

The power surge is now: Preparing risk strategies for an electric future

WTW Power Market Review

October 2024

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Introducing the Power Market Review 2024

Demands on the power sector are gathering momentum as global electrification grows exponentially. Modern, flexible, reliable and resilient power and transmission networks are fundamental to the success of the energy transition, but change comes at a cost.

The bottom line is global grid capacity needs to grow 2.5 times its current size, with annual expenditure on grids more than doubling to \$970 billion by 2050¹.

Speeding up grid expansion will require substantial technology investment over the coming decades, and attracting investment will demand a robust and resilient risk strategy that's a cut above the competition.

Key themes this year

- Modern, flexible, reliable and resilient transmission networks are fundamental to the success of the energy transition.
- Energy use could double by the end of the century.
- The future is electric, and power companies are driving change.
- To meet this growing demand, the lifespans of power assets are being extended.

The insurance markets, at a glance

- After enduring years of hard market conditions, the (re) insurance property and business interruption market cycles are starting to turn.
- For property and business interruption, lower-level attritional losses remain a constant, but the absence of headline losses (>\$500m) in 2023 and 2024 is paving the way for more competitive pricing for the power sector in the year ahead.
- The international liability market has stabilized with a small uptick in capacity and softer market conditions, leading to greater competition and downward pressure on rates.
- Placements containing coal and/or wildfire exposure continue to face greater scrutiny, as do those with significant United States (U.S.) exposure.

¹ <https://www.dnv.com/news/dnv-new-power-systems-report/>

Looking ahead

- Robust life extension processes and independent engineering analyses will be key factors in ensuring that ageing assets continue to operate efficiently and safely.
- Finding ways to build operational efficiencies will be a focus for risk and finance leaders. Risk leaders need to identify more opportunities to reduce the total cost of risk and build resilience into risk financing programs.
- Stability is under the spotlight. Making strides in a softening market will demand renewed focus on getting valuations right, investing in risk engineering for ageing assets, and managing supply chain volatility through contingency plans.

Existing thermal processes maintain a base load of energy supply on which more renewable energy processes can build. In looking ahead, the power sector will be challenged with maintaining security of supply to support the energy transition.

We are keeping our finger on the pulse of the power market and risk trends, and will continue to deliver insights to help leaders protect critical assets and revenue as pressures build.

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.



Graham Knight

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Controlling costs: TSOs' risk strategies need to keep pace with change

The future is electric. Demands on transmission networks will continue to grow exponentially, as will investment and the interconnectivity between networks. Modern, flexible, reliable and resilient transmission networks are fundamental to the success of the energy transition, and within a regulated sector with fixed revenues, finding ways to build operational efficiencies will be a focus for risk and finance leaders.

But making strides in the energy transition comes with its challenges for transmission system operators (TSOs):

- While the existing power grid is based around centralized and large-scale power plants, solar, wind, and hydroelectric power are pushing generation assets further from load centers. Pushing into new regions with limited transmission infrastructure has the potential to create transmission bottlenecks.
- The increasing reliance on intermittent, weather-dependent sources of power is demanding more flexible grids and optimization of operating systems.
- As consumers and businesses move towards greater electrification, behind-the-meter technologies such as electrified heating systems, electric vehicles and operational plants will create demand shifts. While this has the potential to create supply challenges as TSOs battle supply and demand variability, in practice, the real benefits of new technologies, such as the ability to charge during non-peak periods, should create opportunities for TSOs.

- To create the foundation for the power system of the future, TSOs must invest heavily in their networks in terms of upgrades, extensions and interconnection. But with all TSOs facing the same challenges at the same time, demand is outstripping supply and inevitably supply-chain issues are ensuing, which have the potential to hold back project timelines, limit the purchasing power that TSOs may have had in the past and drive costs.

TSOs are largely risk resilient and are making strides in embracing electrification and investing in growing their networks. TSOs are at the core of the global drive to carbon-neutral economies, and meeting regulatory targets that ensure they deliver on this while running a business efficiently will be a managerial imperative.

Risk management is prime for optimization

As TSOs look ahead to a 5-10-year timeline, risk management and risk financing strategies need to accommodate the changing exposures and pressures on this trajectory. Risk leaders need to identify where more value can be derived for the dollars spent. This will require sustainable plans that evolve with time, identifying more opportunities to reduce the total cost of risk (TCOR) and build resilience into risk financing programs.

In shifting the needle, there's no one-size-fits-all for TSOs. The standard of risk management across the sub-sector is generally sophisticated and leaders thoroughly know their own business and how to manage their construction and operational risks. But as pressures evolve and companies expand their networks across onshore and offshore, the market has not yet

found an equitable basis to rate or even accommodate onshore and offshore together. Onshore and offshore transmission operations have different risks with different exposures and different loss values occurring at different frequencies — creating distinct risk management challenges. These differences can be at opposite ends of a spectrum, effectively compounding costs on combined programs. The differences in insurance capacity sources between on and offshore markets further compounds the challenges.

Combined programs can only go so far as different exposures, limits and losses all combine to drive a wedge between onshore and offshore property markets trends.

