climate change

In building resilience across assets, operations and supply chains, it is critical to examine the impact of weather and climate events and identify priority actions. Mining investment decisions have long lead times and long-lasting effects. Future-ready business leaders are taking action now.

## Priority actions for mining companies to build climate resilience

### 1. Build climate resilience into existing processes

Planning now for the impacts of a changing climate makes good business sense — both to minimize the risks and capitalize on the opportunities. Building climate resilience is about integrating it within existing risk management and planning procedures. Leaders' energies may be wasted in reinventing the wheel. From planning, to operation and maintenance, to decommissioning and closure, there are multiple opportunities for climate risk considerations to be integrated into existing activities so mining businesses can take a step on their energy transition journey with minimal disruption.

## 2. Identify climate sensitivities and critical thresholds

Identifying critical climate-related thresholds is a key early step in physical climate risk assessments. Critical thresholds represent the boundaries between tolerable and intolerable levels of risk. A critical threshold may, for example, be the original tailings storage facility design operating freeboard, a maximum safe working temperature for personnel, or the volume/frequency of local communities' complaints.

Figure 1 shows that in a stationary climate, the threshold may be designed to tolerate infrequent breaches and their consequences. In the future climate, the threshold may be crossed more often and with greater intensity, leading to intolerable levels of risk. To ensure continued successful operation, adaptation would be required to increase the coping range (e.g. by raising the height of the dam spillway).

## 3. Stress-test strategies across future climate scenarios

Scenario testing overlays unknowns with analysis to aid decision-making. Scenario testing cannot predict the future, but as an approach advocated by the TCFD[2], testing enables leaders to explore the implications of different plausible futures.

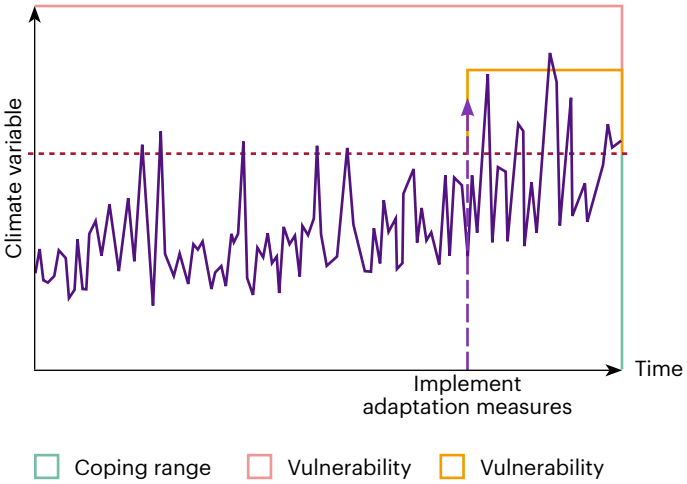
Current weather and climate data, and future climate information (termed climate projections) are essential inputs into scenarios for climate-related risk assessments. Scenarios usually include three time periods, typically: 2030 (2021-2040); 2050 (2041-2060) and 2080 (2071-2090). The 2050s represent a medium-term outlook, which typically aligns with asset lifecycles, and the 2080s period of post-closure and decommissioning.

Mining and metals companies should also explore a range of potential climate futures representing different global climate change mitigation ambitions. Generally, it is recommended that companies utilize low-, medium- and high-emissions scenarios which correspond to Shared Socio-Economic Pathways (SSPs): (i) SSP1-2.6; (ii) SSP2-4.5 and (iii) SSP5-8.5.

As part of this process, tipping points should be incorporated into scenarios. Tipping points are defined by the the Intergovernmental Panel on Climate Change as critical thresholds beyond which a system reorganizes, often abruptly and/or irreversibly[3], e.g. reduction in area of Arctic Sea ice, permafrost thawing, accelerating loss of the Greenland and West Antarctic ice sheets. Without incorporating tipping points, businesses are likely to be underestimating the business impacts of a 2-3+ °C world.

Figure 1:

### The relationship between coping range, critical threshold and vulnerability — including some examples[1]




#### Examples

- Water resources for hydropower
- Performance of equipment under different temperature ranges
- Pollution levels/discharge limits
- Worker health and safety in temperature extremes
- Overtopping of flood defences and drainage capacity

## 4. Quantify risk

It's important to identify, assess and financially quantify your risks — both for disclosure requirements and to guide business planning and investment decisions. However, translating climate impacts into robustly quantified financial risks remains a challenge.

