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Accelerated rate softening: Is your risk in the fast lane or held at a red light?

Energy Market Review update

November 2024

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An update on the 2024 Energy Market Review

Welcome to our Energy Market Review for the final quarter of 2024. In this update, we share our thoughts and findings on the state of the global upstream, downstream and liability markets.

Market softening is accelerating

Benign loss activity and a continued oversupply of capacity are accelerating market softening across the energy occupancies. The market has quickly forgotten the loss-making years of the past as insurers jostle for position on the best placements. Most insurers are willing to ride out the softening market in order to partner with key clients. Many carriers will be faced with a further increase in growth targets in 2025 in a market where little new business exists and the volume of existing players is further shrunk by M&A activity. Where the premium pool is insufficient to sustain all of the capacity on offer, there will inevitably be winners and losers. Oil and gas companies will have choice, placing them in a position of increased bargaining power once again.

Insurers are looking for income elsewhere

In an effort to meet their ambitious growth targets, energy insurers are looking write new exposures into their portfolio, be that renewable energy, biofuel or hydrogen. This has a dual benefit of broadening their premium pool while supporting clients as they transition and expand their own portfolio. Some insurers have been quick to grasp this opportunity, seeing clearly how their existing expertise can be applied to these new exposures, however, others are approaching these risks with greater caution. Only time will tell whose approach is preferable.

A cautionary tale from the liability market

While energy property markets are softening at pace, the story is very different in energy liability markets.

The international liability market was just starting to see the first signs of softening when three significant losses shook things up and yet again perpetuated rate hardening. Maybe this should serve as a cautionary tale of how quickly loss activity can change the playing field and turn a market cycle around.

However, despite this, capacity remains abundant and until this changes, it is unlikely that the market will see sustained significant market hardening.

Risk quality is key

Even as market softening accelerates, this softening is still applied with a clear risk quality lens with the most preferential terms reserved for the most favored risks in the portfolio. With insurers differentiating based on both risk quality and premium volume, portraying your risk in the best possible light by showcasing well-engineered risks with thorough risk controls in place has never been more important. While insurers are willing to negotiate on pricing, their focus on risk quality remains non-negotiable. Poor rating loses insurers thousands, poor risk quality loses them millions.

In fact, the desirability gulf between risks has further widened with certain areas of the portfolio such as subsea construction and U.S. lead umbrellas becoming increasingly challenging and costly to place while insurers are all flocking to the same highly desirable placements. This creates competition and furthers rate softening, which can only benefit clients who can evidence that they fit within this top tier of risk quality.

As the reinsurance treaty season approaches, all eyes are on the impact of recent storms, which could have the potential to derail treaty renewals across the sector. Although a poor treaty renewal may somewhat dampen the pace of rate softening, competitive pressures will likely ensure that any adverse impact cannot be passed on to direct clients.

We hope you enjoy reading the Energy Market Review update and, as always, we appreciate any feedback or questions you may have.

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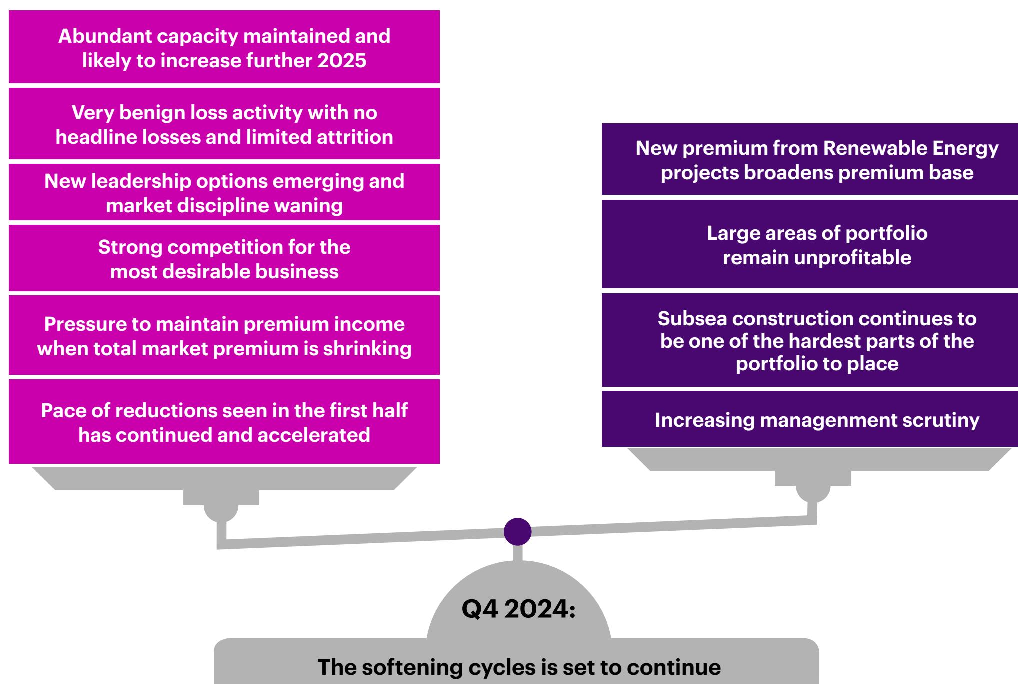
Upstream energy conditions hang in the balance

Upstream energy markets are softening, but challenges for less favoured risks and loss activity could steady any rapid change.

The continued surplus capacity is increasing competition for sought-after business, but less profitable lines remain challenged and any significant loss activity could put the brakes on further meaningful softening.

Figure 1:

The upstream underwriting environment, November 2024



Reductions are focused on the best quality risk, but when will they start to be applied across the portfolio?

Source: WTW

At a glance

- Loss activity has been benign for 2024 so far
- Maintaining profitability is a core focus for some insurers as we head toward 2025
- The insurer appetite gulf between good and less favoured risks in the portfolio is just as wide as reported in the Energy Market Review in April
- There's fierce competition for clean operational risks with large premiums
- Construction risks — particularly subsea — remain at the bottom of the pile after sustained loss activity
- Capacity supply is outstripping demand, but not for all risks
- As available leadership options in the upstream market increase, testing the competitiveness of existing leaders and placement strategies will be a focus

Insurers are taking tentative steps forward

Since 2023, treaty reinsurers have forced insurers to take higher retentions. Earlier this year in the Energy Market Review, we predicted that direct markets were at risk of exposure to smaller attritional losses which would not be absorbed by their reinsurance treaties. But in 2024 so far, loss activity for the upstream energy sector as a whole has been benign with an absence of both headline and attritional losses.

However, deterioration of previous years of loss activity across the entire upstream energy sector is keeping a rein on any wholesale reductions in rates as underwriters proceed with caution in a softening market.

