FINANCIAL PROFESSIONAL AND EXECUTIVE RISKS (FINEX)

H1 2024 - Banking Market Update GB

Financial lines insurance market overview and notable trends

August 2024

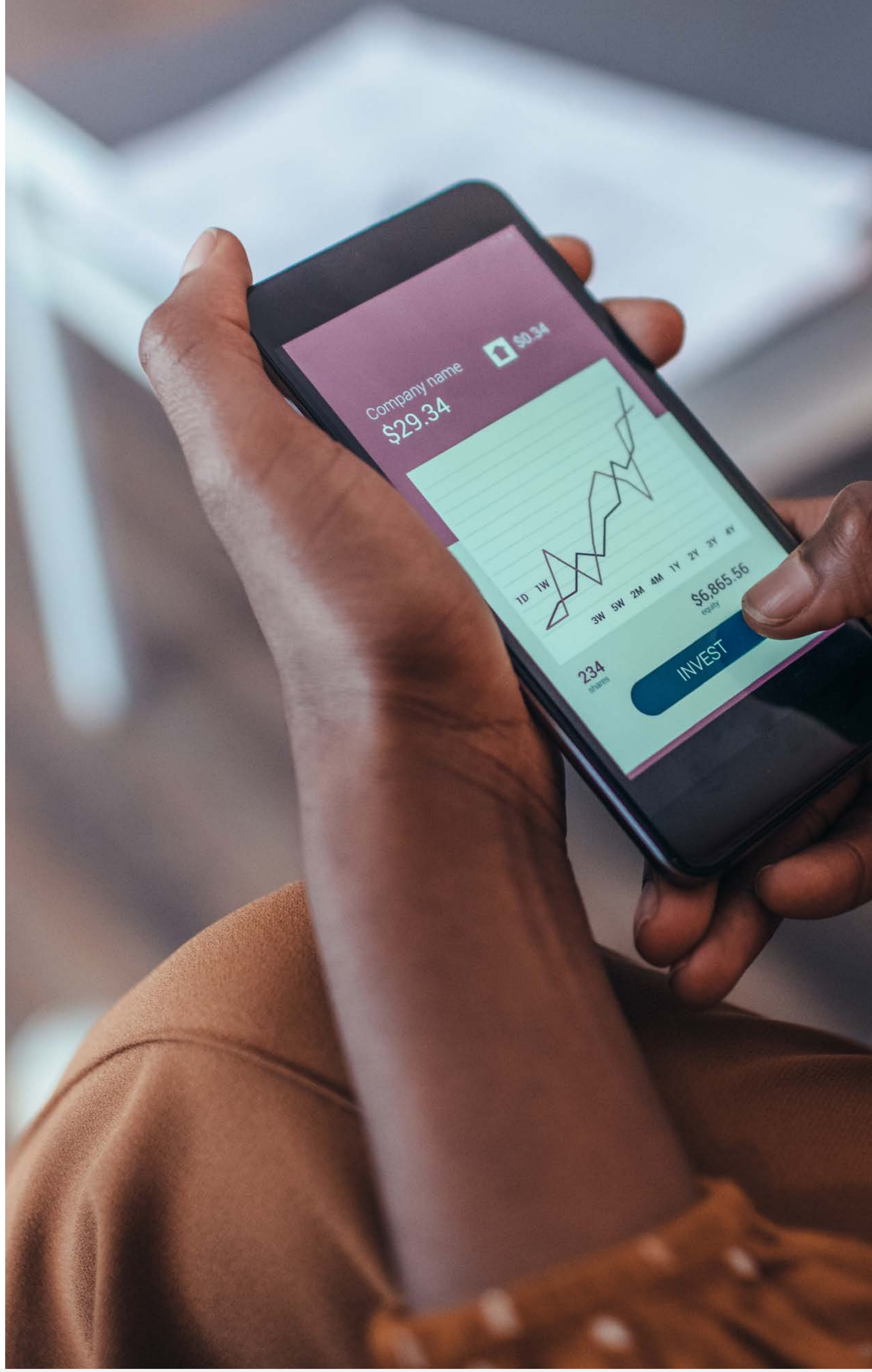
This update analyses our observations of the current market conditions for GB Banks and is based on our existing clients. It is not a review of the whole market. All rate changes are for guidance only and vary depending on risk profile and individual circumstances.