TSOs (particularly offshore) have been subject to rate hikes. Onshore rates have approximately doubled, but during the last decade, offshore rates have seen a rapid hardening of the market, in terms of policy coverage restrictions and rates having more than tripled.

Onshore market trends

"TSO risks are good for the market. TSOs have widely distributed assets with a low concentration of value that's typically well protected and resilient to catastrophe-related exposures. Its critical national infrastructure and the networks are well monitored with predictive risk management and monitoring of the condition of the assets, and steady revenue streams to maintain, replace and enhance the assets." Carlos Wilkinson, GB Head of Power & Utilities, Downstream Natural Resources, WTW

When looking ahead, the main challenge for onshore TSOs will be to achieve the optimal balance between risk retention and transfer to make savings.

Offshore market trends

"The subsea cable market is softening, driven by improving loss ratios for underwriters who are now returning to profitable results and capacity being attracted to the market as renewable energy underwriters become more familiar with cable exposures and upstream energy underwriters transition from offshore oil and gas to offshore cables.

Technological advancements are being made in the cable space and the markets are now becoming more comfortable in accepting these advancements and pricing accordingly. Appetite is stronger for operational risks, but new capacity is also entering the market for construction risks where coverage is broadening and rates are coming down 10-15% compared to this time last year." Thomas Mallindine, Head of Energy Transition and Development, Natural Resources Global Line of Business, WTW

Offshore risk managers have an opportunity to quantify their risk more analytically. When order books are stressed, understanding loss scenarios for each project can help risk leaders make informed decisions about where to spend more strategically.

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It's a question: at what point does it make sense to have a standalone option for offshore risks rather than continuing to bolt on to onshore programs? While there's no general rule in splitting a combined program into onshore and offshore risks, a line can be drawn when you dig into the data for a company's unique risk profile.

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

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There's a lot of value at stake and markets struggle to find a rate that makes sense for both onshore and offshore risks. The market will usually compensate with pricing that's more expensive than the risks warrant in isolation, meaning risk transfer can represent poor value if not approached strategically.

It's a question: at what point does it make sense to have a standalone option for offshore risks rather than continuing to bolt on to onshore programs? While there's no general rule in splitting a combined program into onshore and offshore risks, a line can be drawn when you dig into the data for a company's unique risk profile. There will be a tipping point when it comes to limits vs losses, which should be considered against market trends. Transmission and distribution companies need to find a strategy that addresses this and reassure themselves that they make optimal decisions.

Cut through 59,049 options to optimize your risk strategy

It's not unusual for companies in the natural resources industry to take ten risks to the insurance market, but in an event where there are three risk transfer options for each, decision-makers are faced with 59,049 possible options.

By first establishing a risk tolerance, then modeling possible scenarios to understand their operational and financial impacts, and overlaying insurance structures on the simulated loss expectancies, TSOs can pinpoint where it is best to retain or transfer risk, and at which point to split onshore and offshore risks from a combined program.

Considering the portfolio of risks as a whole means risk and finance leaders can think in terms of the total 'premium dollars' to spend across the entire portfolio, rather than for each insurance tower. This shift enables risk leaders to prioritize purchasing insurance for those classes of risk where insurers are offering good value for money, while retaining risk where markets are more expensive or unable to support.

Sophisticated applications, such as [Connected Risk Intelligence](#), model each individual risk and then generate a selection of portfolio-based optimal options. This band creates an 'efficient frontier' of optimized options, enabling TSO risk leaders to balance their risk and insurance spend with their risk tolerance.



The time is ripe to build retentions

To step up, TSOs need to understand and explore the range of products available to establish and grow retentions at an economical cost.

Wherever TSOs are in developing their risk retention strategy, alternative risk transfer solutions can be tailored to establish and grow retention mechanisms to support the business and reduce the TCOR. Alternative risk transfer can be used to allow TSOs to grow their risk retention over years using a stable capital model, that could ultimately assist in establishing a captive, without the strain of a substantial upfront capital reserve. Under this structure, insurers can agree to provide a payout that matches the sum of capital retained; this would only be unlocked in the event of a loss. This security enables TSOs to build retention funds gradually over time without denting the capital strength of the business in the short term.

For TSOs with established retentions, optimization will be critical to ensure the retention vehicle is providing the level of security and capital efficiency compared to ever-changing insurance market trends. In a sector that is evolving at speed, risk retention and transfer strategies need to keep pace.

Looking ahead

The transmission sector hasn't always been the first port of call for insurers when growing business, but TSOs are well risk managed and present an opportunity to grow revenue with a comparatively lower risk profile compared to larger power generation accounts. As power property insurance markets begin to soften, the outlook is brighter for TSOs than in recent years. Against this backdrop, making strides to optimize risk retention and transfer will position TSOs to take full advantage of opportunities as electrification gathers momentum.



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The future is electric: How the power sector is driving change

Power generation is at the heart of the energy system, providing critical systems and infrastructure as the world electrifies and evolves. Energy use could double by the end of the century¹, with geopolitical tensions, new technologies, a changing climate and variable economic outlooks all key drivers influencing the direction and pace of change.

