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State of the Market: A Focus on Energy

This summer's news of extended production cuts by Saudi Arabia and Russia, as well as an attack on key Russian oil export hubs by Ukraine and ongoing sanctions against Russia, has kept oil prices high. Combined with a growing backlash against green energy and overall losses within the sector tied to costs of energy transition, it's not surprising that U.S. pricing trends continue to push upward. Social inflation and the rise in claims across the sector have also resulted in a heightened level of underwriting scrutiny and the ongoing need for adequate valuations.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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Downstream – Record Losses Continue to Adversely Impact the Market

In 2022, rate hardening for the downstream energy sector had slowed and begun to show signs of retreat. Unfortunately, the trend did not continue and 2022 finished as one of the largest loss years of the decade, with an estimated annual gross loss of more than $7 billion. Premiums collected in 2022 were approximately $3.4 billion.

Attritional losses also increased as a result of higher mechanical losses from higher utilization rates, while extensive outages caused by supply chain issues and higher business interruption exposure resulted in shock losses across the U.S. In Texas, severe convective storm events resulted in losses of more than $180 million. A major fire in a natural gas plant in Oklahoma resulted in a loss of nearly $1 billion. And a steam turbine loss in California came in at an estimated $130 million.

Inflation and supply chain issues continue to impact the industry, with loss settlements reported at above value for both physical damage and business interruption. Most insureds are facing rate increase of 5 to 10%, combined with continued pressure to increase values depending on timing of past valuations. Rates for business interruption, especially for insureds in the sector that have reported record or above average earnings, are also increasing while coverage is tightening with limitations being put on monthly caps and periods of indemnity.

Premium increases for non-loss/non-cat accounts are running from 7.5% to 12.5%, while loss affected accounts are seeing increases of at least 10% to 30%, combined with coverage and deductible changes.

Nearly all insurers have renewed their reinsurance treaties to date. Natural catastrophe reinsurance saw the most change this year, with reported increases in retentions and rate increases of 30% to 60%. This severe change in the amount and cost of capacity adds to the overall cost of premiums and insurers continue to pass along these costs and reduce natural catastrophe limits.

In addition to changes in natural catastrophe coverage for exposed accounts, insurers are implementing:

- Increases to minimum waiting periods
- Decreases of monthly caps to 105% of monthly reported values
- Average daily value limits to help control power market volatility
- Indemnity period reductions from 18 or 20 months to 12 months

Overall, record losses in the sector continue to push underwriters to take a cautious approach to line size, require accurate asset values and focus on loss control measures.

Mid-Stream – Social Inflation and Rise in Claims Impact Rates

Every sector of the energy market is being impacted by social inflation, with claims costs and verdict awards increasing exponentially. The median jury award from 2010-2019 was $24.6 million.

For mid-stream energy however, the biggest impact to the market has been the uptick in claims – most coming from liquid pipe incidents. A recent pipe run release claim came in at $35 million while a case against an insured for an explosion resulting in a fatality will likely be settled for close to $100 million. As a result, we are seeing most master service agreements (MSAs) include requirements for subcontractors to carry higher amounts of coverage.

The lead excess space is also facing many challenges. Transportation markets continue to push for higher primary limits, but with a large frequency in auto claims, some carriers have stopped offering excess coverage over the auto liability.

Capacity remains available, with new entrants looking to make a splash in the sector. However, this additional capacity has not impacted rates favorably. Accounts with no losses are seeing increases of at least 10% while insureds with minimal claims exposure are facing increases of up to 20%.

Despite rising costs and news reports to the contrary, we continue to see insureds grow their payroll and build their fleets. We expect M&A activity will continue to impact the sector for the next 12 to 24 months as organizations looking to expand find it easier to join forces rather than obtain permits to build new pipeline and face strict environmental, social and governance (ESG) lending requirements.