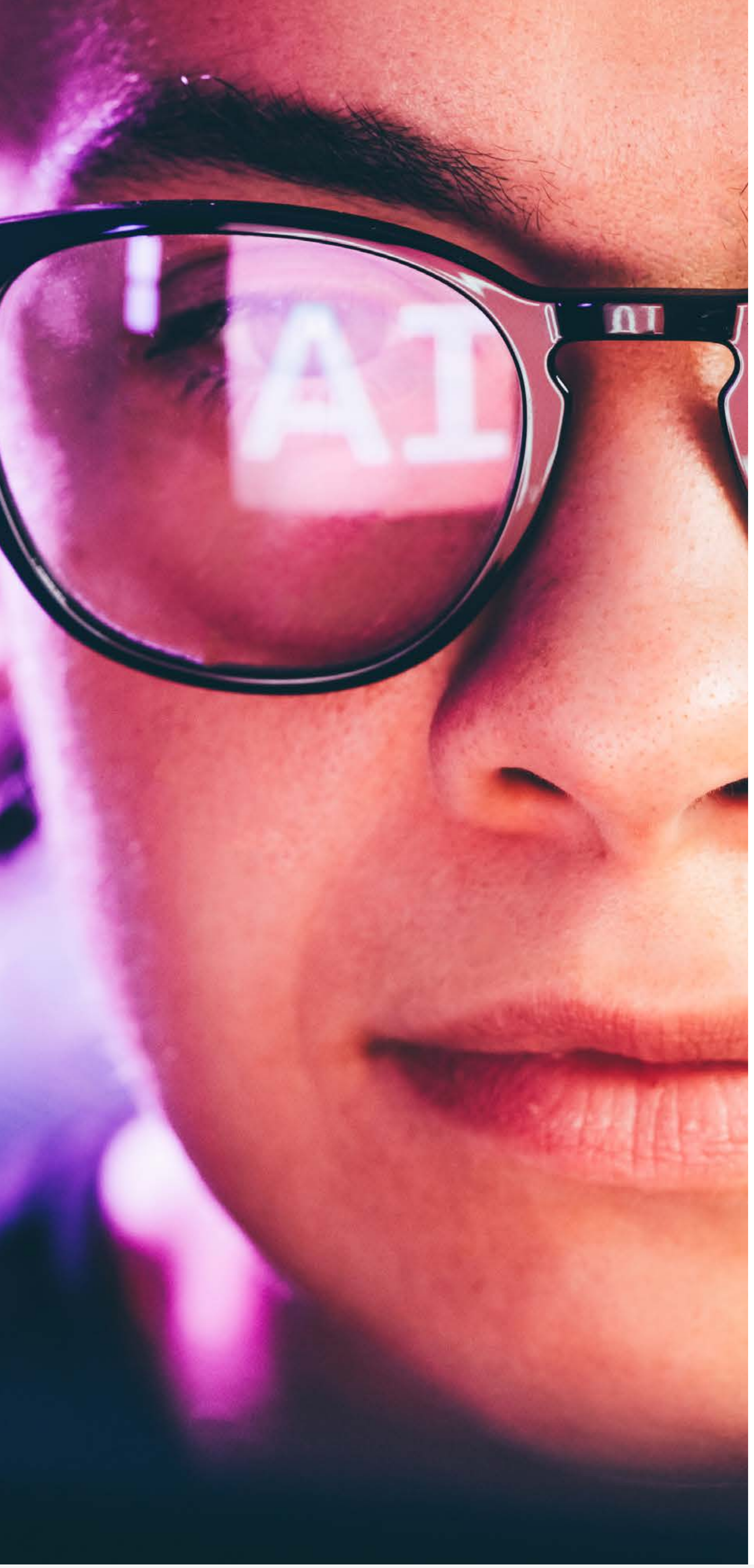
Market conditions and notable risk trends – Great Britain

Rate predictions		
Crime	▼	- 7.5% to -12.5%
Professional Indemnity	▼	- 7.5% to -12.5%
Directors and Officers	▼	- 7.5% to -12.5%

Market volatility	
Premiums	For good clean risks (with minimal claims activity), we are continuing to see reductions in rates across the banking sector.
Wordings	Insurers are now willing to consider enhancements to policy wordings.
Markets	Many insurers are offering more capacity and willing to move down the programmes where the premiums are more attractive.
Retention	Stable.