Physical climate risks may lead to a range of business impacts, some of which are financially quantifiable (e.g. physical damage, business interruption, production loss and costs), and others which are more difficult to quantify (e.g. brand equity, reputation, legal action, compensation). Quantifying the potential financial impacts of physical climate risk should balance two robust approaches:

- Probabilistic nat cat models are recognized and used within the insurance industry to price such risks. These models can be used for acute hazards, such as flooding and storms (including hurricanes, typhoons, extratropical cyclones and tornadoes). These models

[1] Willows, R.I. and Connell, R.K. (Eds.). (2003). Climate adaptation: Risk, uncertainty and decision-making. UKCIP Technical Report. UKCIP, Oxford. https://www.ukcip.org.uk/wp-content/PDFs/UKCIP-Risk-framework.pdf
[2] TCFD (2017). Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities. https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Technical-Supplement-062917.pdf
[3] IPCC (2024). IPCC glossary. https://apps.ipcc.ch/glossary/

probabilistically consider the potential damages to property, contents, machinery and equipment, as well as the potential business interruption caused by the hazards. These models can be adjusted to reflect different shared socioeconomic pathways scenarios, and the leading vendors are increasingly providing these future views of risk for a range of geographically specific hazards (e.g. U.S. hurricane, European windstorm and Australian wildfire).

- Scenario-based analysis — supported by climate data — can provide plausible ranges of impact in better, bad and average years. For hazards that are less likely to cause physical damage, such as heat stress and drought, the financial impact is typically associated with business interruption and loss of revenue.

### 5. Stay agile when it comes to risk management

Risk management (adaptation) options can cut across all areas of the business and cover multiple dimensions. The adaptation options presented in Figure 2 may be a useful framework to ensure that the full suite of available options are identified and considered. Some measures will be high-cost and complex (e.g. new infrastructure, or actions involving multiple stakeholders), while others will be low-cost and easier to implement (e.g. operational changes, capacity building and training).

Actions can be sequenced into adaptation pathways. Adaptation to a given risk will often involve a package of individual measures, with progress made over time and systematically. Adaptation pathways show how the measures can be sequenced.

The general rules for developing adaptation pathways are that:

1. Informational and institutional/policy actions often need to be undertaken first, as these form the building blocks for future decisions. Contracting and insurance arrangements should also be reviewed in the short-term.
2. Operational measures (OPEX) often make sense to implement in the short- to medium-term, as they are generally more flexible, reversible and lower cost than physical modifications.
3. Actions that are likely to be deferred until later, are those that are more costly and which address long-term risk. These are typically physical modifications, involving significant capital expenditure (CAPEX).

The pathways support a decision strategy that can evolve and adjust as circumstances change, new knowledge emerges, or climate-related thresholds are met.

Figure 2:

## Types of risk management (adaptation) options to address climate-related risks

| | Type of option | Description |
|---|---|---|
|  | Informational | • Scoping of detailed risk studies<br>• Monitoring of hazards<br>• Appraisal of existing controls |
|  | Institutional | • Integrating climate risk into existing risk assessments<br>• Stakeholder engagement<br>• Oversight and governance of climate risks |
|  | Contracting and Insurance | • Extending cover<br>• Engaging with insurers on adaptation measures that have been implemented |
|  | Operational (OPEX) | • Reviewing and improving maintenance regimes and H&S protocols<br>• Reviewing and improving usage of water and energy<br>• Post-event repair and restart |
|  | Physical modification (CAPEX) | • Back-up systems<br>• Upgrading to higher specification on replacement<br>• 'Hard' engineering solutions<br>• 'Soft' Nature-based Solutions (NbS), e.g. trees for shading |

## Mining companies are facing increasing pressure to take action

### Physical climate risks are mounting

The mining and metals sector is exposed to a range of direct and indirect physical climate risks due to:

- A reliance on long-lived and capital-intensive fixed assets
- Often operating in regions that are highly vulnerable to extreme weather
- Having extensive product transport networks and reliance on deep and complex supply chains
- A dependence on workforces and communities that are vulnerable to a changing climate
- A need to manage complex environmental permitting arrangements, and social licence to operate, which can be undermined by the effects of a changing climate

In recent years, the resilience of mining production systems and infrastructure has been tested by extreme weather and nat cat events. It is estimated that global nat cat insured losses breached the 10-year average by approximately 40% in 2022[4] and 2023 was the fourth successive year that global nat cat losses breached the $100 billion barrier[5]. This is having significant impacts on those operational mines in exposed regions, construction phases of projects and the availability of insurance cover[6].

A word of caution, though. The newsworthy nature of extreme events generates interest in planning for more severe and frequent climatic events. Incremental changes in climate conditions are more likely to be overlooked. Rising temperatures, for example, can have cumulative impacts as small efficiency losses affect a broad range of equipment such as pumps, compressors and electrical equipment. To help get ahead, companies should identify the risks associated with both incremental changes and extreme events.