Imagining that future is hard but the scale of change could be huge. 30 years ago, life looked very different. In 1990s 3.5" floppy disks were still in use², the smart phone was still nearly two decades away, Google was an idea in a university dorm room called Backrub³.

Getting the balance right: Power are acutely aware of what's at stake

Whether the future is a risk or an opportunity will depend on power companies' business goals and risk management strategies. The momentum behind electrification is growing. And risk leaders are challenged in making the right decisions today, to build a better tomorrow for their business.

While forecasting involves predicting the future based on current trends, backcasting approaches planning from a future perspective. If you set your objectives, you know what steps need to be taken to get there. By backcasting, power companies can stay agile in responding to challenges with the end goal in mind.

¹ <https://www.iea.org/reports/electricity-2024/executive-summary>

² <https://uk.pcmag.com/storage/141885/from-525-inch-floppies-to-solid-state-the-evolution-of-pc-storage-media>

³ https://about.google/intl/ALL_uk/our-story/

Figure 1:

Where do we want to be in 2054?

At risk: A worst-case scenario	An opportunity: A best-case scenario
<p>By 2054, the world has fallen into crisis. Climate change has wreaked havoc, with rising sea levels swallowing coastal cities and extreme weather events becoming a daily threat. The once-thriving coral reefs are dead, and with them, the marine life that sustained millions. Droughts and floods have devastated agriculture, leading to widespread food shortages and mass migrations.</p> <p>Energy shortages plague the world as fossil fuels, long depleted, have not been fully replaced due to political gridlock and inadequate investment. Blackouts are frequent, plunging cities into darkness and crippling economies.</p> <p>Inequality has deepened, with the rich retreating to fortified enclaves while the poor struggle to survive in deteriorating conditions. Social unrest is widespread, with conflicts over resources, particularly water and arable land, becoming common.</p> <p>Governments, unable to manage the scale of these challenges, have become increasingly authoritarian, leading to widespread human rights abuses. Trust in institutions has eroded, and the world teeters on the brink of chaos, with hope for recovery fading with each passing year.</p>	<p>In 2054, the world has embraced sustainability and efficiency, with a constant supply of clean energy. Cities have transformed into green havens, with vertical gardens and urban forests purifying the air and providing fresh produce. Electric vehicles glide silently through streets, reducing noise and pollution.</p> <p>Technological advancements have led to a circular economy where waste is minimal, and products are designed for longevity and recyclability. Water is efficiently managed and clean, with desalination plants and smart irrigation systems ensuring that even arid regions thrive.</p> <p>Global cooperation has flourished, with nations working together to combat climate change and protect biodiversity. Education and healthcare are universally accessible, supported by artificial intelligence (AI) and telemedicine, ensuring a high quality of life for all.</p> <p>The world has become more equitable, with economic opportunities spread across regions. Communities are resilient, supported by local renewable energy grids and sustainable agriculture. Humanity has learned to live in harmony with the planet, securing a bright future for generations to come.</p>

Power leaders are in the middle of these futures, balancing managing assets to ensure energy security while implementing new systems.

The signals for tomorrow are here today, and power companies are already dealing with cost-benefit questions of system flexibility, maintaining existing assets or transitioning to new technologies, and the need to challenge market design.

Future-ready leaders across the power sector are exploring three key trends as they look ahead.

⁴ <https://www.dnv.com/news/dnv-new-power-systems-report/>
⁵ <https://about.bnef.com/blog/a-power-grid-long-enough-to-reach-the-sun-is-key-to-the-climate-fight/>
⁶ <https://www.euroafrica-interconnector.com/at-glance/>
⁷ <https://nato-l.org/>

1. Electrification and networks

The bottom line is global grid capacity needs to grow 2.5 times its current size, with annual expenditure on grids more than doubling to \$970 billion by 2050⁴ to achieve the goals of the Paris Agreement to keep global warming to no more than 1.5°C.

While the technologies to diversify energy production are still at different stages of development, more energy users will be adopting decentralized energy generation, storage and flexibility. Power companies increasingly support residential and commercial customers with solar panel installations, battery storage, and energy management systems, allowing them to make the most of available generation and network capacity by generating and managing their own energy.

Connecting these networks together is a key area of focus. Bloomberg New Energy Finance (BNEF) estimate that 152 million kilometers of power lines may be needed for the world to reach net-zero by 2050⁵.

Some of the most ambitious interconnector projects are looking to cross ever-greater distances to connect different regions with renewable energy potential: Xlinks is an interconnector project that would link Morocco and the United Kingdom; Elmed will link Italy and Tunisia; and EuroAfrica would link Greece, Cyprus and Egypt⁶. A 5,100km power link running from the Australian outback to Singapore is also on the table, alongside The North Atlantic Transmission One⁷, aiming to connect North America to Western Europe via Eastern Canada and UK & Ireland. Not all of these will get off the ground, with obstacles of financing, critical metals and mineral availability, new technologies and transportation needed, but set out the scale of the action needed. From considering cross-border agreements to regulation and market design, change is needed at every level.

