London Matters 2020: a global analysis of key trends in the insurance market

July 2020

In May 2020, the London Market Group published an updated *London Matters Report*, which tracks the developments in the market from the previous reports in 2014 and 2017, drawing comparisons and uncovering emerging trends. The *London Matters Report 2020* considers the London insurance market globally and domestically, and focuses on developments between 2015 and 2018 in Lloyd’s and company market business. The data and analysis reflect the circumstances of this period and do not, therefore, include any impact on the market and its clients caused by the COVID-19 pandemic.

We consider the findings, looking at the predictions for global trends in claims and underwriting as well as initiatives designed to make London more attractive to insureds and reinsureds. Trends include the growth in capacity worldwide affecting the direct insurance being placed into London. However, this growth is counterbalanced by local business placed with carriers’ local offices and protectionist trade policies in several countries.

This latest report indicates that the London Market remains the leading global (re)insurance hub. London Market expansion demonstrates London’s continuing position at the forefront of the global insurance market. Globally, we are seeing continued growth across certain product classes, most notably property, casualty and financial lines (P&C lines).

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London position and activity

The 2020 report indicates that the London Market remains the leading global (re)insurance hub despite faster growth in Bermuda and Singapore. Predictions that its significance would diminish as business gravitated to regional centres has not been borne out. The gap between London (US$110 billion) and the total written premium in Bermuda (US$51 billion), Switzerland (US$25 billion) and Singapore (US$11 billion) combined has widened from US$16 billion in 2015 to US$23 billion in 2018.

London's share of the global commercial (re)insurance market has remained steady overall at 7.6% since 2010. Whilst its commercial insurance share increased by 0.1%, the London Market's share of global reinsurance fell by 1.7% since 2010. The decline in reinsurance business share is driven by several factors, including local business staying local, the impediments caused by structural challenges faced within Lloyd's, protectionist trade policies in several countries, the cost of capital, limitation on packaging insurance programmes and a lack of regulatory support in London for the growth of alternative capital.

The updated report shows that between 2010 and 2018, the global specialty market has decreased in size by 10%. Despite this contraction and the pricing/profitability challenges, the London Market has grown its share in the period. Much of this increase has been in aviation and marine, which have shown a 12% and 5% growth, respectively.

The key area of growth in the London Market has been the P&C business, with an increase of 8.1% in the three years up to 2018. This is because some types of complex risk in financial lines, (e.g. high limit and high excess D&O, E&O and cyber that match London expertise) have become harder to place in Europe and the US, where they do not have the multiple specialty providers that London has to offer. London has the specialist expertise to provide risk-transfer in difficult markets where local capacity has been constricted. This is especially true in transport, construction, commercial residential and medical malpractice.

The London Market's income from North America (the US and Canada) increased by 6% between 2010 and 2018, making it the largest source of premium. The growth is being driven by the strong performance of the economy and by growth in the tech sector and weather-related catastrophe.

> North America was also the fastest growing region for London during this period, with the most rapid increase in income growth taking place post-2015. The growth is largely from strong performance in the US Excess and Surplus sector. Overall, the source of premium income (gross written premium by insured location) in 2018 was North America (36%), UK/Ireland (32%), Europe (14%), Asia (7%), Other Americas (6%), Australasia (4%), Africa (1%).

London has continued to underperform in emerging markets in Asia and Africa. This is, in part, due to that fact that insurance buyers prefer to buy locally. Also, growth in many of these markets is still being pushed by mainstream commercial insurance business, such as local package business and commercial auto, which is less specialised and can be covered by local retail markets. However, emerging markets are increasingly seeking cover for more complex risks. In times this should provide London with opportunities.

Delegated Authority (DA) makes a substantial and important contribution to London's performance, accounting for more than 27% of London Market premium in 2018. While DA's contribution has grown in absolute terms, its share of London Market premium has fallen by 3.5% since 2016.

In September 2018, as part of the London Market's modernisation plans, the Delegated Authority Submission Access Transformation Solution (DA SATS) was rolled out. DA SATS is a market-wide platform providing a central service that standardises the collection, validation, processing and supply of delegated authority data across the market. DA SATS changes the way bordereaux are shared and processed in the London Market by delivering standardised bordereaux data to all market participants, thereby transforming and modernising coverholder management and strengthening this key global distribution channel.