Figure 2:

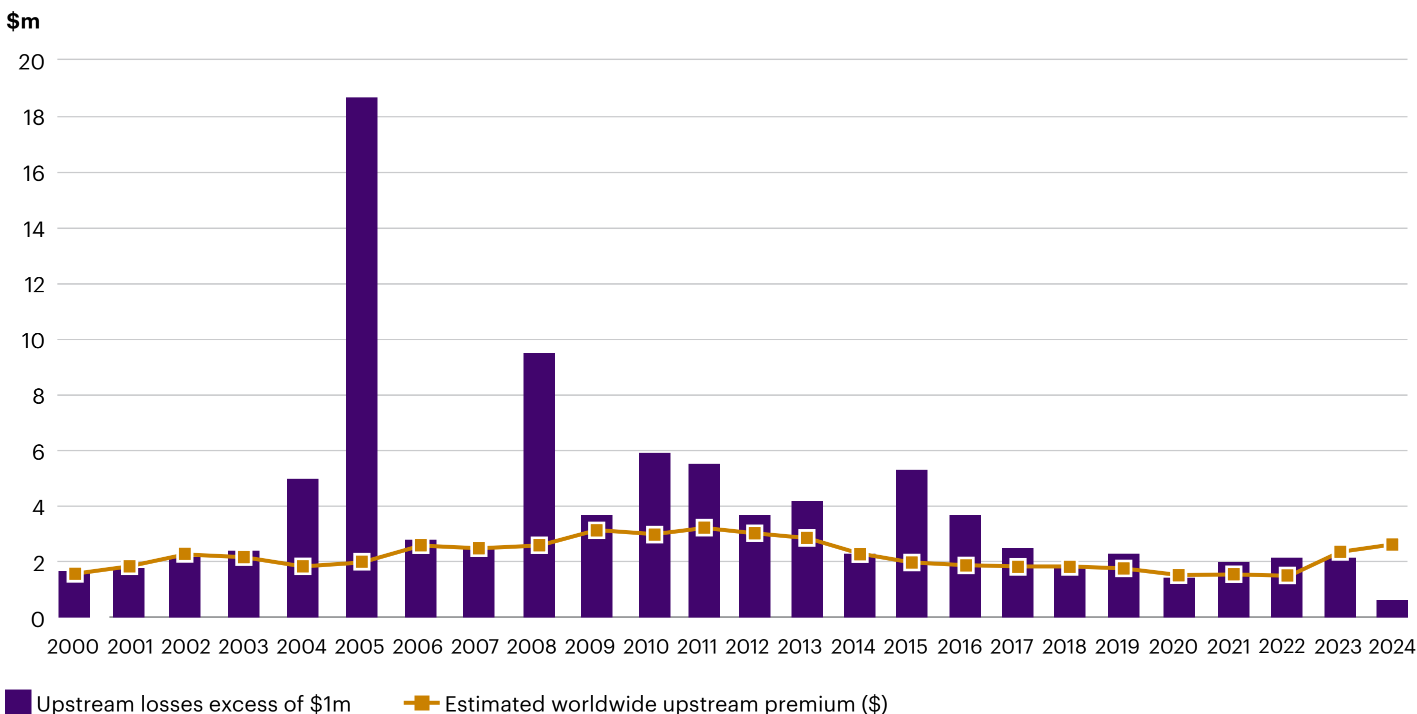
Upstream losses in excess of $20 million, 2024

Type	Cause	Country	PD $	OEE $	BI $	Total $
Platform	Fire + explosion/VCE	Latin Amercia	170,000,000	—	—	170,000,000
Pipeline	Mechanical failure	Australasia	120,000,000	—	—	120,000,000
Rig	Unknown	Europe	77,500,000	19,500,000	—	97,000,000
Rig	Misc	Africa	53,700,000	—	—	53,700,000
Well	Stuck drill stem	North America	50,000,000	—	—	50,000,000

Source: WTW Energy Loss Database as of March 6th, 2024 (figures include both insured and uninsured losses)

Figure 3:

Historic deterioration and construction losses push prior years into the red



But 2024 appears to be a spectacularly profitable year so far

Source: WTW/WTW Energy Loss Database as of October 7th, 2024 (figures include both insured and uninsured losses)

While 2024 looks to be spectacularly profitable for insurers, we sound a word of caution. As always, losses will deteriorate over time and there are likely to be losses that are not yet recorded in our database for the 2024 year. This, coupled with prior year deterioration — especially from the construction sector — continues to affect profitability to a point where Lloyd's recently published results for the energy class showing a loss-making position for the first six months of 2024[1].

With financial targets looming, maintaining profitability is a core focus for some insurers as we head toward 2025. Some markets are chasing premium and market share, putting even more downward pressure on rates. But the insurer appetite gulf between good and less favoured risks in the portfolio is just as wide as reported in the Energy Market Review in April, with fierce competition for clean operational risks with large premiums and construction risks — particularly subsea — remaining at the bottom of the pile after sustained loss activity.

Capacity supply is outstripping demand, but not for all risks

For the most sought-after placements, the continued extreme oversupply of capacity puts increasing pressure on smaller insurers, especially those who only write a narrow book of upstream business. These markets are increasingly being deselected by clients in favour of larger carriers who are able to support the breadth of the client's risk portfolio — a trend we have seen for some time.

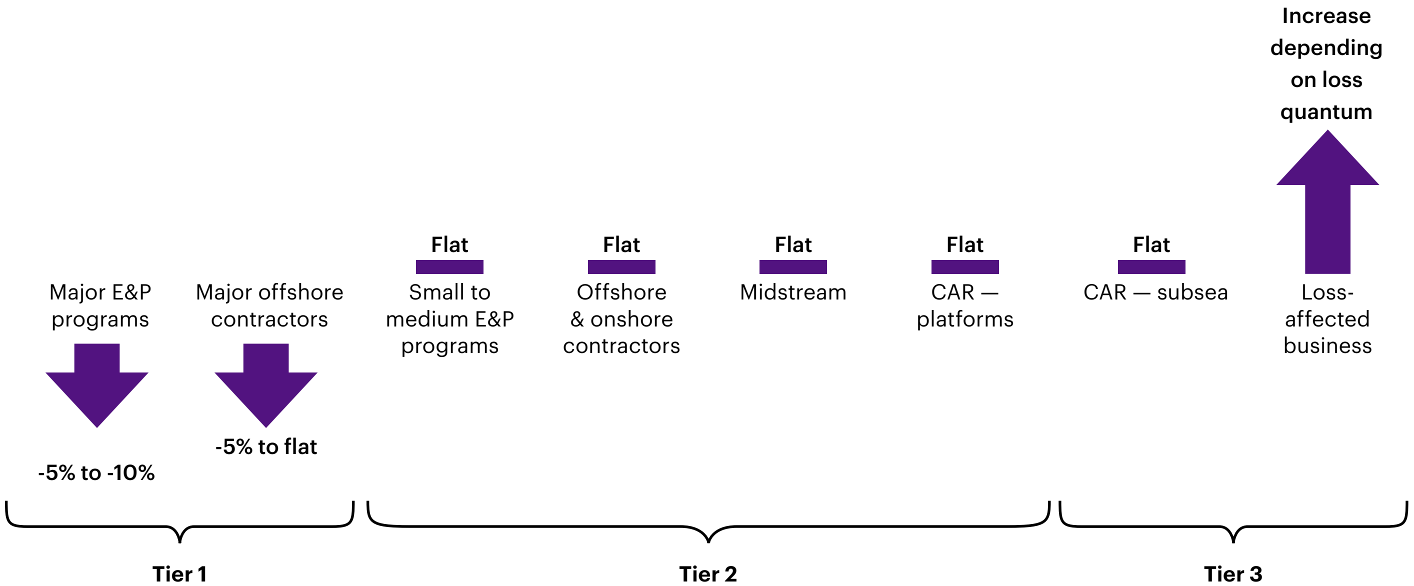
This oversupply of capacity is further exacerbated by new entrants into the upstream market during 2024 and we anticipate that several existing insurers will be looking to increase their capacity again in 2025. However, all this capacity is competing for the same small pool of top-quality risks. Less favoured areas of the upstream portfolio, fall outside of the appetite of many carriers and struggle to attract sufficient capacity and reasonable pricing.