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Speeding up grid expansion will require substantial technology investment over the coming decades. Every project is unique. If controls are not put in place for manufacturing and installation quality, the risk of a loss increases, and pricing may start to climb. Access to robust expertise — whether that’s in nuclear or subsea cables — is essential to develop a tailored program that aligns with your company’s specific requirements, ensuring effective risk mitigation and optimal operational outcomes.

Thomas Mallindine, Head of Energy Transition and Development Natural Resources Global Line of Business, U.K. WTW

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2. Demand and consumption

Power demand and consumption are becoming more dynamic and complex, driven by electrification, digitalization, energy efficiency improvements, societal values, and the growing role of renewable energy. Projections by the IEA⁸ have set out potential futures and energy-mix scenarios for a different demand and consumption changes which are already in action. IEA are also responding to rapid change, and will hold a special session later this year to discuss the explosion of AI and its impact on power consumption.

Computers accounted for 1-2% of global electricity use in 2018 and are projected to hit 8-21% by 2030⁹. Updated regulations and technological improvements, including on efficiency, will be crucial to moderate the surge in energy consumption from data centres.

Yet AI and advanced computing will be needed to support real-time data and analytics, bring about grid management and stability, support energy trading and market participation, and optimize storage and flexibility. The use of algorithms and forecasting by the industry is

not new, but the use-cases are expanding. Policy makers around the world are at different stages of commercial deployment of AI applications in the electricity system, with security, ethics, reliability and trust at the centre of discussions. Interesting partnerships are in the works globally:

- In the UAE, the Department of Energy in Abu Dhabi has signed an10 to develop a highly efficient smart energy and power system utilizing diversified sources, especially clean and renewable energy.
- In Q2 2024 China filed 81% of the 1,640 global artificial intelligence related patent filed for the power industry, with SGCC responsible for 403¹¹.

Governments are keen to support innovation for the industry. The U.S. Department of Energy recently awarded \$3 billion in grants to various smart grid projects that include AI-related initiatives across 18 states to protect against growing threats of extreme weather events, lower costs for communities, and catalyze additional grid capacity to meet load growth stemming from an increase in manufacturing and data centers¹².

Figure 2:

Overview of AI applications and jurisdictions

	U.S.	EU	China	U.K.
Wind and solar generation forecast	X		X	X
Grid stability and reliability	X	X	X	X
Demand forecast	X	X		X
Demand-side management	X	X		X
Optimised energy storage operation	X	X		X
Optimised market design and operation		X	X	X

Source: RAND¹³

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Greater numbers of diverse energy users will be adopting decentralized energy generation, storage and flexibility techniques. Risk leaders need to conduct regular horizon scanning and partner with their specialist brokers to address emerging trends through proactive risk management or by working with intermediaries and insurer partners to develop future-proof risk transfer and/or retention solutions

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

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⁸ <https://www.iea.org/reports/world-energy-outlook-2023/pathways-for-the-energy-mix#abstract>

⁹ <https://penntoday.upenn.edu/news/hidden-costs-ai-impending-energy-and-resource-strain>

¹⁰ <https://www.doe.gov/ae/Media-Centre/News/The-Department-of-Energy-in-Abu-Dhabi-and-the-State-Grid-Corporation-of-China-sign>

¹¹ <https://www.power-technology.com/data-insights/patent-activity-artificialintelligence-power-industry/?cf-view>

¹² <https://www.energy.gov/gdo/grid-resilience-and-innovation-partnerships-grip-program>

¹³ https://www.rand.org/content/dam/rand/pubs/research_reports/RRA2900/RRA2907-1/RAND_RRA2907-1.pdf

3. Energy security and resilience

Progress to a more decentralized, decarbonized and digital energy system will be critical to meet evolving energy needs and build a growing network of smaller and more connected energy producers for energy security and resilience.

But major headwinds remain a threat. In July 2024, more than 2.6 million Texas power customers went without electricity for days in the summer heat as Hurricane Beryl hit the network¹⁴. Meanwhile, geopolitical events are putting a spotlight on the physical availability of hydrocarbons and coal, and the associated price volatility. It's no accident that the most consequential pieces of climate legislation in the U.S. and Europe to date — the U.S. Inflation Reduction Act (IRA) and the EU's Climate Law — arrived after Russia launched its invasion of Ukraine¹⁵.

A spotlight on Ukraine: Opportunities to build back better

RUSI reports¹⁶ that by mid-June 2024, conflict in Ukraine cumulatively destroyed 9 gigawatts (GW) of domestic power generation. At least 80% of Ukraine's thermal power and one-third of its hydroelectric power generation has been destroyed. Rebuilding power systems will create opportunities to reset the infrastructure to new standards; however, other organizations around the world are considering how best to optimize existing operations and when to invest in new assets to keep the lights on across the networks they power.

National governments are appreciating the role of power networks as critical national infrastructure, increasingly focusing on energy security.

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There have even been instances where national governments have requested operators to have specific assets continue operating beyond their planned decommissioning dates. Robust life extension processes and independent analyses of these processes by qualified engineers need to be undertaken by power companies to ensure that the assets that continue to operate do so in a safe manner and are considered to be “fit for service”. Failing to do so could, and probably will, result in losses that no one wants to experience, either as an operator or insurer.