Upstream – Prepare for Increased Underwriting Scrutiny

There has been a slow progression of rate increases in the upstream sector over the past several years. With a few significant claims in 2023, we will be watching for a possible ripple effect across the market as rates may begin to rise at a steadier pace. And while it's still too early to tell what the next six to 12 months hold, underwriters have begun to talk about narrowing coverage and moving away from bespoke wordings – both potential signs of a hard market.

Insureds are facing intense underwriting scrutiny overall, with underwriters looking for integrated loss prevention measures and increasing their use of modeling to establish limits. Quotes that used to come in days can now take weeks and are often accompanied by multiple requests for information, site visits and adequate valuations.

With no recent major departures from the upstream market, capacity is still available with some carriers looking to grow their upstream business. At the same time, we continue to see new MGAs enter the casualty space.

Professional Lines – D&O and Cyber Face Competitive Markets

In general, the energy sector faces the same challenges as other industries when it comes to professional lines coverage. However, after a tough few years, both the cyber and D&O markets have stabilized due to additional capacity.

For most in the energy sector, D&O rate trends are favorable and capacity is readily available. While the energy sector isn't seeing as many new players as other classes of business, there is plenty of capacity and companies with proven financial strength that continue to perform well are seeing more aggressive pricing. For insureds that are highly debt leveraged, coverage remains but may be harder to place as underwriters focus on financial strength and claims along with the industry focus (downstream, renewables, upstream, etc.)

In the cyber space, we continue to see flat and declining rates for insureds with robust privacy and security protocols, including full MFA, secure and frequent back-up systems, and ongoing employee education. However, carriers are expanding limitations to address increased scrutiny of pixel tracking software and expanding exclusions to include events that can be classified as digital warfare.

London

Inflation remains a concern and is impacting the market in multiple ways. The cost to repair or replace items has only increased, making claims more expensive to pay across all classes, and the rise in aberration verdicts (awards of more than $10 million) is impacting casualty rates. Increased reinsurance costs across the industry also continue to squeeze underwriting margins.

With this in mind, most first party upstream accounts are seeing rate increases in the single digits with higher exposure accounts receiving increases that are slightly greater. The casualty market continues to broadly see rates approximately 10% higher, while downstream rates are still rising but averaging anywhere from 5% to 15%. For accounts with a clean loss record, good risk engineering standards and low natural catastrophe exposure, more favorable renewal terms can be negotiated.

London capacity remains stable and isn't expected to fluctuate greatly in coming months although we expect to see modest expansion as new players enter the market. Conversely, we have begun to see market leaders walk away from individual accounts where risk management standards have slipped or have not been maintained at a respectable level and, as a result of treaty restrictions, there is less natural catastrophe capacity available than there was 12 months ago. Gulf of Mexico wind capacity has also shrunk.

PFAS, or forever chemicals, and climate change exclusions have become the norm within the London casualty market over the past 12 months. Underwriters are also now including an Excluded Territories Clause (Russia, Ukraine and Belarus).

ESG, however, has not had a measurable impact on the market to date. While many companies have voiced their commitment to reducing carbon emissions and are intent to serve as stewards of the environment, there has not been a major shift away from the use of oil and gas. Until there is, we don't expect ESG to affect market outcomes greatly.

Overall, the market continues to recover from the tightening we saw four years ago.

Takeaway

In today's market, insureds are looking for a partner. They need a retail broker that can take a technical approach and play an active role in their loss control program. Amwins can help.

In February 2023, **Amwins completed the acquisition of Roberts Armytage & Partners**, a niche specialist in upstream energy and marine Lloyd's broker. This partnership enables us to provide broader capabilities, enhanced market relationships and streamlined services to our clients.

With more than 25 energy specialists, our team works with you to deliver the most cost-efficient risk transfer programs to insureds. We understand that appropriate valuations, detailed loss mitigation, supply chain detail and up-to-date business interruption values are key to achieving the best results.

Reach out to your local Amwins broker today or look for representatives from the Amwins Houston and London offices who will be present at the **Houston Marine & Energy Insurance Conference** from September 24-26, 2023.

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