> **"As insurers jostle to deploy their capacity and meet their targets by securing good risks for their portfolio, competitive pressures are evolving, but not to the extent where underwriters have carte blanche to chase premium at any cost."**
>
> Paul Braddock, Head of Upstream GB, Natural Resources Global Line of Business, WTW

[1] https://www.insuranceinsider.com/article/2dq0k9pz5epxxiqtdto1s/global-insurers/lloyds-reports-property-is-best-performing-segment-as-energy-tips-into-unprofitability

Figure 8:

Three-tier market differentials, November 2024



Greater rate softening but only for the best risks

Source: WTW

Partially fuelled by ESG pressures, underwriters are also writing more renewable business into their upstream book, augmenting the premium base and reducing their reliance on construction premium to meet challenging growth targets.

In the immediate future, markets are likely to remain fractured with some insurers firmly in growth mode, and others not so premium hungry. We're potentially at a turning point. While rates are likely to remain on a stable downward trajectory until a significant loss event or capacity changes wield the power to impact market dynamics, insurers are already under close scrutiny from management who are questioning the profitability of the upstream book and its longer-term viability at current dwindling premium levels.

As always, reinsurance treaty renewals could meaningfully affect market dynamics. But with flat treaty renewals or small reductions to rates expected, reinsurance outcomes are unlikely to cause an upset to the softening market cycle.

> **Given how keen markets were to pass on increased treaty costs in 2023, brokers and upstream energy companies are expecting any reduction in treaty costs to be passed on in 2025.**
>
> George Richardson, Broker, Natural Resources Global Line of Business, WTW

All eyes will be keeping watch on any natural catastrophe losses between now and treaty renewals on 1st January 2025, which would likely impact rates for insurers and direct clients alike.

Don't fall foul of the broker pricing frenzy

The mood in the market has changed. With a number of large placements being tendered during 2024, a broker pricing frenzy has emerged. As these tenders were often conducted without market involvement, brokers have quoted increasingly unsupportable prices, some of which proved subsequently unachievable when later presented to the market.

This trend has somewhat diluted the analytical approach taken by responsible brokers. Underwriters hold the risk. And sophisticated analytical tools and underwriting expertise should always be the foundation of competitive pricing.

This would have ultimately left risk managers with some uncomfortable conversations, as the agreed insurance budget needed to be revised upwards to allow placements to be completed. Upstream energy companies should assess their options with an objective eye and ensure any proposed pricing is market-tested to ensure credibility.

Carriers are competing for the most desirable business, resulting in the long-held market discipline waning and insurers becoming less concerned with how they are perceived by following markets and more focused on securing their own income base. As available leadership options in the upstream market increase, testing the competitiveness of existing leaders and placement strategies becomes an essential tool for oil and gas companies looking to optimize their insurance pricing.

> **Benchmarking your lead insurers on accounts is important for upstream energy companies and their brokers, to ensure clients continue to access the best coverage at the best price point.**
>
> Richard Burge, Chief Broking Officer GB, Natural Resources Global Line of Business, WTW

Differentiating the business from other upstream sector players continues to be an important factor in securing optimal rates as appetite for top-quality risks continues to grow. To achieve the best available terms, brokers will be balancing local and international markets to test their winning prices.

Change could be on the horizon for 2025

Merger and acquisition (M&A) activity is looming for 2025, which is also echoed in the downstream sector. For upstream energy companies, a focus on future-proofing the business is driving asset portfolio balancing and diversification. These pressures contributed to the surge in M&A activity across the oil and gas sector in 2023 and early 2024, with indications that this momentum will continue into 2025. For the insurance markets, consolidation of businesses in the upstream sector could further erode available premium as larger and well-capitalized players retain more risk on the balance sheet and growth is leveraged to achieve more competitive rating.

While this is accelerating the competitive forces in the downstream sector, the upstream sector remains more fractured. In an insurance market where some insurers are more premium-hungry than others, it's likely that any impact on rates and appetite will be focused on the upper end of the book rather than a portfolio-wide softening regardless of risk quality.

In the meantime, a surge of managing general agent (MGA) activity is allowing insurers to step into new markets at a lower cost than establishing a team to write new lines of business from scratch. This lower cost of entry will be appealing for insurers as they test out new areas of the book in a follow capacity, assured by the sector-specialised underwriting experience of the MGAs. On the other side of the coin, these vehicles provide less longevity than traditional carrier relationships, which may be of concern.

Market conditions look to continue to soften in 2025, to what extent, however, remains uncertain. As prior years' loss deterioration and erosion of reserves start to bite, will the dwindling levels of profitability force management to redirect capacity to more profitable lines of business? Or, at the very least, place underwriters under increasingly tight levels of scrutiny and in so doing, halt or slow down the rate reductions? That said, unless or until the oversupply of capacity is reduced, it is hard to envisage a major shift in the market's direction of travel.

Remaining true to your commercial priorities will be critical in moving through uncertainty with confidence. With a firm grasp on your organization's risk appetite, your brokers will be in a position to leverage local and international markets and test the products available to deliver optimal results.

Contact our specialists to find out how your organization can build a smarter way to risk.