Alan McShane, Global Head of Risk Engineering, Natural Resources Global Line of Business WTW

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¹⁴ <https://www.texastribune.org/2024/07/25/texas-power-grid-puc-centerpoint-hurricane-beryl/#:~:text=When%20Hurricane%20Beryl%20swept%20through,days%20in%20the%20summer%20heat.>

¹⁵ <https://www.wtwco.com/en-gb/insights/2024/06/green-competition-and-resource-nationalisation>

¹⁶ <https://www.rusi.org/explore-our-research/publications/commentary/bracing-hardest-winter-protecting-ukraines-energy-infrastructure>



Actions risk leaders need to take to drive value:

- 1. Identify your risks and opportunities, making use of industry specialization.** Engaging with sector-focused risk and insurance specialists will be critical in protecting assets and positioning the company for the future. Risk leaders will be able to overlay potential sector-specific scenarios to test risk resilience and integrate lenses of risk and opportunity into strategic planning and enterprise risk management frameworks that consider possible futures.
- 2. Take an objective view of your resilience, backed by data.** From managing and optimizing existing assets to considering new emerging technologies implemented from scratch, risk engineering monitors and analyzes global trends and their potential impact on business operations. Analytics will be key. The insights that well-designed risk models provide in a world of changing climates, higher frequency and severity natural catastrophe events, globalized distribution of higher value assets and more complex supply chains and revenue streams, to help risk leaders cut through complexity.
- 3. Optimize your insurance spend to deploy capital strategically.** Analytics point to areas to retain risk that's costly in the market, or how best to spend on premium across all risks and set your limits at the most efficient level, in line with your organization's risk tolerance. Backed by these data-driven insights, risk and finance leaders can make informed decisions, knowing there will be no better option. Savings made on premium spend can then be deployed strategically in ways that best support the organization's future growth objectives.



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Power ahead: An opportunity for liability buyers to capitalize on increased market stability and softening conditions

Following a relatively benign year for loss activity, rating pressure in the international liability market has continued to soften — particularly for the most sought-after business — however, power companies will need to address key trends to build longer term resilience.

At a glance



The international liability market has stabilized with a small uptick in capacity and softer market conditions, leading to greater competition and downward pressure on rates.



Placements containing coal and/or wildfire exposure continue to face greater scrutiny, as do those with significant United States (U.S.) exposure.



While the U.S. market remains stable from both capacity and rating standpoints, carriers remain concerned with claims inflation stemming from both auto and general liability risk and remain extremely concerned about potential wildfire exposure due to transmission or distribution line exposures.

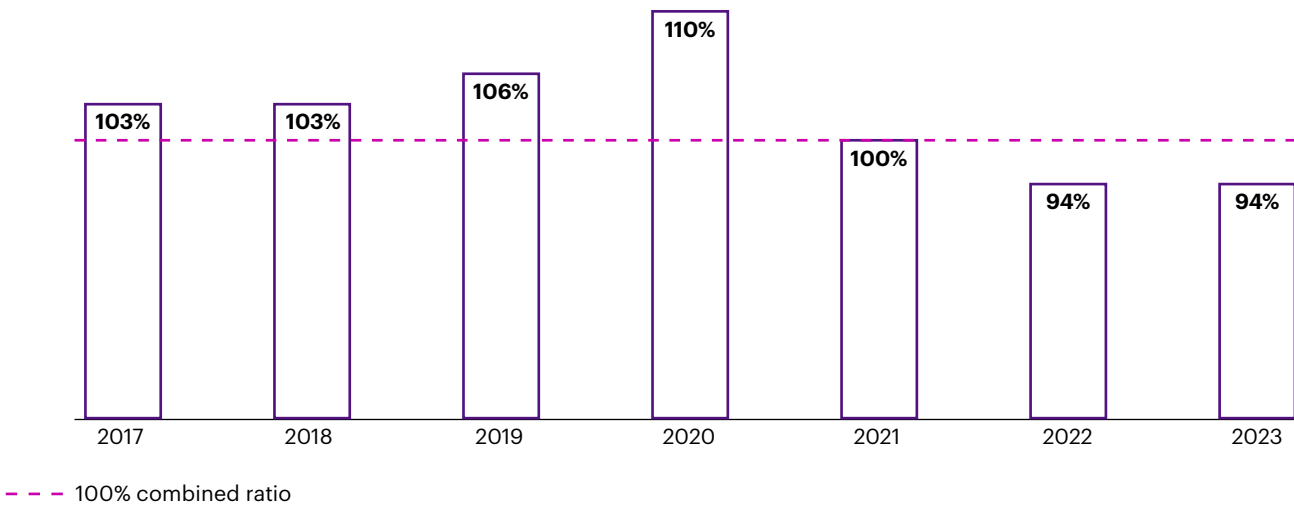


In order to secure optimal terms, early engagement with markets and providing a robust and comprehensive underwriting submission remains paramount.