> **In Australia, specific increased deductibles and inner limits for wildfire, tropical cyclone and flood are becoming commonplace, thus pushing risk retention back to the insured parties.**
>
> Ben Rabb,
> Associate Director, Physical Risk,
> Climate Practice, WTW

[4] WTW (2023). Mining Market Review, 2023. https://www.wtwco.com/-/media/wtw/insights/2023/05/mining-market-review-2023.pdf
[5] Insurance Times (2024). Increasing natural catastrophe losses necessitate a resilience focus. https://www.insurancetimes.co.uk/analysis/increasing-natural-catastrophe-losses-necessitate-a-resilience-focus/1451687.article
[6] WTW (2023). Mining Market Review, 2023. https://www.wtwco.com/-/media/wtw/insights/2023/05/mining-market-review-2023.pdf

Figure 3:

## Example impacts for the mining and metals sector from a range of climate hazards

| | Impacts for the mining sector | | |
|---|---|---|---|
| Climate hazards | Core operations and infrastructure | Critical inputs and third-party infrastructure | Local communities & habitats |
| Increase in air temperatures | Increased equipment breakdown and loss of efficiency | Reduced efficiency and lower output for power plants, electrical switchgear and substations | Heat stress and heat stroke amongst local communities and workforce |
| Increase in water temperatures | Reduced efficiency of processes requiring cooling water e.g. refineries | Increased algae growth causing blocking of inlet pipes e.g. at desalination plants | Damage to local habitats and liabilities around the temperature of effluent discharge |
| Changes in precipitation patterns and surface water discharges | Increase in precipitation leads to water management infrastructure being inadequate e.g. water treatment systems, tailing storage facility stability | Ground subsidence and heave affecting the stability of infrastructure e.g. rail | Pollution runoff from site and contaminating local community water supplies<br><br>Infectious and vector-borne disease (e.g. malaria, dengue fever) |
| Changes in wind patterns | Increased dust emissions requiring suppression | Damage to electrical transmission and distribution infrastructure | Transport of dust from site, affecting the wellbeing and health of nearby populations and/or damaging crops |
| Extreme weather events (e.g. stronger and/or more frequent storms, flooding, wildfires) | Flooding causing damage and disruption to site infrastructure and overwhelming drainage systems and/or tailings management systems<br><br>Extreme windstorms and wildfires leading to damage, downtime and lost production | Heavy rainfall and flooding (surface water and fluvial) causing road or rail washouts<br><br>Increasing risk of wildfires leading to energy supply interruption (blackouts) | Increased incidents and accidents among the local workforce, third-party property damage and/or bodily injuries, pollution |
| Sea level rise and storm surge | Infrastructure damage due to coastal flooding<br><br>Supply chain disruption (e.g. fuel delivery or product export) during adverse conditions (e.g. storm surge) | Sea level rise causing increasing saline groundwater levels and sea water intrusion of underground infrastructure | Increased flooding of coastal communities and damage to nearby habitats |

### Stakeholder expectations are escalating

Driven by central banks and regulators, investors, insurers and banks are expected to facilitate the transition to a low-carbon, climate-resilient economy by moving capital. Disclosure of climate risks is mandatory. Companies will be expected to understand and manage their climate risks in increasingly sophisticated ways.

Around the world, national governments continue to introduce climate-related targets and legislation. Insurers have stated that the terms and conditions of insurance contracts will change in response to a changing climate, and many non-governmental organisations are advocates for community climate change resilience. A high level of social interest is also increasing pressure on corporations to take action on climate change, which is further fuelling the retail investor market and shareholder pressures.

## Looking ahead: taking action is the gateway to success

Climate change is a complex issue, with inherent uncertainty about the timing, pace, and severity of possible impacts. However, this isn't a reason for inaction. The mining sector will need to develop robust responses to today's and tomorrow's climate[7]. By responding to the risks and opportunities associated with future climate change methodically and comprehensively, companies can ensure that they implement actions that both build resilience and deliver strong financial returns in the long run.

Decisions, backed by data, should target ensuring business continuity, making prudent investments, limiting future liabilities and safeguarding the sustainability of local communities and ecosystems. The most innovative and proactive companies will no doubt reap the rewards.

**Anna Haworth Associate Director, Research Climate Practice, WTW**
Anna.Haworth@wtwco.com

**Dr Ben Rabb, Associate Director, Physical Risk, Climate Practice, WTW**
Benjamin.Rabb@wtwco.com

[7] Wilby, R., and Dessai, S. (2010). Robust adaptation to climate change. Weather 65: 180-185. https://doi.org/10.1002/wea.543

# 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.

**Will Fremlin-Key, Global Head of Mining, Natural Resources Global Line of Business, WTW**
william.fremlin-key@wtwco.com

# A tipping point: International liability markets balance stability and innovation

In 2023, market dynamics were pointing to a new equilibrium for mining placements in the international liability market. Twelve months on, competing dynamics continue to create a tug-of-war between supply and demand as the market gently shifts its focus from rate to coverage as a means of addressing developing exposures.

While insurers continue to pursue rate increases where possible, overarching ambitions to retain desirable business and increase gross written premium (GWP) act as a meaningful counterbalance.