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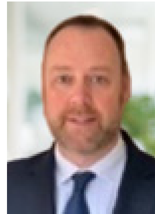

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Flowing downstream: softening insurance market conditions gather momentum

A profitable year so far is driving falling rates, and competitive pressures look set to accelerate meaningful softening

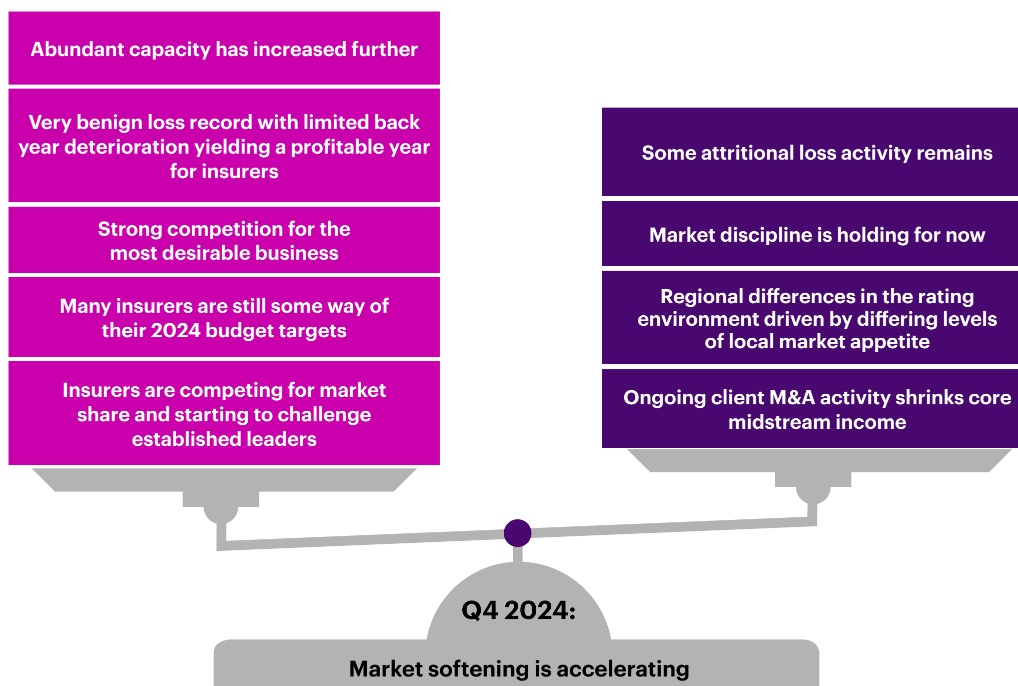
Meeting growth targets has been challenging across the board for downstream (re)insurance markets, and competitive pressures are starting to take hold.

At a glance

- 2024 has been a benign year for loss activity so far
- Despite limited headline losses, attritional losses totalling approximately $540 million remain
- Rate softening is being accelerated by competitive pressures acting on insurers
- Double-digit rate reductions are achievable on the big-premium and well-managed business
- Capacity remains healthy, with no withdrawals and a $50 million injection
- Best placements are oversubscribed
- Midstream and liquefied natural gas (LNG) risks attract the most capacity, but insurers are making moves to challenge existing markets in the downstream sector

Figure 1:

The downstream energy underwriting environment, November 2024



Reductions are now common across the portfolio

Source: WTW

Insurers are in the green after a profitable year with benign loss activity

With the 2023 loss record experiencing some further deterioration, it now hovers on the edge of being unprofitable for downstream insurers. In an ordinary year in the insurance cycle, this should result in insurers holding or even slightly increasing rating levels. However, 2024 was far from an ordinary year.

While there were some attritional losses, as would be expected, the absence of major headline losses in 2024 has resulted in it being a historically benign year for loss activity. A total of c.$540 million of losses has been recorded in our database in 2024 so far[1], and even considering the impact of a recent fire-related loss in Greece at potentially $500-600 million, which does not feature in our database yet, losses are still unlikely to overturn the downward pricing trend.

Figure 2:

Downstream losses in excess of $20 million, 2024

Type	Cause	Country	PD $	BI $	Total $
Petrochemical	Fire no explosion	USA	45,000,000	140,700,000	185,700,000
Petrochemical	Windstorm	USA	41,000,000	50,000,000	91,000,000
Chemical	Flood	Germany	15,000,000	35,000,000	50,000,000
Tank farm/terminal	Fire no explosion	Thailand	30,000,000	5,000,000	35,000,000
Chemical	Unknown	USA	22,000,000	—	22,000,000

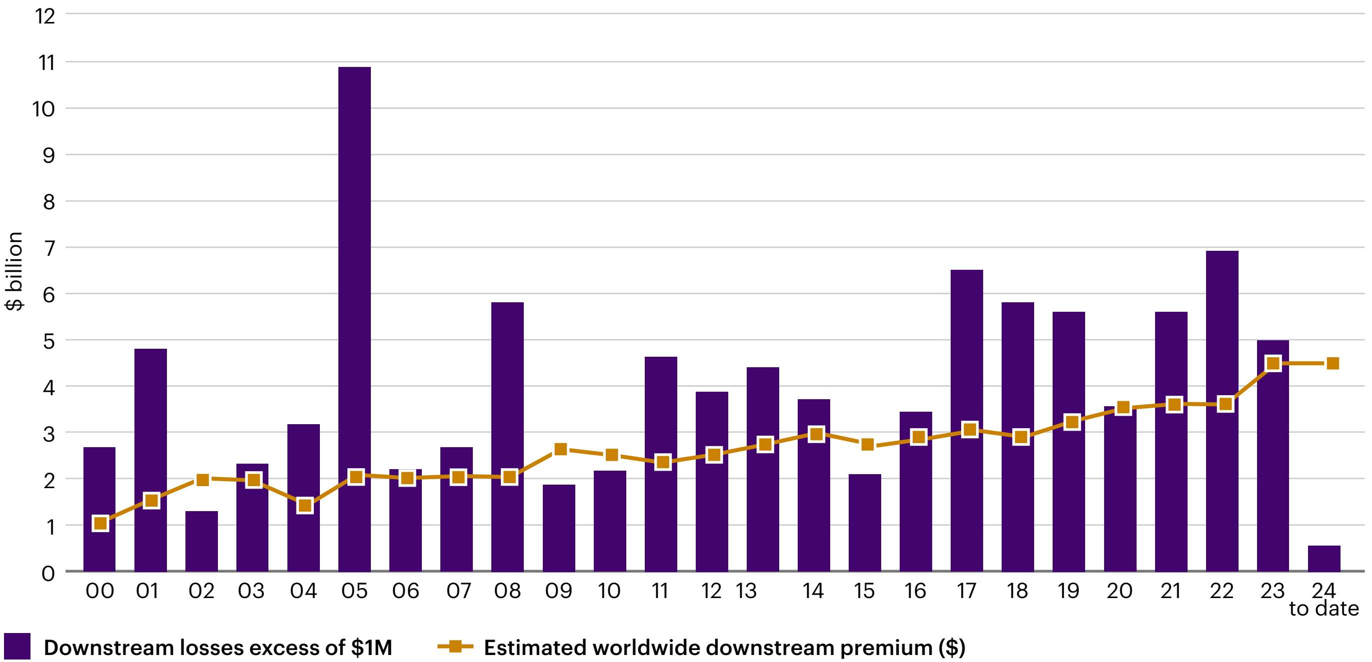
Source: WTW Energy Loss Database as of October 4th, 2024 (figures include both insured and uninsured losses)

[1] WTW Energy Loss Database

Figure 3:

It's been a profitable year

WELD downstream losses 2000 — 2024 (excess of $1m) versus estimated global downstream premium income



2024 looks to be the most profitable year since 2000

Source: WTW/WTW Energy Loss Database as of October 4th, 2024 (figures include both insured and uninsured losses)