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

The balance is shifting in buyers' favor

After a sustained period of unprofitability for casualty as a class of business, in 2023, Lloyd's of London announced a second consecutive year of underwriting profit¹. A more buoyant underwriting environment, combined with limited loss activity and pressure to achieve topline growth targets, is driving the softening of the international liability market. The emergence of some new capacity, coupled with a greater willingness from existing insurers to deploy their full-line size, has driven competition and enabled buyers to better optimize their program structures and terms.

Generally, underwriters are increasingly willing to challenge technical pricing and take a longer-term view on program that they are keen to retain. This is borne out of a growing recognition that it may be more challenging to regain positions on sought-after programs in a softer market.

While a softer market has helped to reset base-level rating, the distinction between favorable and harder-to-place programs persists. Greater underwriting scrutiny and requirements continue to be applied to placements that are exposed to coal, wildfire, and the U.S.. Buyers who are able to produce high-quality risk information and evidence the highest standards of risk management will continue to benefit from the most favorable terms and put themselves in the strongest possible negotiating position.

Partnering with a specialist broking team that is able to access sector-specific capacity and has deep understanding of industry issues, remains paramount to unlocking the best possible program terms.

Claims activity and concerns over prior reserving in the wider liability market are counteracting downward pressure on rates

The absence of major headline losses in the power sector has helped to support market appetite and capacity, but wider trends in the general liability market are acting as a counterbalance.

Despite catastrophic casualty losses such as explosions, (wild)fires and hydrodam failures being largely short-tail in nature, the adequacy of reserving for long-tail exposures remains a key consideration for underwriters and is likely to prevent any freefall of rates in the year ahead.

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"While the international liability market has performed better in recent years, the power sector is also bound by trends in the wider liability market, where rising social inflation and increasing third-party litigation funding are driving an uptick in the frequency and quantum of claims — particularly in the U.S.."

Matt Clissitt, Senior Director and Deputy Head of Liability, Natural Resources, WTW

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The U.S. liability marketplace continues to combat rising claims inflation and nuclear verdicts. While the power liability market has been a profitable line of business for most of the domestic liability carriers, continued rating pressure exists due to underlying casualty challenges.

¹ <https://www.lloyds.com/about-lloyds/investor-relations/financial-performance/financial-results>

However, ample capacity due to the low frequency and severity of claims in the sector is continuing to stabilize pricing. Any power-related accounts with transmission or distribution electrical line exposure are being underwritten in a different manner, with wildfire exclusions becoming more prevalent and actual wildfire liability capacity being reduced year-over-year.

Power liability market trends to watch in 2025

Growing appetite for greener portfolios

But evolving technologies carry inherent risks

Underwriters continue to place emphasis on insureds' environmental, social and governance (ESG) credentials in view of sustained commercial pressures and commitments. While greener technologies are welcomed by underwriters as a means of diversifying underwriting portfolios, insurers are cognizant of the new exposures that these technologies pose.

Photovoltaic panels and battery storage sites have proven themselves to be susceptible to fire risks while the complex contractual arrangements underpinning renewable power projects can also present increased liability exposures. In addition, offshore wind and interconnector assets can require access to the marine liability market which creates additional layers of complexity — and on occasion, cost — to placements.

Increased prevalence of wildfire and flooding are keeping climate change a focus for underwriters

And power companies need to look intrinsically and externally at risk

While the U.S. and Australia have historically presented the most significant wildfire exposures, recent events in Europe and Canada have broadened underwriters' geographical focus in this domain. Articulating measures taken to address wildfire risk — such as managing vegetation around the asset(s) and casing or burying power lines — can be key to negotiating cover, as will the ability to articulate contractual arrangements with any third parties responsible for maintenance.

Underwriters are also paying greater attention to the potential link between changing climatic conditions and the risk of dam overtopping. There is a growing expectation for insureds to provide information on monitoring and mitigation measures in place to ensure compliance with regulatory standards and prevent the increased prevalence of dam failure caused by the impacts of climate change.

Understanding the technical aspects of the power industry points to the value a sector-focused broker will bring to the table. A specialist broker can highlight counter arguments to any perceived increase in risk, for example, where rising temperatures can in fact reduce

the risk of flooding as less ice is formed upstream which reduces the risk of severe flooding caused by the rapid melting of ice. The role of a broking partner will be increasingly critical in helping buyers better quantify and mitigate perils that could adversely affect the liability risk.

The market position on coal is not black and white

Power companies still need to demonstrate a compelling energy transition plan

While property damage and business interruption lines are seeing a tentative return of coal-related risks to the market, corporate positioning on ESG issues is meaning that the only sources of additional capacity for coal in the international liability market is coming from new entrants. Although incumbent insurers continue to offer (albeit limited) capacity for coal-exposed risks, non-incumbent insurers have more limited appetite. The key to securing capacity is evidencing a robust energy transition plan with certain insurers having greater flexibility in the application of their ESG guidelines where this can be provided.

Greater consistency in the application of PFAS clauses

Making it more widely excluded

The incorporation of per- and polyfluoroalkyl substances (PFAS) exclusions into reinsurance treaties, and subsequently some market standard wordings, has led to a more widespread and consistent application of PFAS exclusions within policy wordings. In certain cases, partial writebacks can be negotiated back into cover however this is very much subject to additional requirements.