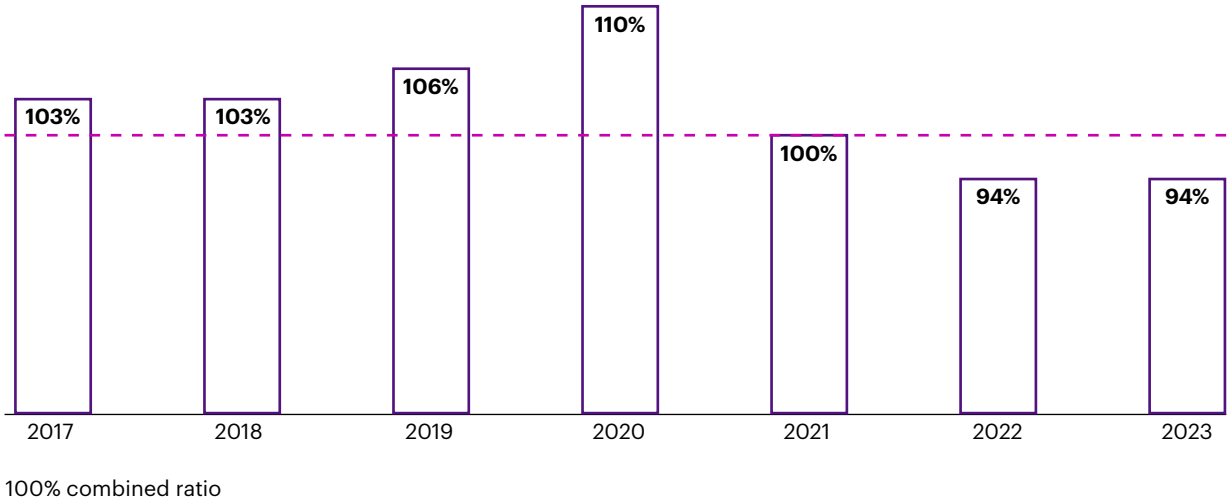
## The big picture

- The casualty insurance market has achieved profitability for a second consecutive year after an 8-year stretch in the red
- Rates may be reaching their peak, attracting more capacity and encouraging existing market participants to make full use of maximum line sizes
- Social inflation has resulted in claims increasing in frequency and quantum
- Exposures such as tailings dams, ESG and geographic location of the risk continue to meaningfully impact underwriting decisions

Figure 1:

## Lloyd's results 2023: Casualty insurance segment

Aggregate combined ratio reported by Lloyd's casualty segment since 2017.




Source: Lloyd's annual report

### Casualty markets remain profitable for a second year

#### But potential headwinds are tempering insurer appetite

Last year, Lloyd's of London reported[1] a return to underwriting profitability for the casualty insurance segment the first time in eight years. This has been achieved for a second consecutive year[2], with the absence of major mining loss events contributing to an aggregate combined ratio of 94% for the casualty segment.

While these results are undeniably positive, the corporation accompanied the data by pointing towards growing concerns around how both economic and social inflation are leading to greater uncertainty around underwriting reserves in the casualty market.

### Rates may be reaching their peak

#### And underwriters are in a balancing act

After consecutive years of compound rate increases, recent stability is attracting capacity to the sector and encouraging existing participants to increasingly make full use of maximum line sizes, which is further increasing pressure on rates. Underwriters are walking a tightrope of pushing for rate increases where deemed necessary, without jeopardizing positions on programs that they are keen to retain.

This dynamic is resulting in a bifurcation of rates:

- Where program limits are lower, insurers are targeting flat to +2.5% rate increases as a base position before factoring in exposure changes, with greater competition opening the door to potential rate reductions if the risk has run well and a comprehensive underwriting submission is available.
- For larger programs, where capacity is in scarcer supply, the impact of supply and demand is resulting in default base rate positions of up to +5% with flat renewals generally tending to be the best achievable outcome.