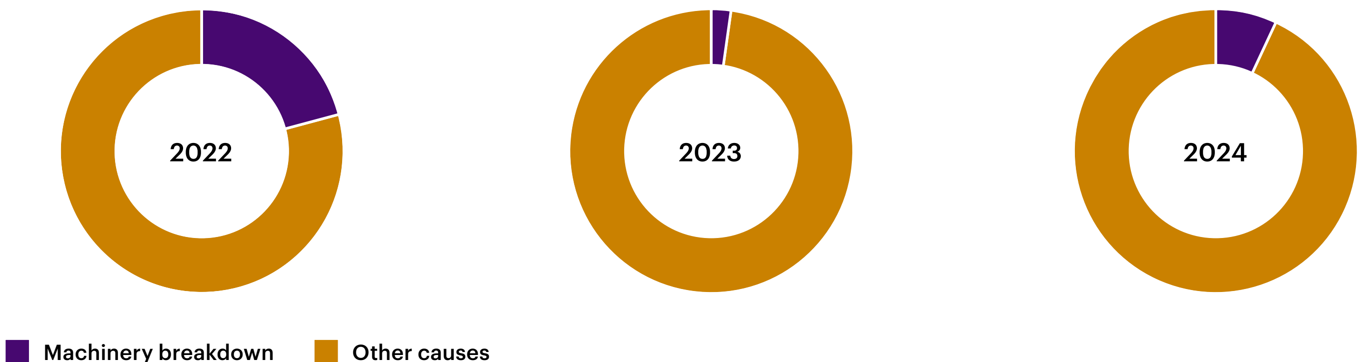
It's been a profitable year. After years of hardening market conditions, the loss figures pale against the $4-4.5 billion of premium income[2]. This profitability achieved in 2024 — only the fifth year of profitability since the year 2000 — will be a key driver in accelerating the softening market for the year ahead.

Without severe natural catastrophe (nat cat) losses, the market softening has further accelerated and now extends across most geographies — including those which are particularly prone to nat cat losses.

Figure 4:

A trend to watch: Machinery breakdown losses have settled back to pre-COVID-19 levels with reduced occurrence and severity

The high occurrence of machinery breakdown losses has returned to normal levels



Source: WTW/WTW Energy Loss Database as at October 4th, 2024

[2] Proprietary WTW information

The softening market gathers momentum

Markets are looking to the close of the year, where ambitious growth targets are looming. Meeting growth targets has been challenging across the board for insurance markets, and competitive pressures are starting to take hold as many markets look at the gap left to close before the year ends.

Capacity is healthy in the downstream markets. No market players have withdrawn, and we expect insurers to increase their capacity in 2025 buoyed by their recent profits. This expected uptick in working capacity is pushing the needle and supply is beginning to outweigh demand, adding another dimension of pressure to competitive forces driving the softening market.

Challengers are waiting in the wings. In a market that has maintained discipline over the last few years, we now see insurers competing for position and challenge existing lead markets, especially on midstream programs which have performed well historically.

Local markets are stepping up and challenging London capacity on international placements. But the same is true in reverse. While the Middle East and Asia remain competitive enough to apply pressure to London markets, London markets are stepping up and bidding for share.

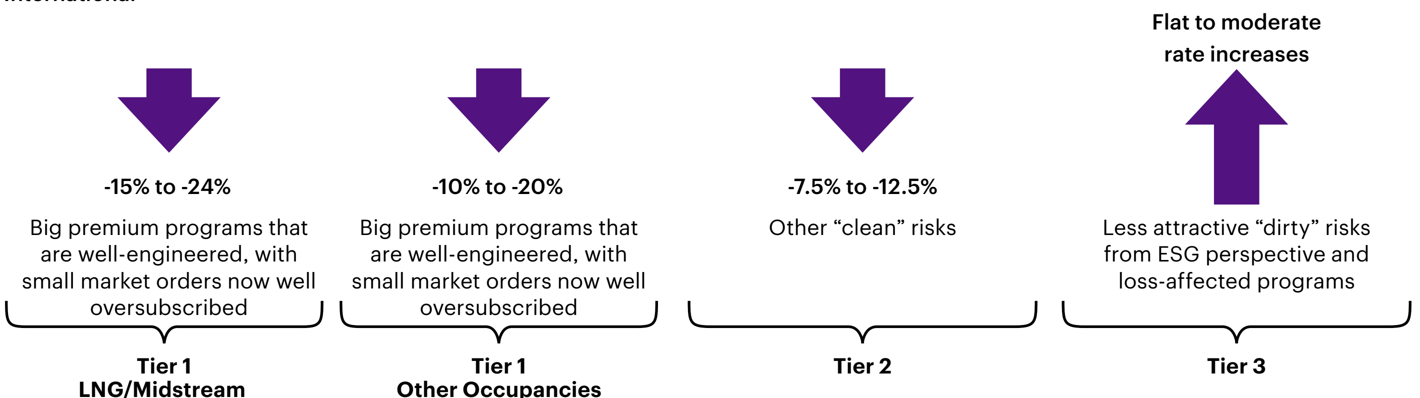
> **Ambitious growth targets are likely to extend into 2025 and, against a backdrop of capacity beginning to outweigh demand, insurers will be pursuing targeted business in the year ahead, putting pressure on incumbent insurers to sharpen their pencils.**
>
> Kieran McVeigh, GB Head of Downstream Energy Broking, Natural Resources Global Line of Business, WTW.

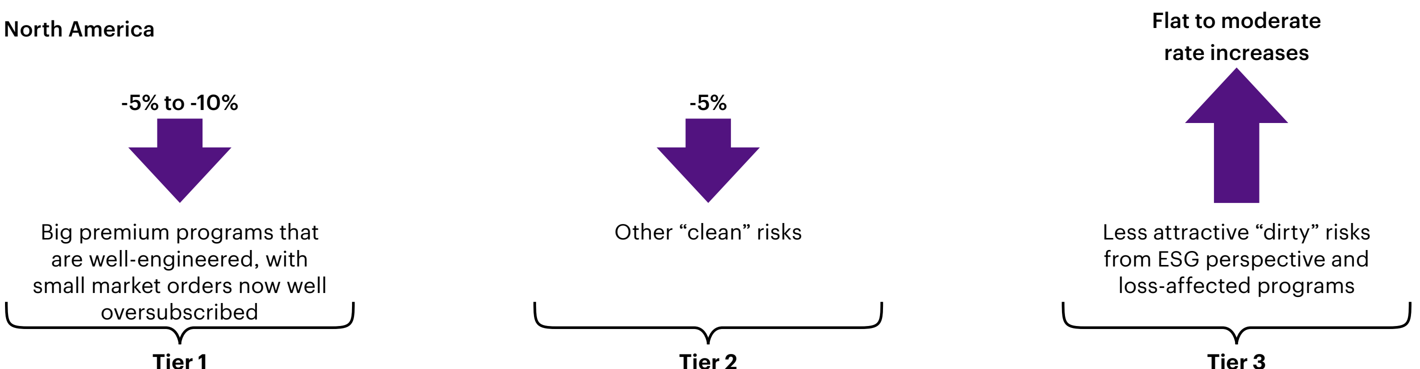
Downstream market ratings are pointing in one direction

Earlier this year, market discipline remained steady and markets were not yet starting to compete so aggressively that they undercut each other. Six months on, competitive pressures are starting to act to drive a drop in rating.