For power companies, assessing and addressing PFAS issues — particularly in firefighting foams — will be an area of focus. Ironically, the efficacy of PFAS replacements in firefighting equipment and materials could lead to a greater fire and therefore third-party liability exposure, particularly in the case of battery storage fires (where PFAS firefighting foams are considered to be effective). The ability to remove PFAS from lubricants entirely can also be a challenge.



Take action: where power companies need to focus for the year ahead

Get ahead of the curve: early engagement with your broker remains key, as allowing sufficient time to engage with underwriters is critical to unlocking optimal capacity. This could be through roadshows facilitated by your broker to support the development of key strategic relationships and promote effective engagement with the market.

Provide a robust and data-led underwriting submission to help markets understand your risks. Gathering data, partnering with experts and engineers to answer any technical questions, and aligning the narrative with brokers will put buyers in a stronger position when negotiating with insurers.

Consider reassessing program structures to capitalize on evolving market conditions. In a softer market, some carriers may be willing to challenge their own technical rates in order to win and/or retain business, however, relationships with longstanding incumbents should be carefully considered. While new capacity might be cheaper in the short-term, taking a strategic view to risk and aligning with long-term insurer partners is key to optimizing insurance program terms and conditions, and ultimately building resilience within your business.



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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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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.

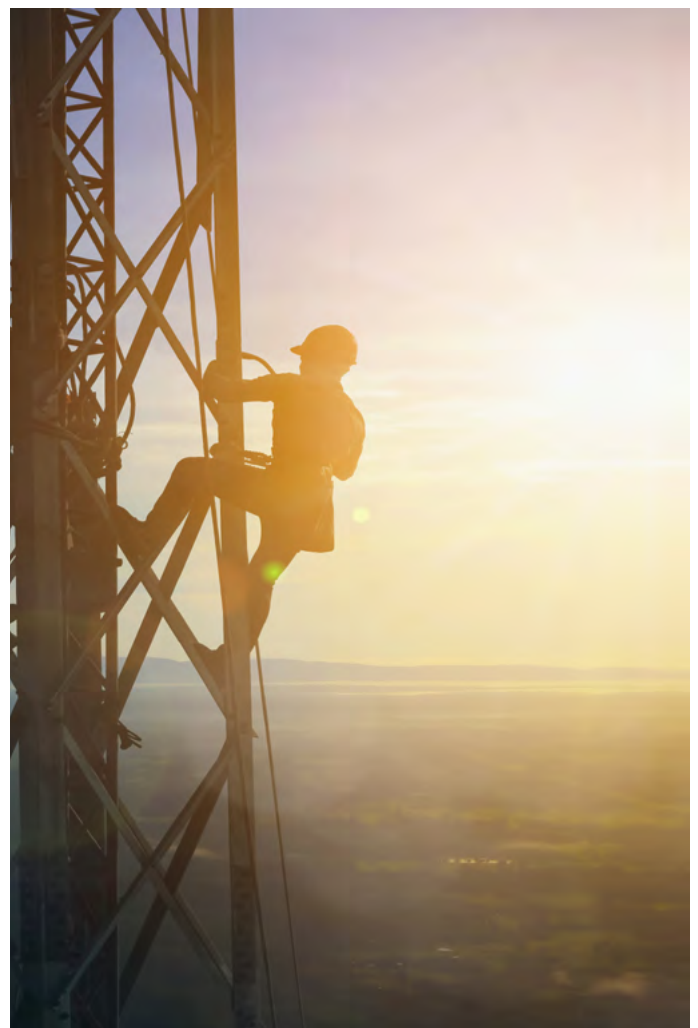
“A gradual but notable decline in reliance on fossil fuels characterizes market trends for traditional power in the U.S.. Coal-fired power generation has decreased due to environmental regulations, lower natural gas prices, and competition from renewables. In the region, natural gas has become a dominant 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.

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.



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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International views



North America

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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. Once considered a cleaner alternative, natural gas has become a dominant fuel source due to its relatively lower emissions and cost-effectiveness.

However, 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.

The traditional power sector faces increasing pressure from regulatory frameworks aimed at reducing carbon emissions and promoting sustainability. Utility companies are investing in upgrading infrastructure and adopting cleaner technologies to comply with these regulations. Despite these challenges, traditional power remains a crucial part of the energy mix, especially for providing reliable baseload power.

The sector is evolving with a greater emphasis on maintenance and improving efficiency.



China

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The power insurance market in China is relatively stable. Thermal power has traditionally been the dominant source and baseload, and Chinese insurers maintain huge capacity for coal-fired power risks. Meanwhile, the installation and operation of larger 1000MW unit capacity water turbine generators is boosting hydropower production. Domestic conventional power risks in China have been profitable in 2024 so far, and rates remain flat or have a slight reduction.

However, after suffering some big overseas claims in the last few years, Chinese underwriters are conservative in providing capacity for overseas power projects and some have suspended writing overseas business. The premium rates of hydropower and waste to energy projects were raised significantly. Tougher Chinese interest definitions now apply, and (re)insurance capacity has been limited and reduced accordingly.