Carriers are increasingly operating in both Lloyd's and the company market. In 2018, 67% had a dual platform which was up from 35% in 2010. This gives capital providers greater flexibility as to where they write their risk and provides customers with greater choice.

The London Market recognises that more work needs to be done to enhance its claims service to make it more transparent and efficient for clients and brokers. Current London Market and Lloyd's initiatives include streamlining agreement and automating processing and instant payments, loss prevention advice, one-touch notifications and real-time loss assessments.

The London Market remains a significant contributor to the UK economy with a £37 billion GDP contribution, which has increased by 21% since 2015. The City accounts for 23% of GDP in 2018. The London Market is also a major UK employer, employing 47,000 people across the UK. This figure fell from 52,000 in 2015. This is largely a result of the consolidation that took place in the sector over this period. Further reductions in staff have been made as companies adopted new technology and outsourced back-office functions, which improved efficiency and productivity at the expense of some jobs.

> “The source of London Market's capital is increasingly global, with 85% of London Market premium now written by companies domiciled outside the UK.”

The source of London Market's capital is increasingly global, with 85% of London Market premium now written by companies domiciled outside the UK. Between 2010 and 2018, there was an increase in the amount of capital invested from all regions outside the UK, with the one exception of Bermuda.

London has an ageing workforce. Despite a drive to attract a younger and more diverse workforce, the proportion of those over 50 has now increased from 16% (in 2014) to 26%. The proportion of workers in their 30s also shrank from 34% (in 2014) to 29%. This raises concerns that the London Market is lacking this pipeline of younger talent to take over from those who will be retiring in the near to medium term. A lot of recruitment is still based on relationships and connections rather than wider searches for talent.

The London Market has fewer employees with digital and analytics skills compared to other sectors and much more needs to be done to train and recruit individuals with these skillsets. Brexit will add an additional limitation on the London Market's ability to attract European talent in this area.

When looking at gender diversity, the London Market has improved slightly, with the female proportion of its workforce increasing from 44% in 2014 to 45% in 2018, ahead of the UK average of 42%. However, only 25% of top earners in the London Market are female, 17% below the UK average of 42%.

The development of PPL and other market-wide technological initiatives have moved on considerably since the previous study (and have been thoroughly tested during the COVID-19 pandemic). The contraction in the marine market in particular has assisted those strong enough to have survived to enjoy the hardening market written on more restrictive terms. As such, face-to-face meetings will not be replaced but the further drive for tech solutions is not going away.

Contacts: Fleur Rochester, Dana Abdo and Christopher Dunn

Aviation

After many years of it being a soft market, the 2019 (and into 2020) has seen the aviation market starting to harden and an increase in rates for airlines. This has coincided with significant changes in the aviation broking community including mergers between the aviation arm of JLT and Arthur J Gallagher, and Willis and Aon. We have also seen several new entrants into aviation including McGill and Partners, Piiq and SLL Endeavour.

Contact: Simon Balls

Property and casualty trends

Climate change-related losses

While it is still too soon to estimate the insured losses (property damage, business interruption, denial of access etc.) from the deadly bush fires that raged throughout Australia causing untold devastation, loss of life and destruction of wildlife to an area five times the size of Wales, it is estimated that 2019-2020 bushfire season may rival the costliest in Australia’s history in terms of insured loss.

As we foreshadowed, it now seems generally accepted that climate change is behind the increase in the frequency and intensity of weather-related disasters, bringing significant losses and challenges for insurers.

The 2019-2020 bushfires are the third major natural disasters to afflict Australia in recent years after the hailstorm in Sydney in 2018 (£685 million) and floods in the northern town of Townsville (£630 million). Europe was also affected by extreme weather events: 'biblical' storms caused major damage in France, Greece and Italy with Venice suffering its biggest flood in 50 years. In England, Yorkshire and the Humber, East Midlands, West Midlands and parts of the South East England were affected by severe flooding.

It is estimated that hurricanes, wildfires and floods cost the world US$150 billion in 2019 and future losses for business and the economy are only expected to increase.

Civil unrest

Civil and more violent and destructive disturbances have continued to rise in frequency, with few corners of the world spared significant protests. While Hong Kong and the Black Lives Matter protests in the US and London have dominated recent headlines, Russia, Serbia, Ukraine, Spain, France, Hong Kong, Lebanon, Iraq and Albania have all seen major demonstrations.