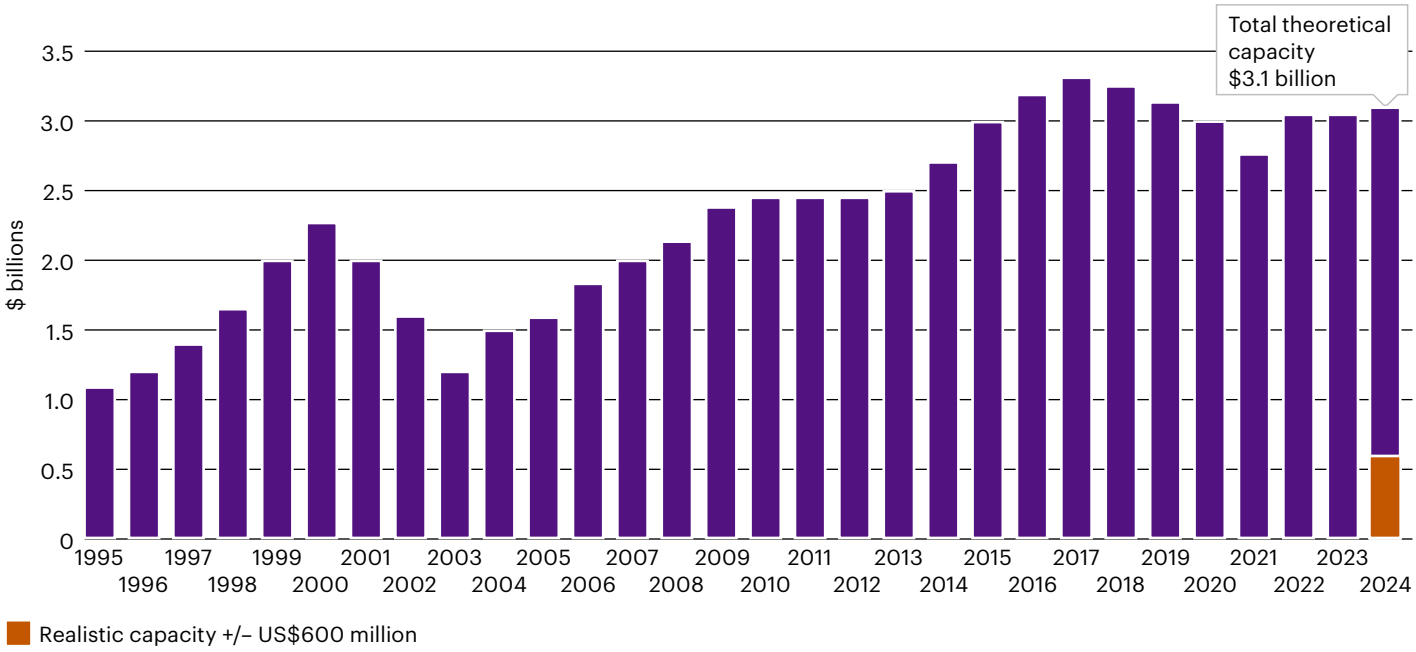
Double-digit rate increases are now typically reserved for accounts with either unfavorable claims activities or significant U.S. exposures which may not have been adequately factored into pricing previously.

While there is some variation in rate expectations, the divergence is perhaps smaller than may be the case for other sectors. The underwriting of risks in the mining sector is technical, with a greater reliance on risk engineering and pressure to stick to minimum rates. This is coupled with a strong lead-follow dynamic, with a handful of insurers often adopting lead positions on programs and others preferring to follow a recognized lead that has already undertaken the necessary risk assessment due diligence prior to quoting.

[1] https://www.lloyds.com/about-lloyds/investor-relations/financial-performance/financial-results/archive
[2] https://www.lloyds.com/about-lloyds/investor-relations/financial-performance/financial-results

Figure 2:

## Global liability capacity




Source: WTW

### There has been a small uptick in global liability capacity

#### Indicating that (re)insurers are proceeding with caution

Whilst the total headline global liability capacity has only marginally increased from $3.05 billion in 2023 to $3.1 billion in 2024, we estimate that the realistic capacity for mining risks has increased by a slightly larger, albeit still modest, percentage from $550 million to $600 million.

The marginal uptick in capacity is likely to be reflective of a growing desire from the market to support the energy transition. That said, numerous international liability insurers continue to avoid the mining sector. Whether several years of compound rate increases, improved risk management and profitable underwriting performance is enough to (re)attract more non-participating insurers into the mining space remains to be seen. However, the prospect of this occurring is not unforeseeable.

Meanwhile, factors including attachment points, territories, tailings dams and, ultimately, scale of mining operations, continue to have a significant bearing on limits available. The end result is a marketplace that is palpably governed by the laws of supply and demand. These pressures are resulting in a large divergence in marketing strategies for programs of single-site mining operators versus large global mining companies.

### Claims trends are putting reserving under the spotlight

#### Social inflation pressures emerge

In addition to economic inflation, the international liability market has also had to contend with social inflation. Despite an absence of major mining losses to the London insurance market in recent years, increasing social media pressures and third party litigation funding are driving an uptick in the frequency and quantum of claims.

The increase in loss awards more generally has called into question the adequacy of reserving and there is a general sentiment in the market that reserving may have been inadequate for several years. This is underlined by recent strengthening of casualty reserves by some key market participants and there are concerns that if the tail deteriorates further, the last few years of pricing corrections would not be sufficient to prevent a reset of pricing models.

## Markets are reacting to changing risks

### Different exposures have weight to impact underwriting decisions

Although the momentum for corrective rate adjustments is waning as the market reaches a more balanced equilibrium, changing market dynamics continue to impact underwriting decisions.

**Tailings dams:** Following several large catastrophes over the past decade, there is continued market scrutiny on safety standards. Markets expect a complete set of information per tailings storage facility, including but not limited to:

- Dam characteristics and raise method
- Roadmap to conformity to jurisdictional standards ideally being the Global Industry Standard on Tailings Management (GISTM)
- Frequency of inspections
- Details of any outstanding maintenance
- Independent reports, with a focus on stability analyses.

Previous expectations focused on dam safety inspection (DSI) and dam safety review (DSR) reports. More recently, the requirement has modulated to include annual and/or quarterly reports provided by the Engineer of Record (EOR) and/or Independent Tailings Review Board (ITRB), often in place of DSIs and DSRs which underwriters acknowledge may be undertaken less frequently.

