



# Forward-thinking power companies are driving business results in a softening market

After enduring years of hard market conditions, the (re) insurance market cycle is starting to turn. (Re)insurance markets are responding to a triad of factors: a more stable year for business interruption losses; a relatively benign year for natural catastrophe (nat cat) losses; and a reduced frequency of machinery breakdown-related losses. These trends, coupled with new capital, are creating competitive forces on (re)insurers and accelerating the transition to a softening market.

## At a glance



More competitive pricing is on the horizon for property and business interruption insurance.



As markets compete for big business, power companies will be in a stronger negotiating position to secure more optimal terms, pricing and capacity. But risk managers cannot afford to take their foot off the pedal.



Plant owners and operators must continue to deliver robust maintenance and asset integrity regimes to limit forced outages and demonstrate availability.



Equally, (re)insurers will need to lean into power companies' specialist knowledge of operations and technologies to really understand their risks and find solutions that are commercially reasonable.



With the market approaching a new phase, the value of getting this approach right is essential to enable you to take full advantage of the opportunities.

## Fewer headline losses are accelerating the shift to a softening market

Lower-level attritional losses remain a constant, but the absence of headline losses (>\$500 million) in 2023 and 2024 is paving the way for more competitive pricing for the power sector in the year ahead. Despite the general trend of lower losses, tunnel collapses have emerged as a clear outlier in 2023 and 2024. Several hydroelectric plants have suffered financial blows of property damage and business interruption.\*

The profitability scale is showing signs of shifting. The hard market did not discriminate, and rates have been higher across the board in recent years. Although harder market conditions have enabled (re)insurance markets to meet their revenue goals through rate increases, pressure to grow the book is mounting. (Re)insurers are competing to win and retain the biggest premiums by driving pricing down and capacity up.

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**Lead markets for a given risk in the power sector have typically been opportunistic in their pricing, and brokers have negotiated with the tail (re)insurers to make the savings, but competitive pressures are now pushing lead (re)insurers to offer capacity and rate reductions before any further discussions down the tail are taking place.**

Michael Buckle, Managing Director,  
Downstream Natural Resources, WTW GB

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## \*A 13-month-long shutdown from July 2022 to August-September 2023 caused a financial impact to the tune of Rs55 billion per annum for a hydropower project in Pakistan.

<https://www.brecorder.com/news/40311107>

Recently, a common theme discussed in the London power market is that the pace of softening is faster than anticipated. Accounts that would have been expected to renew with rate increases in recent months are now capable of achieving much better results. While markets have historically differentiated between cat-exposed and non-cat-exposed risks, power plants continue to demonstrate resilience against nat cat exposures. This resilience, coupled with a fairly benign catastrophe season, has improved the buying position for insureds.

Although the market will continue to differentiate between 'good' and 'bad' risks, the onset of softer conditions and greater competition will undermine (re)insurers' ability to be as selective as in recent years. This will make sure that all accounts will benefit from an increased supply of capacity targeting income to grow their books. Those accounts with the biggest premium volume will benefit the most from the softening cycle as incumbent insurers seek to protect their positions on key accounts.

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**As markets compete for big business, power companies will be in a stronger negotiating position to secure more optimal terms, pricing and capacity. But risk managers cannot afford to take their foot off the pedal. Securing optimal terms means you'll need to continue to tell your story with transparency and clarity. Help (re)insurers to differentiate you by helping them understand the steps you've taken to manage and control your risk exposures.**

Carlos Wilkinson, GB Head of Power & Utilities, Downstream Natural Resources, WTW

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Despite the market conditions more generally, terms and conditions for prototypical technologies are less likely to benefit in the same way. The distinction between proven vs. unproven technologies remains. Trends discussed in previous WTW Power Market Reviews remain: the thresholds that (re)insurers require vary from carrier to carrier and will continue to be assessed on a case-by-case basis, subject to their specific engineering requirements.



### A reality check on deductibles

Deductibles have remained stable for several years, despite compounding inflationary pressures that have eroded their value to (re)insurers. The competitive pressures that are driving the softer market mean it is unlikely that power companies will see any change in this position in the foreseeable future.

In a softening market, some power companies — particularly in the U.S. — are looking to transfer risks to the (re)insurance markets that have been retained in more recent years. These risks present an opportunity for insurers to grow premium, while offering insureds the chance to free up capital to pursue energy transition plans.