Figure 6:

Current downstream market rating movements, November 2024





High single-digit and low double-digit reductions are on the horizon. Downstream energy companies that come to the market with an international placement featuring good local market or captive participation, accurate and evidenced engineering, up-to-date valuations, and a clean loss record, will be best positioned to secure the best possible rate reductions.

> **Downstream companies that show a thoughtful balance between the risks they retain and the risks that they transfer to the insurance markets are likely to have more scope for negotiation.**
>
> Andrew Brunero, Global Head of Downstream Energy Broking, WTW.

Ratings are always the first to change, but some insurers are exploring how terms and conditions can boost their proposition. One market player is already making moves to offer bigger limits and lower deductibles, but how many others will share this strategy remains to be seen and deductibles are likely to remain stable for months to come.

Looking ahead: Softening is here to stay

Downstream operators' focus on robust process safety management has been successful in reducing forced outages and further boosting risk quality. A hiring drive into the sector has helped to stabilize the workforce and keep facilities running well. These improvements in operations will deliver a long-term benefit to both clients and insurers with less issues culminating in machinery breakdown and business interruption losses, which will help the market sustain the softening rating environment for longer.

Heading toward 2025, we are seeing a steady and meaningful softening. But merger and acquisition (M&A) activity could rock the boat. A clear focus on security of supply, asset portfolio balancing and diversification contributed to the surge in M&A activity across the oil and gas sector in 2023 and early 2024. With many major companies set to grow and diversify their asset portfolio, other market players may be preparing to follow a similar path, especially in the well-regarded midstream sector.

For the insurance markets, consolidation could lead to a reduction in the available premium pool as the larger size of consolidated entities will drive risk retention strategies. Against a backdrop of ambitious growth targets and falling rates, insurance markets will be watching these trends closely over the coming years, but it is unlikely to overturn the softening conditions in the immediate future.

In the year ahead, long-term agreements (LTAs) are making a tentative resurgence. Insurers could lean on LTAs to secure their position on key accounts, lock in rating levels and stabilize their book, but client uptake thus far has been negligible. Underwriters will need to provide greater incentives for clients if LTAs are to make a meaningful resurgence.

While rating levels are coming under pressure from market forces, risk quality will be here to stay, and evidencing superior risk controls will be a determining factor of whether companies get a 5% or 20% reduction.

Make strides in a softening market. Contact our specialists to find out how a triad of risk engineering, analytics and broking can make a meaningful difference to what you can achieve in the year ahead.

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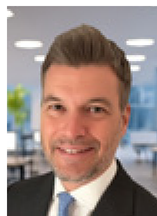

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Liabilities: Smooth sailing, but hazards on the horizon

With the biggest concerns for liability insurers in 2025 having direct impacts on the market, three key actions will be fundamental to prepare for renewals.

Standing on the bridge of the good ship Casualty, do conditions look set for a smooth passage through the forthcoming renewal season? This is certainly the case for international insureds, but for clients with U.S.-domiciled and U.S.-exposed risks, the waters remain somewhat choppy.

Casualty remains profitable

With positive underwriting results, and a return to underwriting discipline, casualty has experienced two years of profitability and stabilization in headline capacity.

Lloyds of London's H1 results, released on 5 September 2024, show that casualty continued to yield an underwriting profit. This recent period of profitability follows seven years of consistent losses. Efforts in remediation of the casualty book and a firming of the rating environment over the past three years have proved successful.

Lloyds' definition of casualty includes directors and officers, financial lines, cyber and accident & health as well as liability. The general recent trend of improved profitability within the liability sector alongside other lines within the class are reflected in the casualty class at large.

Figure 1:

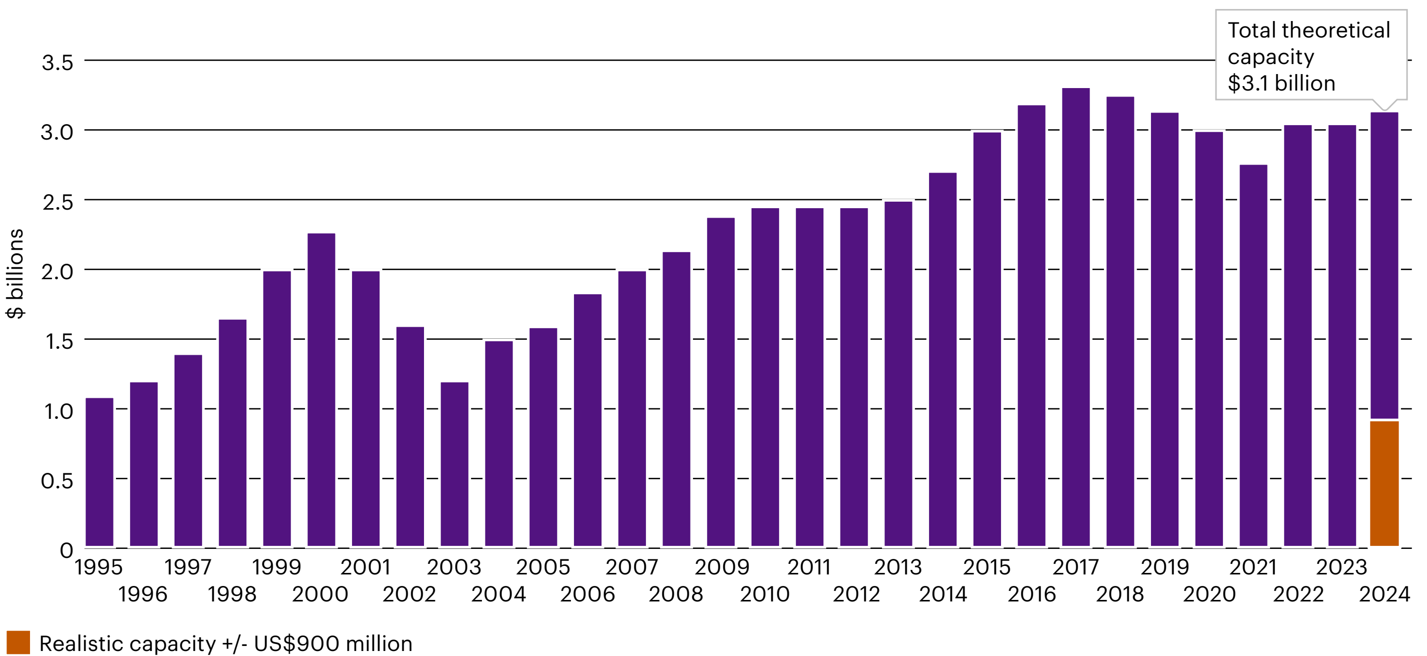
Lloyds' results for the casualty sector:

Casualty	Gross written premium £M	Net Earned premiums £M	Net incurred claims £M	Net operating expenses £M	Underwriting result £M
Six months ended 30 June 2023	6,530	4,309	(2,138)	(1,767)	404
Six months ended 30 June 2024	6,531	4,822	(2,448)	(1,885)	489

Source: Lloyd's of London

Figure 2:

Global liability capacity



Realistic capacity +/- US$900 million

Source: WTW

Capacity: Surface calm belies the strong undercurrents

Global capacity remains notionally stable at $3.1 billion. This represents the aggregate headline/published capacity of all liability insurers. The total realistic capacity — the aggregate of actual capacity that insurers tend to make available in practice for any given risk — remains at approximately $900 million.