**ESG:** Like tailings dams, ESG is not a new phenomenon. Insurers remain motivated to look more favorably upon clients that are armed with strong ESG credentials and a compelling climate transition plan to help differentiate themselves from their peers. Where buyers do not meet minimum ESG requirements, there have been instances of insurance capacity being withdrawn by insurers.

**A spotlight on coal:** This stance, stemming predominantly from investor pressures, is having the greatest impact on insureds within the coal industry. The limited supply of capacity has created an alternative market dynamic, as insureds are effectively subjected to a 'coal tax' from insurers. However, where rates are pushed too high, insureds are opting to retain risk rather than be beholden to opportunistic pricing.

For some mining classes, such as lithium, the market is finding its feet as it ultimately trades off water usage concerns with the benefits of an economy less reliant on fossil fuels. Nevertheless, the short-term impact on pricing is likely to remain limited with insurers turning to coverage exclusions or outright declinatures as a means of managing this exposure.

**Regional pressures:** Risk location continues to influence how mining risks are perceived by the market. A higher concentration of catastrophe events in countries such as Brazil have reduced capacity for mining operations located in Latin America, limiting the amount of competitive pressure compared to risks located elsewhere.

Looking ahead, operations located in Turkey are likely to come under greater scrutiny following the heap leach mining disaster earlier this year. In Australia, the increased frequency and severity of worker-to-worker claims and broad interpretation of mental anguish claims in the courts, are causing insurers to respond with higher deductibles.

Elsewhere, whilst exposure to the U.S. is generally incidental for the international liability market, where U.S. exposure is present, close consideration is paid to this, particularly where auto fleets are to be included in cover.

**Underwriters recalibrate overall mining exposures:** This includes an increase in worker fatalities and serious injuries across the mining industry, with a perception that this is at least in part caused by a post-COVID-19 loss of experienced workers within the industry. This in turn is leading to fewer challenges to health and safety hazards, and issues regarding the integration and supervision of contractors.

Underwriters are also turning their attention to emerging exposures such as those posed by battery fires due to the increased electrification and automation of on-site vehicles, as well as exposures highlighted by recent losses such as heap leach slip, underground fire, mine shaft failure, mine collapse and subsidence.

Meanwhile, the market continues to homogenize its position on poly- and perfluoroalkyl (PFAS) substances (typically focusing on the risk posed by firefighting foam being used underground and in processing plants) and climate change (predominantly with regards to coal), with exclusions becoming increasingly standardized.

## Preparing for the year ahead

### There's a smarter way to risk

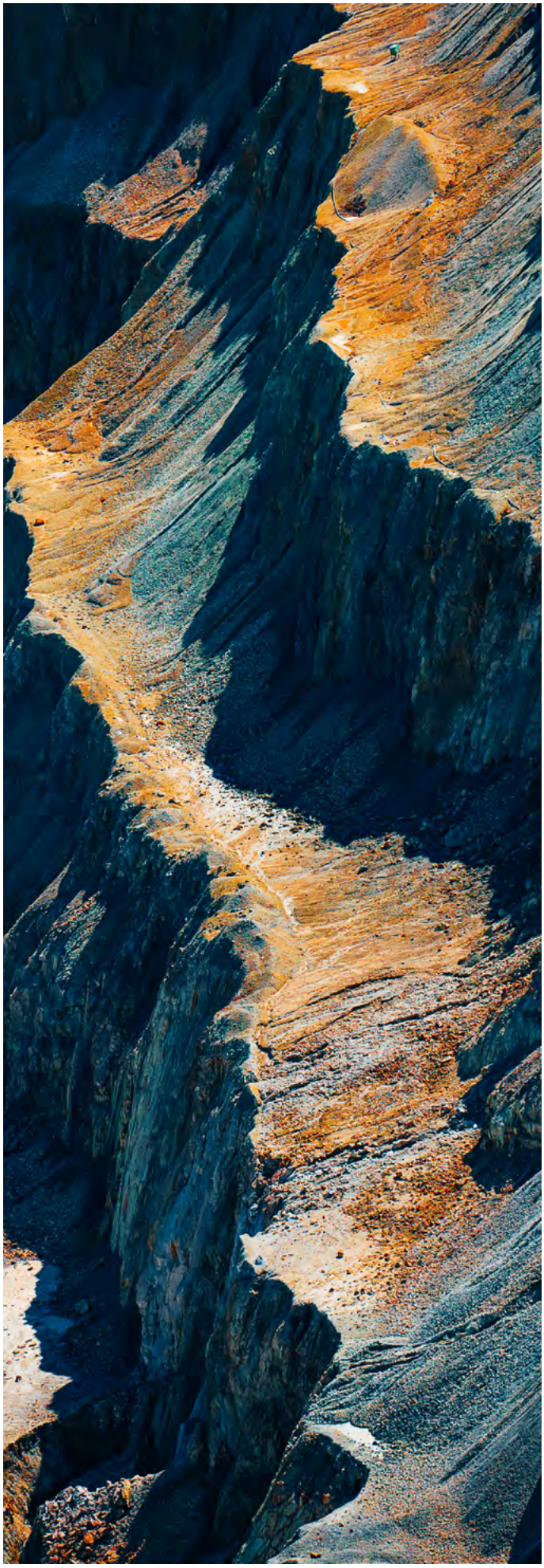
An increase in overall risk quality and rate adequacy, combined with higher GWP targets, has rebalanced the negotiation table and created an environment where insureds can differentiate themselves to secure more favorable renewal terms.