Risk trends	
Cyber and AI	The threat of sophisticated criminal and state sponsored cyber attacks, and the increasing use of generative AI mean that cyber and operational resilience continue to be a huge focus for banks.
Macro economic and geo-political risks	With the UK, US and many other countries facing general elections this year, the conflicts in Ukraine and Israel, and the ongoing high interest environment all serve to bring volatility to the financial markets.
Climate risk and ESG	This is a multi dimensional risk for banks which has to be addressed in terms of global regulatory compliance, the exposure of portfolios to physical and transition risk, in addition to liability risks.
APP Fraud	The Payment Systems Regulator will be imposing new rules on authorized push payment fraud reimbursement from October 2024 which will impact both the sending and receiving payment service providers, who will in most cases have a 50/50 responsibility to reimburse customers.
Regulatory compliance and conduct	The magnitude of changing rule sets including the new Payment Systems Regulator APP fraud reimbursement requirements, the Consumer Duty and a raft of regulation around ESG require huge resources to stay current, avoid fines and maintain customer confidence.





Risk trends – cyber and artificial intelligence

Observations

- Cybersecurity and resilience remain a key focus for banks in all jurisdictions, with attacks growing more sophisticated and originating from new vectors.
- With the growth in challenger and neo banks, the traditional older established banks are forging partnerships, launching digital banks, and rearchitecting legacy IT systems to enable omnichannel delivery. The push is towards a lower-cost digital self-service offering, combined with relationship management, through remote channels.
- Open banking continues to gain momentum, with regulators progressively lowering barriers to consumer data sharing.
- Banks are continuing to invest in emerging technologies, including generative AI and quantum computing to bolster competitiveness. As customer demand for personalization heightens, generative AI will become integral to the banking experience.
- The Digital Operational Resilience Act (DORA) was implemented by the European Commission in July 2023 and has raised the standard in terms of digital resilience and operational risk management relating to technology, external service providers and data governance.

Concerns

- The fine-tune of operating models to improve efficiency involves resolving the friction between legacy infrastructure and new digital channels, without upsetting the customer's experience.
- The increased use of AI and cloud can introduce new attack vectors.
- There is an increase in security breaches caused by third-party vendors and/or the technology that they provide.
- Increase in ransomware attacks.
- Growing reliance on cloud and software-as-a-service providers means that banks need to evaluate both their own cyber risk management controls as well as how they would address threats that impact their critical counterparties.
- Competition for talent in AI/machine learning.

Considerations

- Banks should articulate any changes to their business model, updates to operating infrastructure and their reliance on counterparties to ensure that their insurance policies are aligned to the risks that they face.
- Banks are increasingly referring to themselves as tech companies and so there is a greater focus on the interplay between traditional cyber, PI, tech E&O and crime policies, with a growing requirement for more holistic solutions to address duplication or gaps in cover.
- Banks should review how they are using AI and which insurance products this could impact, beyond the cyber policy e.g. professional indemnity, employment practices liability, D&O and crime.
- It is important to understand war exclusion variables and factor these into your renewal/purchasing strategy in conjunction with your cyber broker at the start of the process.