### Stability is under the spotlight

#### Geopolitical headwinds endure, but so do resilience and agility

The ongoing Russia-Ukraine war and conflict over the Gaza Strip are indicators of how localized events can have global political implications. Concerns remain around regional escalation of the Israeli conflict, impacting supply chains, and rising electricity wholesale prices affecting southern Europe as a result of increased demand from Ukraine on its neighbors. However, despite these issues, the impacts on the power sector are generally localized. Global energy prices and power wholesale markets have stabilized as the world emerges from the eye of the energy crisis storm.

Supply chains are stabilizing for the power sector as a whole, but lead times for key items of plant remain at historic highs. Lessons have been learned by power companies who have implemented more robust contingency plans to provide for greater uncertainty, including increased capex on critical spares, improved original equipment manufacturer (OEM) relationships and better-defined sourcing strategies.

### Getting values right remains a priority for the (re) insurance market

The power sector has been under pressure to ensure values kept pace with global inflation. This has subsided as inflation stabilizes. The market, however, still have concerns over the differential between declared values and the actual costs of repairing damage. There is no easy solution to this, and lead (re)insurers will continue to factor this into rating based on real-time experience of losses vs. declared values across their portfolio.

For (re)insurers, the impacts of electrification and interconnection on revenue streams are an increasing area of interest. From the rise in electric vehicle and plant usage to demand from increasingly power-thirsty data centres surging to the level of some countries, demand for power puts the security of supply — and therefore, revenue — under the spotlight. (Re)insurers are almost universally applying business interruption caps in their policies to stabilize losses and greater detail on the profile of revenue forecasts are required to enable the best outcomes to be negotiated.

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**It's critical for power plant operators and risk managers to generate accurate revenue expectations for each month. Now that business interruption clauses are being widely applied, an inaccurate revenue forecast could leave the business falling short when the loss is paid out.**

Declan Cleary, Senior Broker, Power & Utilities, WTW

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### Power companies are acting now to get ahead of business interruption

Demand for power endures, pushing the lifespan of power assets beyond original expectations.

To limit the impact of any property damage and business interruption on revenue, power companies have invested in enhanced warranty agreements to access pooled parts with other companies. But increases in demand could lead to critical spares being oversubscribed and access to them may not be guaranteed. The benefit to (re)insurers needs to be clear to ensure due credit is provided.

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**When it comes to operational continuity, it's a worthwhile exercise to take an objective view of the costs and monitor the upside of these costs as the power sector evolves in the year ahead. Enhanced warranties and asset sharing agreements can give (re)insurers confidence that measures are being taken to limit business interruption, but if this spend is not being offset by reductions in (re)insurance premium, the strategy needs a rethink.**

Mark Hiles, Global Head of Power Broking, Power & Utilities, UAE, WTW

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Seasonality of power demand in certain countries linked with increased supply from renewables will mean that some power companies shift their operating strategy by mothballing plants for certain months and reactivating operations when demand returns. This will limit the business interruption risk for a portion of the year and revenue will be concentrated into shorter indemnity periods. The impact of this on (re)insurer's exposures will need to be made clear.

The interplay of power and renewables will continue to evolve. While technologies in the power sector are not necessarily set to compete or outpace renewables, innovative technologies represent commercial opportunities to reduce costs and emissions. In the years ahead, the power sector is likely to become increasingly competitive as these savings per megawatt-hour are passed on to bids.