The top three Chinese insurers enjoyed net profit growth in the first half year of 2024. But a number of potential factors are in play: the rainstorm and flood impacted Southern China; the claim payments of whole Chinese insurance industry from January to July 2024 increased 30% compared to the same period last year; and economic slowdown. Chinese insurers are struggling to achieve their annual budget, which may aggravate the competition between insurers. The market for power risks might take longer to respond to these pressures than the general property market.



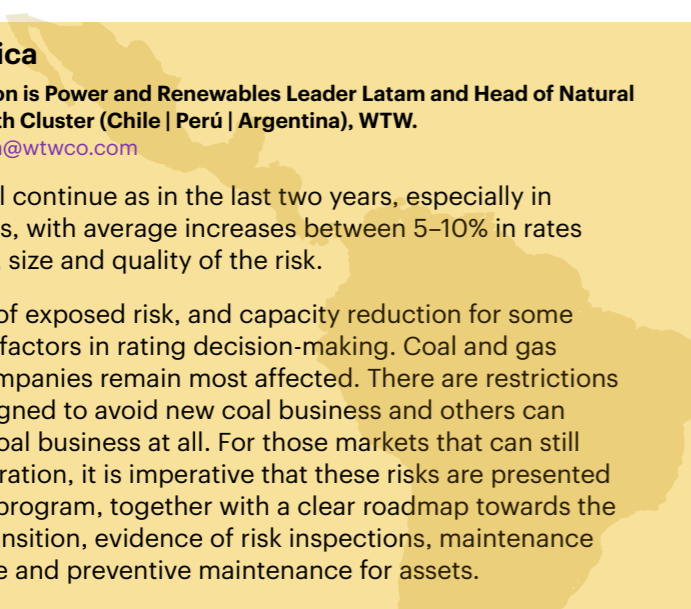
Latin America

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The power market will continue as in the last two years, especially in catastrophic countries, with average increases between 5–10% in rates depending on claims, size and quality of the risk.

Inflation, revaluation of exposed risk, and capacity reduction for some countries remain key factors in rating decision-making. Coal and gas generation power companies remain most affected. There are restrictions in some markets designed to avoid new coal business and others can no longer write any coal business at all. For those markets that can still underwrite coal generation, it is imperative that these risks are presented as part of the bigger program, together with a clear roadmap towards the company's energy transition, evidence of risk inspections, maintenance reports and predictive and preventive maintenance for assets.

In Latin America, insurers maintain disciplined underwriting within the power sector. Key insurance market observations include: controlled capacity deployment; increased scrutiny on property damage and business interruption values; a trend toward reduced line sizes and concentration on natural catastrophe limits; greater examination of policy conditions, deductibles, and sub-limits, driven by the competitive cycle's pressures; and expected single-digit rate increases for "good" risks, while claims-heavy portfolios may face higher adjustments. Wider trends to watch include: continued concerns regarding machinery breakdown; insurers focusing on ESG initiatives; and supply chain issues.



Middle East

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Due to increasing regional demand for power, a mix of aging assets, pressure to shift toward renewable energy, and significant competition between the UAE and KSA for data center dominance, we expect regional capacity to continue growing. Additionally, specialist underwriting expertise in the region will need to keep pace with the changing risk landscape.

In the coming decades, the Gulf Cooperation Council is likely to rely on a combination of solar, nuclear, green hydrogen, natural gas with carbon capture, and wind energy to meet the increasing power demands of data centers. Solar energy is expected to play the largest role, given the region's geographic advantages, while nuclear energy, alongside storage solutions and green hydrogen, will provide the consistency and flexibility needed to ensure stable and reliable power.

For the near future, favourable global market conditions and an influx of capacity have led to rates dropping approximately 10% for clean business on a like-for-like basis in the region. These pressures are overriding the impact of an active nat cat season with two large storm events which caused insured losses to the local market in excess of AED10.5 billion. In 2025 and beyond, we expect global nat cat pricing to have more of an impact on the regional market.



Singapore

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For the last three years, the power market in Asia has been through a phase of correction and hardening. However, at the start of 2024, we have seen a notable change in market conditions, and readily available capacity has resulted in a return to a buyers' market. A shift in appetite from coal to non-coal power and the phasing out of underwriting existing coal risks have combined to encourage insurers to seek new opportunities in deploying their capital.

While insurance markets are naturally looking to secure rate increases, clients that have a clean loss history at renewal can achieve a flat rate. Flat-rate renewals have become a norm, and well-risk-managed assets have been able to achieve rate discounts, with rate movements of between -10% to flat on a like-to-like renewal basis.

Once again, we are seeing an increasing number of markets seeking to offer long-term agreements and rates are expected to further soften over the next 12 months.

Supply chains are becoming a top concern, and the business interruption (BI) component of cover, alongside the potential for rapid escalation of loss quantum, are clear areas of focus. Amid unrest and geopolitical issues, the movement and transportation of materials and equipment has been significantly impacted, increasing the lead time for repairs and delivery times for large/complex items of machinery. The adequacy of the indemnity period for BI is of vital importance and something power companies will not readily compromise on in exchange for premium savings.



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