Risk trends – macro economic and geopolitical risks

Observations

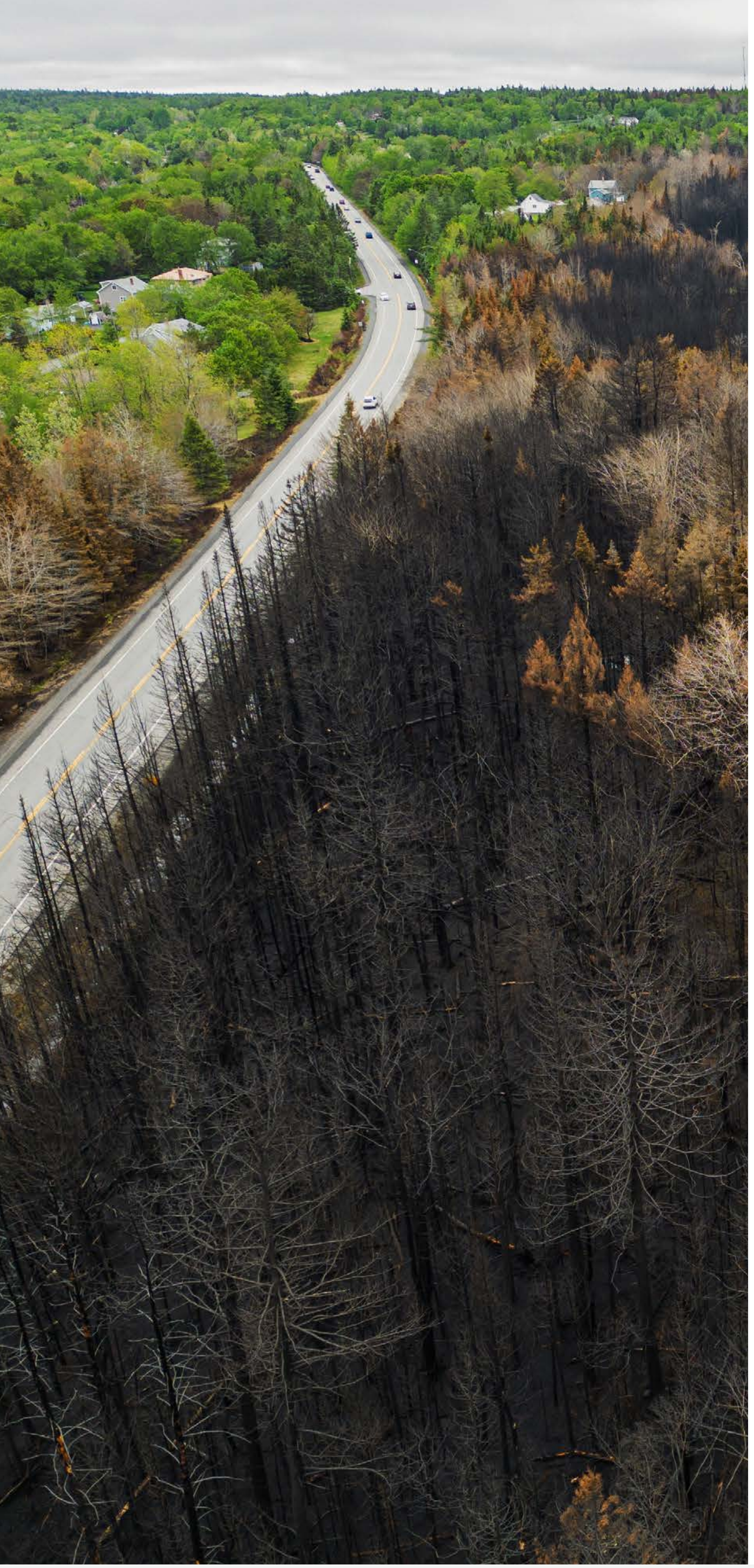
- With almost 70 elections planned globally this year, heightened economic and political uncertainty will likely produce uneven performance across banks. Market volatility directly impacts trading income and shapes credit conditions.
- The economic slow down and risk of recession can spark collateral value adjustments, especially in illiquid markets as being witnessed in the real estate market. With household finances weakening, retail banks' mortgage and unsecured lending books may incur significant credit losses.
- There is expected to be a higher for longer interest rate environment which is causing a squeeze on household budgets.
- The ongoing conflicts in Ukraine and Israel add to this market volatility.

Concerns

- The economic downturn, higher inflation, energy and food costs and the recessionary outlook have converged to cause a cost-of-living crisis. Such challenging financial conditions have historically correlated with greater claims activity across all financial lines.
- Further insolvencies are expected, particularly in the retail and hospitality sectors, with consumers having less disposable income for discretionary spending.
- Sophisticated social engineering schemes continue to abound, including authorised push payment (APP) fraud, phishing, vishing and malware, to dupe victims into providing confidential information and access to bank accounts.
- The Payment Systems Regulator will be imposing new rules on authorized push payment (APP) fraud reimbursement from October 2024 which will impact both the sending and receiving payment service providers, who will in most cases have a 50/50 responsibility to reimburse customers.

Considerations

- Ensure that your crime insurance and in particular, the social engineering cover contained within it is as broad as possible.
- Anticipate questions from insurers concerning your loss history for APP fraud losses.



Risk trends – climate risk and ESG

Observations

- This is a multi-dimensional issue which has to be addressed in terms of global regulatory compliance, the exposure of portfolios to physical and transition risk, liability risks, the impact on asset valuations, consumer pressure and reputational risk.
- The severity and frequency of natural disasters and freak weather conditions have dominated headlines over the past year.
- This together with increasing litigation from investors and other stakeholders over claims of greenwashing will keep ESG at the top of board agendas for some years to come.