South America too has been badly affected with our overseas offices seeing increased claims from Brazil, Peru, Ecuador, Chile, Colombia and Venezuela, all of whom have experienced popular unrest. In Chile, government officials estimate arson, looting and property destruction in five weeks caused US$3 billion in property damage.

Whilst the protests all have different triggers, a common theme is socio economic issues - stagnating wages, social inequality - affecting risk.

Contacts: William Brown, Tom Stapleton and Mike Wells

Global markets

US trends

Climate change risk in the US

Climate change-related litigation continues to rise on a global level. Over three quarters of the world's climate-change litigation is filed in the US. Other countries with significant filings include Australia, the United Kingdom, New Zealand, and Canada, as well as the European Union (as a whole).

The claims filed in the US can take one of several different forms, including alleged violations of federal statutes, state and common laws, as well as constitutional claims. These cases are being brought by individuals, environmental groups, states, and local governments, among others.

Companies that are more readily identified as being in an industry with environmental concerns (such as fossil-fuel companies) are predominately the targets of climate change litigation in the US.

With respect to insurers, those that write directors and officers (D&O) and general liability (GL) policies are most likely to be impacted by US climate change litigation.

There are two main potential areas of concern with regard to D&O risks associated with climate change and the environment. First, a company could be the subject of civil or regulatory investigations based on the representations it makes to the public about, for example, its emissions or other policies impacting the environment.

Second, and just as potentially concerning, are the wave of "public nuisance" climate change class action lawsuits being filed by states, counties and cities in the US that could lead to significant legal expenses and, depending on the circumstances, substantial settlements or verdicts.

While these types of "public nuisance" theory cases have historically not been successful in the US, there has been an increased prevalence of public nuisance cases filed in state courts, which are commonly viewed as having lower pleading standards. Further, the plaintiffs' bar has had some recent success in pursuing lead-paint manufacturers in California (resulting in a US$305 million settlement) and opioid manufacturers, distributors, and pharmacies in various jurisdictions under this same legal theory.

Advancements in the scientific understanding of climate change is allowing claimants to more easily attribute the environmental impact to a given company's actions and quantify the resulting damage. These types of lawsuits could potentially impact GL policies to the extent there are allegations of bodily injury or property damage to third parties. In addition, while the focus of such cases has not historically been on D&O responsibilities, any statement a company or its D&Os makes about the company's position on climate change that is viewed as being untruthful could play a role in whether future litigation is filed against a company's D&Os.

Contact: Christopher Carroll and Eric Scheiner

Sexual abuse and opioid litigation

Over the past several years, courts throughout the United States have experienced a flood of litigation relating to opioid addiction and sexual abuse claims.

In regards to opioids, nearly every state in the US and hundreds of other local governmental entities

have filed lawsuits against manufacturers and wholesale and retail distributors of opioids, as well as against local pharmacies, to recoup various significant expenses that they have spent to combat the opioid epidemic that has led to deaths of thousands of Americans.

In addition, individual drug abusers and their children born with drug addictions have sued for personal injuries relating to Big Pharma's alleged misbranding and misleading advertising about the addictive nature of opioids.

At around the same time and in response to the #MeToo movement, almost all US states introduced legislation and/or enacted laws amending statutes of limitation to allow their citizens to file sexual abuse lawsuits, even for claims dating back decades.

As a result, many thousands of new sexual abuse lawsuits were filed in courts throughout the country, implicating nearly all aspects of daily life, but most infamously educational institutions, religious institutions, and the entertainment industry (including production companies, sports leagues, and sports facilities, among others).

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Together, opioid and sexual abuse claims have significantly impacted some of the US' largest industries and, therefore, some of its most-at-risk entities, who tend to have high excess casualty programs that often incorporate policies issued out of the London Market. We have already seen London-based insurers become significantly involved in these claims, both in North American coverage disputes as well as in foreign and domestic arbitrations.

As these at-risk policyholders (i.e. pharmaceutical companies, American colleges/universities, youth groups and organisations, amateur and professional sports leagues/conferences, etc.) realise their new potential liabilities, we suspect that they have been seeking and will continue to seek even higher, more luxurious insurance programs to protect themselves from these new risk trends.

Further, we suspect that while US-based insurers have been willing to issue policies to these policyholders, they may be less willing now to offer coverage without certain specific (opioid or sexual abuse) exclusions and only subject to lower limits of liability.

The London Market's unique way of dividing risk amongst numerous different insurance entities offers these major industries and their key players a chance to obtain casualty coverage for these new claims, therefore continuing to expand the breadth of these claims into the London Market.