This apparent stasis belies important underlying change.

A number of the major insurers have significantly reduced their maximum lines from $100 million to $75 million or less, driven by:

a. concerns regarding over exposure to major catastrophe casualty claims, most particularly from the U.S. and/or
b. reductions in treaty purchase.

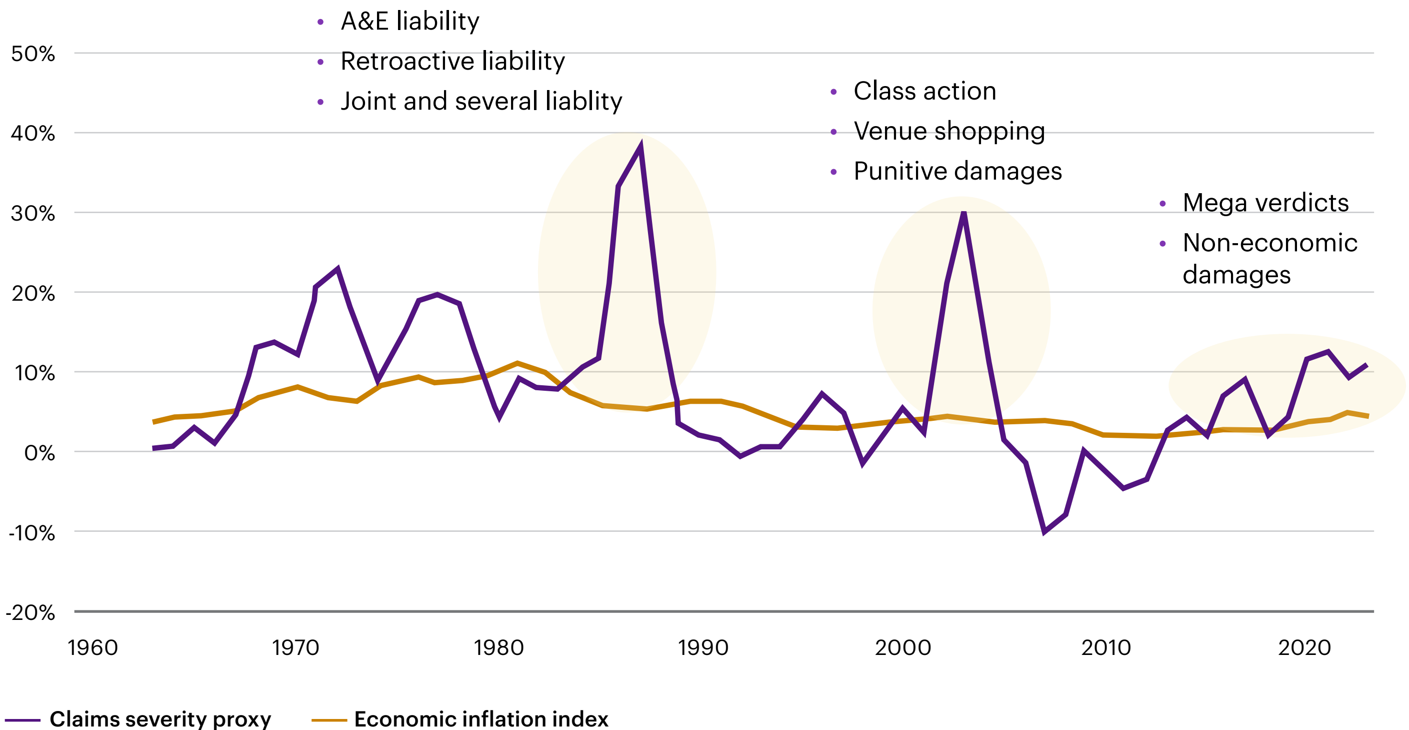
In the pure international market arena, this capacity reduction has been counteracted by the advance of newer insurers. These newer entrants who have elected to enter the energy liability arena, have an increase in line size by some existing insurers and the emergence/increased maturity of certain liability managing general agents (MGAs).

> **The net result has been a relatively stable top-line capacity, but with increased competition, driven by increased choice. Good news indeed for international insurance buyers.**
>
> Mike Newsom Davis, Global Head of Liability, Natural Resources Global Line of Business, WTW.

But this is not the case for U.S.-exposed international accounts. Much of the capacity contraction by major insurers has been driven by deteriorating loss ratios from U.S. casualty business, and/or claims from U.S. exposures written within their international account. As a result, insureds with U.S. operations are struggling to maintain their existing limits and, in many cases, are electing to increase their captive or self-insured retentions to fill gaps.

Figure 3:

U.S. claims severity proxy and economic inflation



Source: S&P Capital IQ. Swiss Re Institute

Note: A&E refers to Asbestos and Environmental Claims severity proxy on a calendar year basis.

There could be trouble ahead: The biggest concerns for casualty insurers

Social inflation and claims reserving adequacy are currently the biggest concerns for casualty insurers.

Social inflation continues to impact loss ratios and reserving concerns

While economic inflation has eased globally, moderating the cost of reinstating property losses, social inflationary pressures continue to drive increases in liability awards.

According to the Swiss Re Institute Sigma report No 4/2024, Litigation costs have driven up U.S. liability claims by over 57% in the past decade.

While this trend is most prevalent in the U.S., Canada, Australia, the United Kingdom, Germany and Japan are all seeing notable increases in claims severity, primarily driven by social inflation.

Casualty insurers have been bolstering their reserves, particularly for the period 2015 — 2019 where low rates and deteriorating loss ratios had caused concern.

Figure 4:

Liability claims: Claims severity vs social inflation impact, CAGR, local currency

Country	Claims severity growth 2012-2022	of which, social inflation	Claims severity growth 2017-2022	of which, social inflation
United States	5.9%	3.4ppt	7.9%	4.2ppt
Canada	n.a.	n.a.	9.9%	6.7ppt
United Kingdom	2.6%	0.2ppt	8.0%	4.5ppt
Australia	3.3%	0.9ppt	7.0%	4.1ppt
Germany	3.6%	1.7ppt	4.5%	1.7%
Japan	3.9%	3.1ppt	4.4%	3.6ppt

Note: Claims severity is imputed based on claims growth and estimated frequency trend. CAGR refers to Compound Annual Growth Rate.