Concerns

- Increasing regulatory oversight and the complexity of due diligence for ESG related activities and reporting will likely lead to increased regulatory investigations.
- Climate protestors and activist shareholders are applying pressure for lending to be sustainable and responsible.
- Litigation and public appetite to hold banks to account for so called “dirty lending” may result in increased defence costs, if not indemnity.

Considerations

- Insurers expect banks to be focused on ESG and clients should be prepared to articulate their ESG strategy during their market presentations.
- As ESG activities and reporting gain momentum it is important to monitor any corresponding impact on financial lines insurance to ensure that coverage remains as robust as possible, particularly your D&O policy and the breadth of cover provided for regulatory investigations.

Risk trends – regulatory compliance and conduct

Observations

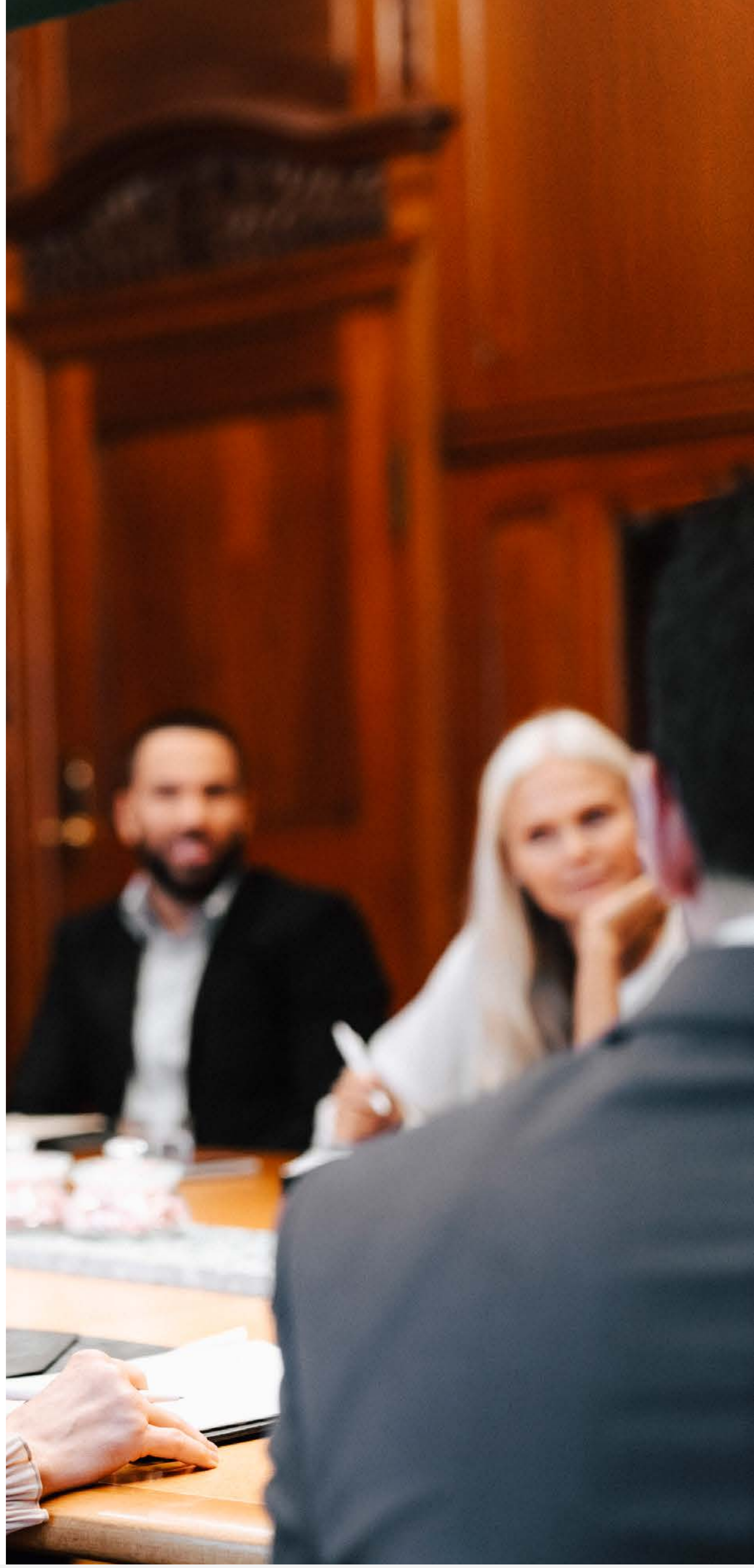
- The risk of non-compliance with regulation continues to prevail in the banking world, stemming from the magnitude of changing rule sets and supervisory expectations across the globe.
- Compliance with a raft of new environmental, social and governance (ESG) risks is often cited as the top regulatory risk for banks right now.
- In the UK, Consumer Duty which came into effect on 31 July 2023 set higher and clearer standards for consumer protection across financial services.
- Alongside the PRA, the FCA has been consulting on proposals to introduce a new regulatory framework on diversity and inclusion in the financial sector following an increase in reports of non-financial misconduct, which could have far-reaching consequences.
- Times of economic uncertainty and upheaval are often breeding grounds for misconduct which inevitably take time to come to light. Further, the hybrid model of working allows greater potential to breach controls and procedures.