Contacts: Christopher Carroll and Meg Catalano

Financial lines and D&O class actions

Between 2015 and 2018, US securities class action filings remained at record levels. The total number of filings in 2018 was the second-highest on record after 2017. The likelihood that US exchange-listed companies were subject to filings also continues to increase, from 4.3% in 2015 to 8.4% in 2018. Approximately one in 22 companies listed on the NYSE or Nasdaq was the subject of a non-M&A securities class action in 2018.

US securities litigation against companies with large market capitalizations has grown to record levels, resulting in higher amounts of market capitalization losses in dispute and larger settlement values.

> Significant securities class action and derivative settlements during the 2015-2018 period include: Petroleo Brasileiro SA (US$2.95 billion, 2018); Household International (US$1.575 billion, 2016); Merck & Co. (US$1.062 billion, 2016); JPMorgan Chase & Co. (US$505 million, 2015); Wells Fargo & Co. (US$480 million for securities class action, 2018; US$320 million settlement for derivative action recently granted final approval).

We continue to see significant regulatory settlements with financial institutions, as a result of more regulatory powers and increased scrutiny in the wake of the 2008 global financial crisis. For example: Citigroup, JPMorgan Chase, Barclays, RBS, UBS, and Bank of America paid US$5.6 billion in 2015 to settle government allegations that they rigged foreign exchange markets; Deustche Bank paid US$7.2 billion in 2016 to resolve government investigations concerning pre-crisis mortgage activities, and it paid US$2.5 billion in 2015 to settle charges that it manipulated global interest rate benchmarks; Wells Fargo recently agreed to pay US$3 billion monetary penalty to resolve criminal and civil investigations into its sales practices and allegedly false records.

Contacts: John Blancett and Maurice Pesso

Marine

We expect climate change related risks to be more important to the marine industry, as concerns about icebergs, hurricanes and earthquakes become of increasing concern with climate change. Some may even consider parametric insurance with respect to potential losses, such as delays due to ice in a port. Certain insureds will be particularly interested in knowing that they obtained cover that provided quick payouts of claims.

As with most industries, cyber cover will also be on the rise as hackers become even more sophisticated. This cover will be needed by operators of nearly all sizes.

'Mega ships' also provide new opportunities for creative thinking when underwriting risks. Insurers may need to consider how to diversify the risks they underwrite, or one unfortunate incident could result in a crippling loss.

Yachts, especially megayachts, are a growth area in the US. Despite the downturn in the economy, large yachts are still selling well, both new and used. Insurers who provider cover in the US Southeast, need to be particularly cognizant of tropical storms, which seems to be come earlier and earlier each year.

Contact: Forrest Booth and Pamela Schultz

Bermuda

The Bermuda insurance and reinsurance market continues to go from strength to strength and is well positioned to take advantage of hardening market conditions.

Recent years have seen new entrants, increased diversification and new and expanding product lines with the life reinsurance sector and cyber coverages being notable areas of growth. As a result of high operating costs in Bermuda and work permit restrictions, the use of technology and other working practices to manage dependency on location-specific personnel has long been a priority for Bermuda (re)insurers.

When the reinsurer, Convex, established itself in Bermuda in 2019 (with US$1.8 billion of capital) it highlighted its intention to put technology at the forefront of its business. These practices put Bermuda in good stead when it came to navigating COVID-19 restrictions and the market barely missed a beat through the 1 July renewals.

Although appetites may shift in light of recent catastrophes and uncertain COVID-19 exposures, in 2019 some Bermuda insurers began looking to underwrite at lower attachments, including in professional and financial lines where the London Market has seen a dramatic reduction in primary and low excess capacity. More recently, there has been speculation that technological innovations may enable Bermuda insurers to accommodate new product lines and to underwrite risks with higher expected claims frequency.

The captive and self-insurance sector in Bermuda has endured a long soft market during which low cost commercial insurance was increasingly attractive to insurance buyers. However, that sector is expected to grow in the hard market and is being increasingly utilised to provide risk management solutions for emerging sectors such as a cannabis and crypto.