Source: S&P Capital IQ. Swiss Re Institue

U.S. casualty insurers have most markedly strengthened their balance sheets although action among the European/international-focused insurers has been more muted.

Lloyds increased its casualty reserves by 8.5% for the period 2019 — 2022 but there is continuing concern regarding deterioration in more recent years. Current rates, even after several years of readjustment, may not be sufficient to counterbalance continuing social inflation trends.

The average casualty claim value has increased
Loss frequency has been relatively low, but some larger claims are having an impact.

The energy casualty market has recently experienced a number of specific examples of claims deterioration, particularly in Latin America and the United States where initial claims demands of $100m – 200m have risen to close to or above $1 billion. This, and the average increase in casualty claims awards generally, has led to a reappraisal of rating and line size on the higher excess layers of programs that were previously considered lower risk.

Are underwriters caught between a rock and a hard place?

Increased competition in the local regional markets and increased choice in London/European market have acted as a downward pressure on rates, moderating the previous harder market conditions. This is challenging international casualty insurers.

Underwriters are also under pressure to meet income growth targets, albeit, becoming more realistic since the hard market conditions and high inflation rates have abated.

One underwriter observed that it was “springtime” for retail/local markets, with an abundance of newer/rejuvenated capacity while the London/European markets were more measured, having weathered harsher conditions.

Underwriters are having to balance premium income demands with a desire for profitability in a more competitive marketplace. This is leading to an even greater focus on risk selection and breadth of coverage.

International rates: A three-speed market

The net result is that international energy accounts are able to leverage retail markets for small limits, while the most competitive London/European insurers are achieving rates that are flat, or in some cases, small reductions.

International insureds requiring more substantial limits and the support of a greater proportion of the market are experiencing on average, low single digit increases.

As a result of increasing U.S. casualty losses, those international insureds with U.S. exposures are starting to experience a bifurcated rating process. Insurers are looking to apply double digit rates to the U.S.-exposed elements, and low single digit rates to the non-U.S.-exposed elements.

The overall news for international insureds is positive, with rates moderating from prior year, but with some capacity availability concerns and more market rate increases for U.S. exposed risks.

A spotlight on U.S. casualty

Oilfield services vs. everything else: The tale of two markets

While the primary liability marketplace (workers compensation, general liability and auto liability) continues to find itself in a relatively stable pricing and capacity position overall across many of the natural resources sectors, oilfield services (OFS) remains challenged.

Certain domestic insurance carriers are beginning to refuse to insure OFS and other industry accounts with heavy fleets and are pulling back lead umbrella capacity to $5 million in some cases. Accounts with losses in the auto book with large fleets are also seeing limit reductions and/or very large increases in premiums from lead umbrellas.

Domestic lead umbrella markets are beginning to be very selective with their participation. Rates are trending upward for accounts with losses (or multiple losses) as carriers struggle against pressures from facultative reinsurance, profitability and sustainability of product offering.

> **It is vital that companies highlight driver hiring criteria, fleet safety programs, motor vehicle reports (MVR) frequency and telematics/cameras in vehicles in order to differentiate their risks and alleviate market concerns from a very severe line of business.**
>
> Blake Koen, Managing Director, Natural Resources Global Line of Business, WTW.

For upstream, domestic capacity has not decreased and London capacity has increased year-over-year. While markets may continue to look for increased rates at around 5% to combat claims inflation, availability of capacity and overall portfolio profitability in this sector is likely to keep any larger increases at bay for profitable accounts.

For midstream and downstream, lead umbrella marketplace will likely continue to seek low double-digit (sub 15%) rate increases, while capacity above $25 million will be seeking something in the single-digit range. Capacity is slightly increasing with a few new potential entrants, but at the same time, some excess and surplus domestic capacity may be slowly lost.

Coverage concerns endure

Increasing litigation around products liability, personal injury and environmental liability has led insurers to tighten up on certain aspects of policy coverage.

Claims from exposure to “forever chemicals” most notably per-and poly-fluoroalkyl substances (PFAS) is leading to an increasingly widespread exclusion unless insureds can evidence that they have no exposure or have mitigated previous exposures. Most commonly, this relates to the potential replacement of PFAS containing fire fighting foam with non-PFAS varieties. Ironically, the reduction in environmental liability exposure is accompanied by a potential reduction in efficacy of the replacement foam — a case of out of the (liability) frying pan, and into the (property) fire.

Climate liability exclusions are also becoming increasingly commonly imposed. This is illustrated by the JL London Umbrella form JL2022-016, which includes exclusions in respect of both PFAS and climate change.

A nascent coverage trend is the increased focus on the definition of mental anguish. This is in response to out-of-control claims in the U.S. where friends, relations and acquaintances of an injured party have joined in damages actions, citing indirect mental anguish, which can multiply the quantum of a claim. As a result, many insurers are seeking to link mental anguish to physical damage/bodily injury, rather than to a broader personal injury definition.

Prepare for renewals with three key actions

1. **Avoid unnecessary premium loading**

   With insurers differentiating between international and U.S. exposures, it is important for energy companies to identify and evidence their territorial risk split. This can be achieved by revenue (with percentage of exports to the U.S. and percentage of U.S.-domiciled activities versus total) and also throughput/nameplate capacities. Some international insurers have applied caps on the amount of U.S. exposure per risk (commonly 30% or 50%) and many will increasingly load U.S. exposures and favour international exposures. The correct information helps to navigate this process and minimize unnecessary premium loading.

2. **Address environmental, social and governance issues to achieve the best renewal results**

   Energy security and rate adequacy have somewhat eclipsed the ESG debate of late, but ESG remains a key consideration for energy insurers.

   Insurers are selective in how they deploy their capacity. Coal-, fracking- and arctic drilling-exposed insureds have already experienced serious capacity constriction.

   Many insurers have however achieved a greater degree of autonomy in how they judge and underwrite a risk from an ESG perspective, and have the discretion to positively discriminate and support coal or hydrocarbon risks with a credible transition plan.

   Insureds should continue to focus on presenting a well-articulated ESG strategy evidencing milestones, transition achievements, their renewable energy mix and product circularity initiatives, to achieve the best renewal results.

3. **Analytics will be critical to avoid underinsurance**

   Counterintuitively, average limits of indemnity are reducing, while exposures are increasing. Chubb's 2024 Liability Limit Benchmark Report shows that the median liability limit for oil and gas has reduced by 37% in real terms since 2014, while for chemicals, the reduction is even greater at 50%. This is a function of capacity availability and cost, not exposure. With increases in social inflation and average awards sizes, many limits are now running well behind recommended indemnity levels. Small insurance premium cost variances become somewhat academic when faced with a claim of several hundred million dollars.

   Benchmarking and risk analyses can help to validate and inform the recommended level of indemnity, and your broker can advise on a strategy to optimize the available limit.

Contact our specialists to find out how your organization can build a smarter way to risk.

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This update analyses our observations of the current global market conditions for energy 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.

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