The headlines are positive, but the undercurrent of social inflation, ESG and evolving mining exposures is creating a counterforce. The market will continue to adjust its stance and, at times, shift its focus.

In the meantime, insureds can position themselves for success by:

- **Thinking strategically about risk placement strategies.** Engaging with the market earlier can enable mining companies to better understand how current market dynamics may potentially impact their insurance program, and develop a compelling underwriting submission, including key exposure information and reports (incorporating a clear ESG strategy).
- **Capitalizing on evolving insurer appetite and available terms.** In pursuing optimal outcomes, insureds must balance the benefits of alternative (and sometimes more competitively priced) capacity with long-term insurer relationships in order to smooth out pricing volatility and maximize the value of insured-insurer partnerships.
- **Unlocking opportunities through data-driven insights.** Access to sophisticated data and analytics tools will be critical in testing the resilience of existing strategies and identifying opportunities to optimize placement strategies as the sector evolves at pace.

**Matt Clissitt is Senior Director and Deputy Head of Liability, Natural Resources Global Line of Business, WTW London.**
matthew.clissitt@wtwco.com



# International views

## Canada

**Jennifer Davis is based in Calgary and is Director, Head of Property Broking (Canada), WTW.**
jennifer.e.davis@wtwco.com

As insurers focus on ESG and the energy transition, they are looking at the mining industry as part of the solution, which is driving interest in expanding underwriting focus on this sector.

The Canadian property insurance market has stabilized throughout the past 12 months, and we have been seeing insurers offer rate reductions on top-tier accounts over the past quarter. With insurers responding to a mandate to grow premium, new capacity is entering the market both from incumbents looking to write new business and new markets entering the mining space. Insureds with up-to-date risk engineering and risk recommendations, and favorable loss histories are driving competition among insurers as they look to maintain and grow line sizes and premium.

Meanwhile, numerous metals are experiencing an increase in spot market prices. In response to these spikes, insureds are reviewing their MFL and overall program limits, and we are seeing additional scrutiny from insurers on business interruption values.

The liability market has been softening in general across all industries as additional capacity enters the market, however, limited markets are writing primary liability for mining risks. We anticipate that this will change as more domestic insurers focus on dedicated liability underwriting expertise for the mining sector.

Sudden and accidental pollution remains a key focus for liability insurers and an area of concern for insurers writing in the primary general liability and umbrella layers.

## Asia

**Charlotte Watts Watts is based in Singapore and leads the Energy and Mining team for Asia, Natural Resources Global Line of Business, WTW**
charlotte.watts@wtwco.com

In Asia, insurers are becoming more competitive and more willing to offer lead terms. Stabilized renewal capacity for key accounts is providing a more predictable environment for clients when renewing their insurance policies. Given the stable capacity in the mining sector, there's an anticipation of insurers continuing to offer compelling terms for target clients in the year ahead.

Clients should be mindful that while the outlook is positive, insurers may have a more limited appetite for clients with specific risk exposures such as tailings, underground, and coal due to the higher inherent risks and internal restrictive guidelines. Alongside these exposures, a trend of claims deterioration following a global inflationary environment is leading some insurers to impose volatility clauses and caps to manage their own exposures.

The terms and conditions quoted by insurers still heavily depend on factors such as risk quality and loss performance. Clients demonstrating good risk management practices and following up on recommended risk improvements are likely to receive preferential terms. Preparing early for renewal will allow for more detailed discussions, enabling better results.

## Latin America

**Juan Francisco Aguirre Leiva is based in Miami and is Latin American Regional Practice Leader Casualty, Natural Resources Global Line of Business, WTW.**
francisco.aguirreleiva@wtwco.com

The growing emphasis on renewable energy sources and increasing regulatory focus on environmental concerns are boosting demand for minerals such as copper. Since Latin America is well-known for abundant mineral resources, the region continues to attract substantial investment from both domestic and international mining firms. Investment appetite could thrive in the year ahead, with countries such as Chile, Argentina, and Bolivia potentially launching political incentives.

However, recent environmental disasters have fuelled opposition to mining activities, underscoring the importance of responsible mining practices. In response to environmental challenges, Latin American countries have an opportunity to leverage advancements in industry automation, digitalization, circular economy initiatives, and the integration of hydrogen and green mining practices to meet environmental, social, and governance (ESG) obligations (scrutinized by both stakeholders and insurers) and deliver benefits to local communities.

Insurers are focusing on natural catastrophe exposures, ESG compliance, social instability, and political risks. Pressures are driving insurers to collaborate in offering comprehensive risk management solutions amidst rising interest in sustainable mining practices.