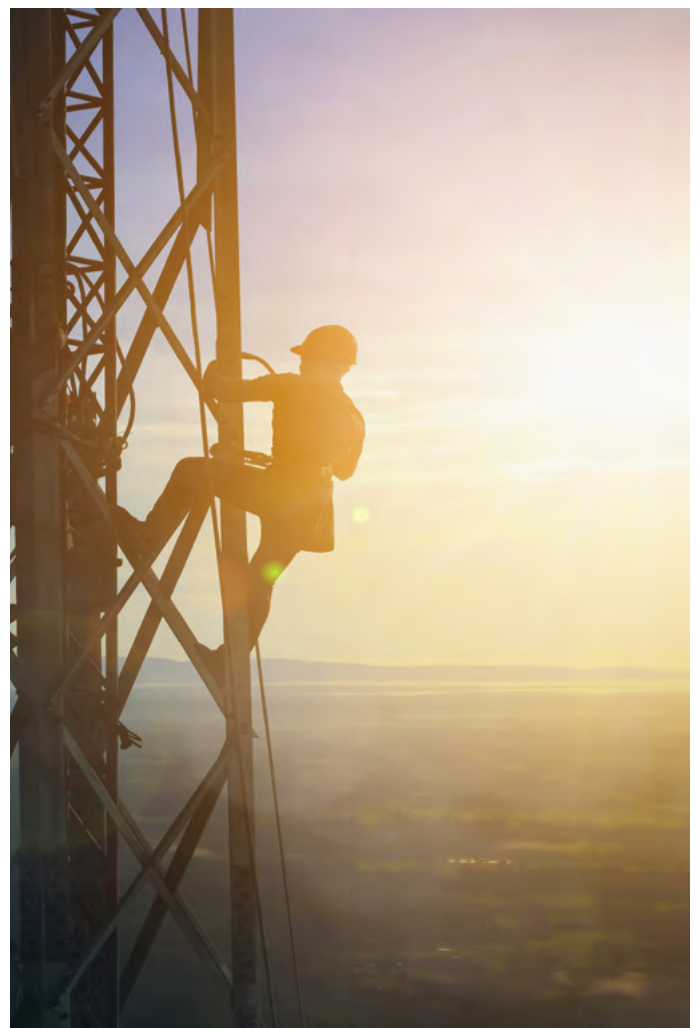
Risk managers have opportunities to articulate this evolution to (re)insurance markets. While operational, technological and geographical factors continue to hold the most weight for (re)insurer decision-making when it comes to terms and pricing, communicating with transparency helps to educate the markets. Only through continued knowledge-sharing can (re)insurance markets keep pace. Responsibility rests with both power companies and markets to work collaboratively.

## Power has a critical role in the energy transition

Renewables are on the rise, but as volatile weather conditions threaten their availability, the thermal power sector maintains its core role in meeting demand. Gas fired plants and in some cases coal, may be in less demand than pre-energy transition levels over time, but thermal will continue to be at the core of the base load supply strategy for most countries.

"A gradual but notable decline in reliance on fossil fuels characterizes market trends for traditional power in the U.S.. Coal-fired power generation has decreased due to environmental regulations, lower natural gas prices, and competition from renewables. In the region, natural gas has become a dominant fuel source due to its relatively lower emissions and cost-effectiveness, but as the infrastructure continues to age, insurance carriers will continue to focus and reward owners with robust operation and maintenance programs to prioritize the health and safety of the assets." Alex Forand, Head of Power & Utilities Broking, Natural Resources Global Line of Business, WTW U.S.

Ageing assets with lifetime extensions whose operational profile is changing through increased cycling, will continue to be a concern for markets. Companies will need to provide (re)insurers with a maintenance strategy that includes clear modifications that accommodate for ageing assets. Equally, there is an increase in the development of new 'peaker plants' that can quickly and efficiently respond to gaps from interruptible renewables. Even where proven technology is used, markets will have concerns where they consider that the technology may be proven but in a base load capacity. Similar clarity around performance monitoring and maintenance regimes will be required.



## How to make strides in a softening market

Risks will continue to perform best where the (re)insurance market feels most confident in its understanding of the risk. Establishing a solid foundation through risk engineering is a critical first step. With data-driven insights, risk leaders can focus on implementing risk controls and recommendations to manage exposures and protect the bottom line. When it comes to collaboration with (re)insurance markets, tell your story with transparency, backed by data.

- Engage in risk engineering to supplement your risk controls with an objective external perspective, overlaid with benchmarking insights
- Do your research to make sure your revenue expectations are accurate. Business interruption caps are being universally reinstated, so declaring accurate revenue valuations will help to avoid a shortfall at payout.
- Build and maintain relationships in the market to build confidence with (re)insurers. “We undoubtedly see better results where there are good relationships between the clients and the markets. The better the market understands the client’s business, the more accurate and flexible the solutions can be.” Carlos Wilkinson, GB Head of Power & Utilities, Downstream Natural Resources, WTW

The interplay between renewables and power will evolve, but the thermal power sector maintains its core role in meeting base load demands. The power sector is positioned to capitalize on this demand, and risk managers will have a role to play in building long-term resilience.

Brokers will continue to be a critical driver of these conversations, making sure power companies present their risks with transparency, and helping markets to understand the technologies and risk controls to right-size the cover.



Contact our specialists to find out how best to take advantage of softening market conditions:



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