Concerns

- A huge amount of time and resources is required to stay current with the continually evolving regulation, to avoid fines, reputational damage and loss of customer confidence.
- It is anticipated that the new regulatory framework on diversity and inclusion may include integrating non-financial misconduct committed outside the workplace within the scope of staff fitness and propriety assessments, conduct rules and the suitability criteria for firms to operate in the financial sector.

Considerations

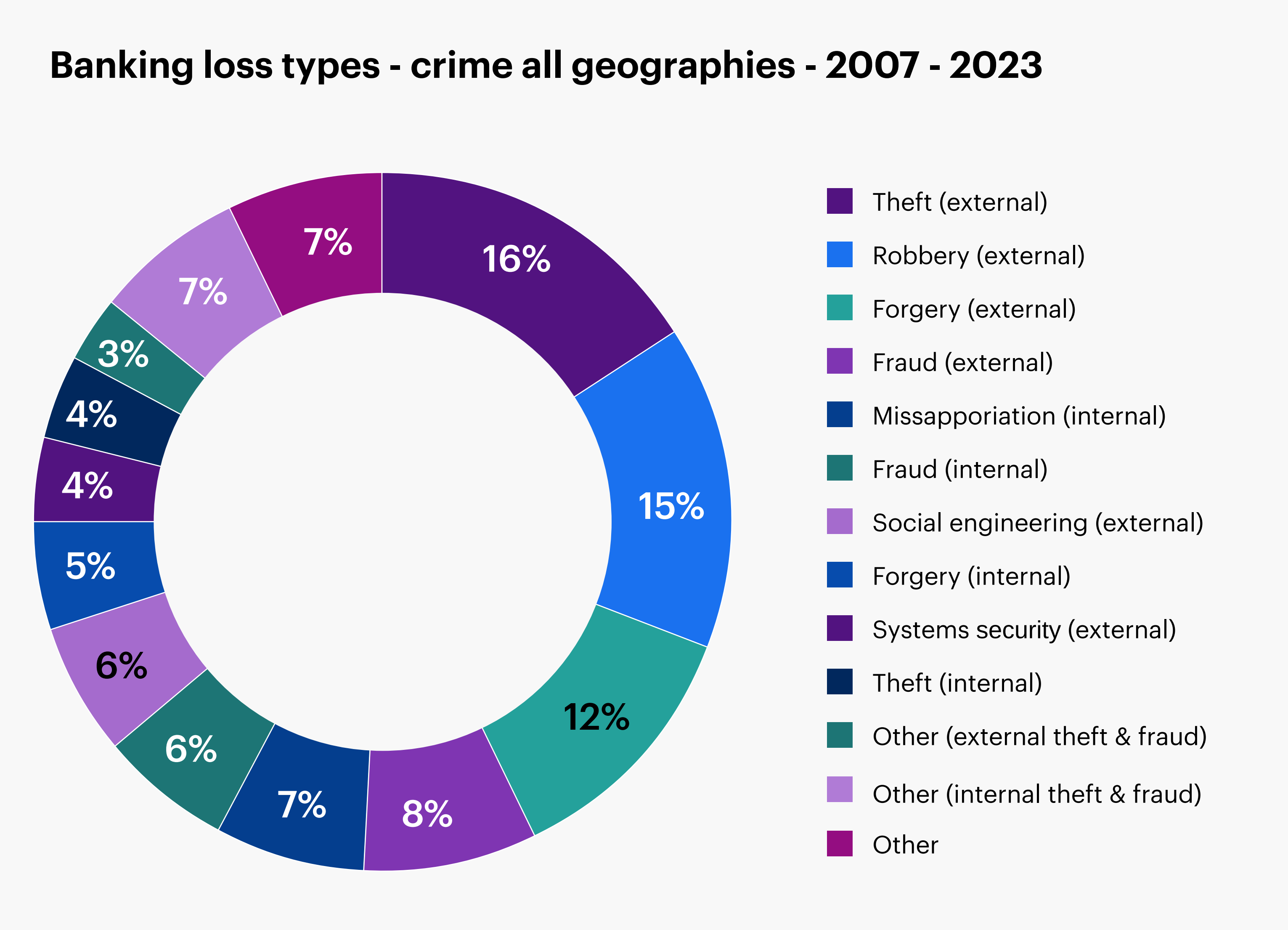
- Ensure you have a broad form professional indemnity and directors and officers liability policies, and in particular, appropriate coverage for investigation costs.
- Consideration should be given to employment practices liability insurance if not already purchased.