Bermuda is, however, exposed to external threats. Brexit is not considered to be a material issue for Bermuda which had already been accorded regulatory equivalence by the EU. New EU-driven “economic substance” laws are also a minor issue for Bermuda’s “bricks and mortar” (re)insurers and brokers. A global initiative to harmonise minimum rates of corporate tax may present a greater threat but the impact is unclear at this time and the Bermuda market distinguishes itself irrespective of any tax advantages by its vast capacity, wide choice of products, diverse range of security, expertise, specialist service providers and a single regulator who understands the needs of the market better than any other regulator. No other country has insurance at the centre of its economy and society as Bermuda does.

As always, there is significant claims activity albeit with an emphasis on severity rather than volume. Reinsurers have responded to a number of weather-related events and insurers have seen particular activity in relation to claims arising from opioids and other prescription drugs, chemicals and pesticides.

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Although Bermuda insurers are dealing with COVID-related business interruption claims at the direct level, much higher exposure could come at the reinsurance level if insured losses for small and medium sized businesses accumulate in light of pending court cases in the United States, UK and elsewhere. Traditionally the Bermuda reinsurance market has been very dispute shy, trading on its reputation for paying claims, but that may change if losses become capital, as opposed to earnings, events.

Contact: Mark Chudleigh

Singapore

P&C lines

In the Singapore and Asia Pacific region, similarly to London, we expect to see an increase in professional negligence claims, particularly those stemming from COVID-19. For example, claims against insurers and brokers are likely to surge in an attempt by insureds to gain as much coverage as possible under their policies.

Additionally, professions such as lawyers and accountants may also face challenges for their conduct of their client’s affairs in relation to advice around eligibility for government aid. Increased contact with government departments to lodge aid applications is also likely to draw more focus onto the professional services provided.

> “ We expect there to be an uptick in the number of cyber claims as the world moves into “remote” environments. ”

We expect there to be an uptick in the number of cyber claims as the world moves into “remote” environments. If the decision in *Lloyd v Google* is followed in Singapore, this may also open the door to claims arising from simply a “loss of control” of personal data – and an actual loss may not be required. As people continue to work and learn from home, companies will need to ensure that their data remains secure, and control is maintained.

Another issue likely to fall for consideration is aggregation in property claims. This will be particularly relevant in the event that businesses continually open, close and then re-open. The retention payable and the relevant policy limit will no doubt be the cause of significant debate between insureds and insurers, as each seeks to limit their own liability on every occasion.

Contacts: Julian Wallace and Pippa Austin

Miami - a hub for Latin America and the Caribbean

Finally, Lloyd’s has embraced that Miami serves as a hub to Latin America and the Caribbean. In September 2019 Daniel Revilla, Head of Latin America and the Caribbean announced the opening of a new office in Miami to support and grow the Latin American and Caribbean markets. Latin America is a key market for Lloyd’s, with premium close to US$1.5 billion. Revilla will continue to lead the Lloyd’s team across the region from the new office. In the region Lloyd’s currently has offices in Brazil, Colombia and Mexico, in addition to the newly established Miami hub.

With the hardening of rates and emphasis on profitability and cutting costs, a few Lloyd’s Syndicates have either closed their Miami offices or significantly reduced them, re-approaching the region from their London and/or Madrid or Barcelona offices. However other carriers continue to deploy resources in Miami that continues to be regarded as the capital of Latin America.

The number of TPA’s has increased in Miami, led by executives who used to be in the syndicates that left Miami and who are now obtaining capacity both from London based market but also from other markets such as traditional US carriers and perhaps not surprisingly Chinese owned carriers, who have now achieved exposure to the region due to Lloyd´s retreat.

Contact: Alex Guillamont

The next three years

The results of the next London Matters report will, of course, be significantly influenced by the global impact of COVID-19. The applicability of business interruption cover will likely dominate the headlines over the coming years as the threat of future pandemics remains. No one yet knows how the aviation industry recover and what it will look like when it does.

The financial disparities which many believe have fuelled much of the civil unrest protests in recent years are being exacerbated by the economic downturn brought about by COVID-19, which has the potential to create a real powder keg of volatility, even ignoring the political unrest being experienced in countries such as Hong Kong.

At a time where concerted, coordinated international action is required to combat global disruptors such as COVID-19 and climate change, we are faced with the additional challenge of extreme political figures and increasingly bitter trade wars. The London Market will be tested once again as it seeks to respond to progressively turbulent times over the next three years.

Further information

To find out more about our services and expertise, and key contacts, go to: **kennedyslaw.com**

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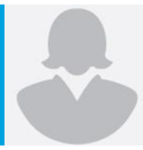
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