## South Africa

**Debbie Geraghty is South Africa Regional Natural Resources Leader, Natural Resources Global Line of Business, WTW.**
debbie.geraghty@wtwco.com

The South African mining property market is very competitive at present. Although there were substantial losses in the last quarter of 2023, the clients that suffered the losses have not been severely penalised at renewal in terms of deductibles or premiums.

Legislative changes — such as the Democratic Republic of Congo government and insurance sector regulator implementing a reinsurance facility for mining, oil and gas, and political violence risks — are aimed at tackling the issue of premium 'evasion' stemming from reinsurance arrangements in key sectors of the economy. The primary objective is to provide the required capacity to the local market, allowing them to strengthen their in-country retention capabilities.

Most South African insurers will purchase protection in the form of facultative reinsurance, which is reducing terms and providing more capacity.

Following floods in KwaZulu-Natal, South Africa is now seen as a natural catastrophe exposure. More recently, cyclones in Mozambique, tornados along the North Coast and floods in Eastern Cape have compounded this exposure. Despite the rising risk of natural catastrophes, the markets seem to maintain stability. Whether this will remain in the aftermath of any additional severe natural catastrophes will be a focus of markets and insureds alike.

Meanwhile, insurers continue to restrict cover for hot work, non-damage cover and grid exclusion.

## Australia

**Brett Forrest is based in Perth and is Associate Director Risk Advisory and Risk Financing, Natural Resources Global Line of Business, WTW**
brett.forrest@wtwco.com

Intense rain has been a bit of a theme around Australia in the past 12 months, with a number of flood and weather-related claims ongoing. Severe weather events are increasing in frequency and severity globally, fuelling the energy transition narrative and continued focus on ESG for mining businesses. However, although ESG remains a theme with underwriters, good ESG performance is yet to positively impact rates.

Global claims are impacting the local market, but capacity and local branch support from markets remains strong (with the exception of thermal coal risks).

Pricing pressures may force some miners to adopt standing charges only cover to save upfront costs. In the event of a claim, this can impact valuation, share price and ability to raise capital. In navigating volatility, sophisticated mining businesses are increasingly looking at strategic risk financing alternatives to the traditional purchase of insurance on the back of recent pricing increases and global loss pressure.

This update analyses our observations of the current global market conditions for mining and metals 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.

**Bangkok**
Floor 9, S-Metro Building
725 Sukhumvit Road
Khlong Tan Nuea, Watthana
Bangkok 10110
Thailand
+66 2 239 9000

**Beijing**
29th Floor, South Building,
Kerry Center, No. 1 Guanghua Road,
Chaoyang District, Beijing,
China
PO Box 100020
+86 10 5783 2888

**Bermuda**
90 Pitts Bay Road
Wellesley House
Floor 2
Hamilton HM 08
Bermuda
+1 441 295 1272

**Brisbane**
Riverside Centre
123 Eagle Street
Level 20, Suite 2001
Brisbane, Queensland 4000
Australia
+61 7 3167 8500

**Cairo**
East Park building
3rd Floor, Plot 28
Marwaha Division
Katamya, Cairo, PO 19111/15
Egypt
+20 2 27 25 01 63/4

**Calgary**
308-4th Avenue SW
Jamieson Place
Suite 2900
Calgary, Alberta T2P 0H7
Canada
+1 403 261 1400

**Dubai**
Business Central Tower
Tower A Floor 37
Dubai Media City
PO Box 500082
Dubai
United Arab Emirates
+971 4 455 1700

**Johannesburg**
Illovo Edge
1 Harries Road, Illovo
Johannesburg 2196
South Africa
+27 11 535 5400

**Knoxville**
265 Brookview Centre Way
Brookview Promenade
Suite 505
Knoxville, Tennessee 37919
United States
+1 865 588 8101

**Lima**
Carpaccio 250, office 501
San Borja
Lima Peru
+51 17000200

**London**
51 Lime Street
London, EC3M 7DQ
United Kingdom
+44 (0)20 3124 6000

**Melbourne**
Level 4
555 Bourke Street
Melbourne, Victoria 3000
Australia
+61 3 8681 9800

**Miami**
1450 Brickell Avenue
Suite 1600 Floor 16
Miami, Florida 33131
United States
+1 305 854 1330

**Paris**
Immeuble Quai 33
33 — 34 Quai de Dion Bouton
grande Hauteur
Floor 1
92800 Puteaux
France
+33 01 41 43 50 00

**Perth**
Level 4
88 William Street
Perth, Western Australia 6000
Australia
+61 8 9214 7400

**Rio de Janeiro**
Edifício Palácio Austregésilo de Athayde
Av. Presidente Wilson, 231
Room 501
Rio de Janeiro 20030-021
Brazil
+55 21 2122 6700

**Singapore**
21 Collyer Quay
Floor #09-101
Singapore, 049320
+65 6591 8000

**Toronto**
130 King Street West
Exchange Tower
Suite 1500, P.O. Box 424
Toronto, Ontario, M5X 1E3
Canada
+1 416 960 2700

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