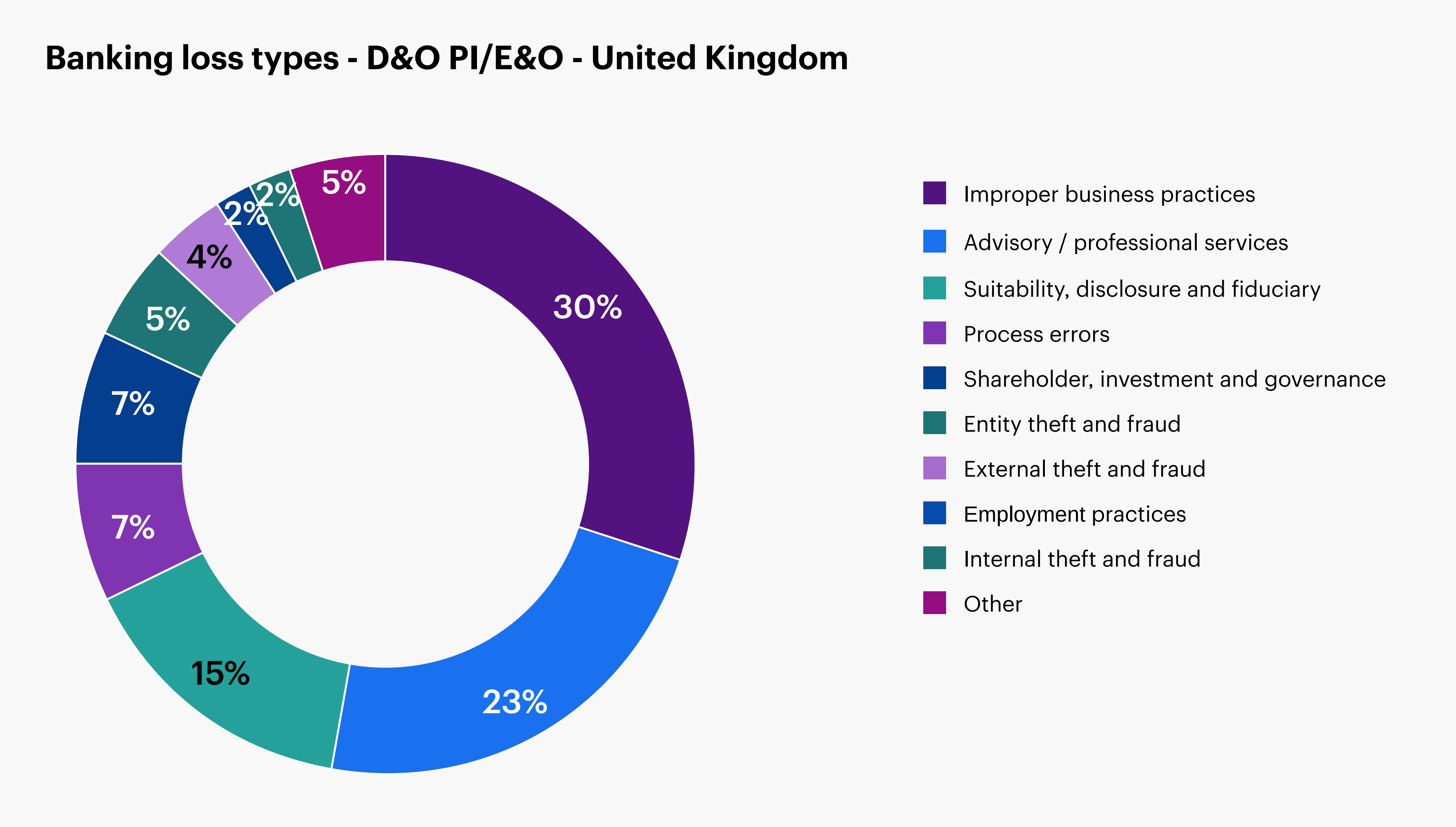


BANKING CLAIMS TRENDS

Claims trends summary – financial lines – 2007 to 2023

This report uses WTW analysed claims data to provide specific insight into the types of loss that your business may be exposed to. Claims reported by clients from 2007 to December 2022 are included in this report. All claims that we have analysed are included in the calculation for the average claim settlement, the determination of the largest loss and the loss amount distribution chart. However, due to the distorting impact of very large losses, we remove "outliers" from the other charts within the report.

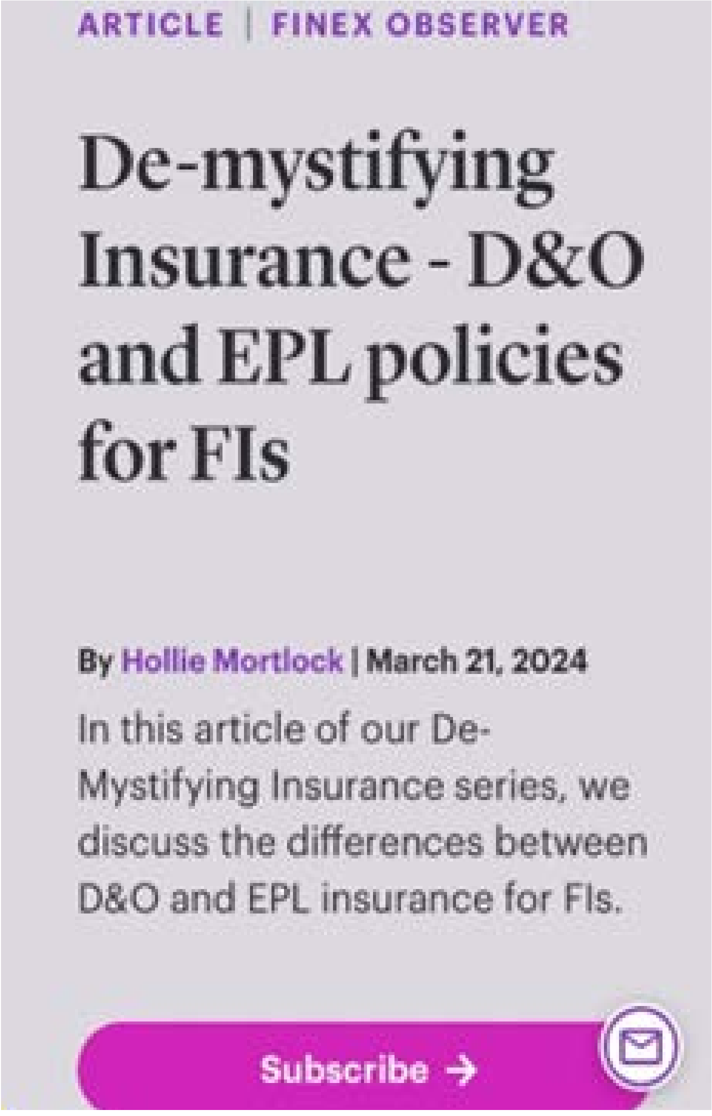




THOUGHT AND PRODUCT LEADERSHIP

Emerging trends and topical issues

Industry experts and coverage counsel produce articles and papers on emerging trends and topical issues that may impact banks and similar financial institutions.



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By Hollie Mortlock | March 21, 2024

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ARTICLE

GB Cyber Insurance Market Update

H2 2023

February 6, 2024

Our Cyber team provide a market update on current conditions for WTW UK & international clients using the London market.

View the article here

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