Willis Towers Watson

The global mining insurance market:

Towards a turning of the tide?

The London market perspective

Commenting on conditions in the mining insurance market is somewhat akin to the playing of a scratched record on an old gramophone belonging to your grandmother: a repeated mantra, year on year, of increased capacity, more competition, reduced rates and dwindling premium income streams. In last year's edition of the Review we highlighted the main reasons for the continual excess supply of capital which has plagued the (re)insurance markets for some time now and while there is certainly no let-up in this excess supply we do at least sense that things may be beginning to change, at least in some areas of the mining portfolio.

A large number of parallels can be drawn between the mining and insurance industries at present. They have both experienced a prolonged downturn, with margins disappearing and oversupply persisting. Some consolidation has occurred and they have either neared or seen the bottom of the cycle. While the mining industry is ahead of the insurance industry in terms of pricing recovery, we see that trend emerging in the insurance market for miners as well in the second half of 2017.

Selected mining industry losses, 2015 - 17

Quarter	Year	Territory	Cause	Estimated Quantum (US$)
Q4	2015	Brazil	Tailings dam failure	open
Q1	2016	South Africa	U/g fire	100m
Q1	2017	Australia	Cyclone Debbie	125m
Q1	2017	Australia	Long Wall Collapse (Queensland)	50m
Q1	2017	Australia	Fire in Iron Ore Processing Plant (WA)	30m
Q1	2017	Australia	Flood	27m
Q1	2017	Peru	Conveyor failure	15m

Source: Willis Towers Watson

Please also note there was an underground flood with fatalities earlier this year in Chile - no information on quantum is available as yet.

STOP PRESS: Gulf of Mexico hurricanes

As this Review went to press, the (re)insurance market was beginning to assess the impact of hurricane Harvey, while hurricane Irma was crossing the Caribbean.

Clearly the potential loss to the global (re)insurance markets will be significant, although the full effects on the mining insurance market may not be able to be measured until the next reinsurance treaty renewal season at January 1 2018.

North American mining: still competitive

Let's start with the area of the portfolio that still remains relatively competitive – the North American mining book. The loss record for this sector has improved significantly in recent years and so competition remains robust. In particular, the entry to the market of Sompo Canopius has provided a significant leadership alternative within the Lloyd's market; this insurer can write either on a primary or quota share basis and furthermore has the benefit of offering an engineering service. Moreover, the Blenheim syndicate has hired two underwriters from the Cathedral syndicate which has also boosted Lloyd's profile in this sector.

We are therefore finding that the softening process has shown little signs of abating in this sector; miners and their brokers still have plenty of choice between opting for a Lloyd's based programme featuring layered placements and a more straightforward quota share programme featuring the major global carriers such as Swiss Re, Munich Re, AIG, SCOR, FM, Allianz and Zurich. Indeed, the London insurers that are prepared to follow the global carrier lead and offer terms on this basis are the ones that are most likely to thrive in this competitive environment.

As ever, risk quality and the prospect of fresh premium income are the key drivers in generating the most competitive terms from the market.

Casualty developments

For North American business, the market continues in the same direction that it has for the last half decade, showing no great movement in capacity or conditions. However, certain pockets are showing signs of ingenuity and expansion as capacity continues to increase. At the same time the market continues to deal with attritional losses – these have had a particular impact on the fresh underwriting capacity. These insurers have been seen to be underwriting to establish market share, and the timing of these losses into the market has brought havoc to some.

For International, i.e. non – North American business, more capacity is the order of the day as well. Indeed, this has been the most prolonged period of expansion since the mid-1980s when a capacity crisis prompted the development of the Bermuda Excess Casualty market. But as well as new capacity and a wider choice of leaders, we have also seen some notable withdrawals from this sector, including Axis in London, Marketform (i.e. Neon) and Novae. Furthermore many carriers have sought to cut staff, offshore their back office operations and create cost saving synergies by merger and acquisition, thereby reducing their liability premium reserves.

Premium income thin on the ground

Mining remains a popular area of focus for London market insurers, with few withdrawals from the sector in recent years. However, the over-supply of capital continues to depress overall premium income levels. Given that mining is but one element of the overall general property/heavy industry portfolio, it is not easy to ascertain exactly how much premium from mining programmes is still finding its way into the London insurance market; however, there seems little doubt that the spate of losses in 2014-15 in particular has done much to throw the declining premium income for this sector into sharp relief.

But is a market turnaround on the horizon?

The mining portfolio from North America may be as competitive as ever; however, in recent months we have seen a change in market atmosphere as a result of more business coming to London from South Africa and Australia.

We understand that in the last year or so there have been several hot works claims from these countries. As a result, some of the less robust primary markets in these countries have been significantly impacted, which in turn has led them to begin to turn away those programmes that have been affected. And as a further result, brokers have had little option but to approach London insurers to secure the required capacity to complete their renewal.

Given that rates in the general Property insurance markets have been softening ever since hurricane Katrina in 2005 (with mining rates starting to fall a few years later), this development is probably the first time in several years that London insurers have felt that they can hold out for more favourable terms than they or the buyers might have initially imagined. This in turn is giving them the confidence they need to press for improved terms from their perspective, secure in the knowledge that they represent the insurers of last resort. For the first time in many years, they have found that they did not need to chase the market down; instead, they have been able to press for improved terms and indeed have secured firm orders on this basis.

Time to consider long term deals?

Given this unusual (and indeed unanticipated) development, we are perhaps now seeing a possible turning of the tide in the London market. So now might be an appropriate time for certain buyers and sellers to consider a suitably robust three-year non-cancellable programme. The upside for the buyer is securing a budgeted three-year insurance spend which would protect the company from any upturn in the insurance market; the upside for the seller would be guaranteed premium income at a time when, regardless of the recent developments outlined above, the market needs to generate additional income to keep this class sustainable.

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The United States market perspective

A pricing recovery later in 2017?

In the Unites States, Property insures have seen double digit rate decreases piled on top of reduced exposures for many years. However, in 2017 we have seen many markets begin to stand their ground, with low single digit rate decreases being the norm and some finally choosing to walk away from business rather than acquiesce to further reductions. Legacy clients with good loss records and proactive loss control efforts continue to obtain preferential terms. While the flattening trend is growing, there is still plentiful capacity, allowing miners to choose a lower priced program at the expense of conventional insurers and long term relationships, if so desired.

Massive Primary Casualty rate hikes for Appalachian coal

Primary Casualty markets are an interesting case in the US. Auto rates are escalating as that class continues to suffer from heavy loss activity across all industries, partially driven by the proliferation of the smart phone. Workers Compensation in general has levelled out, though some areas continue to see massive rate hikes, namely federal black lung rates for underground coal miners where in Appalachia we have seen Federal rates increase by 167% and 125% the past two years respectively, with the five year cumulative increase averaging 285% (Source: NCCI).

More casualty insurers active in mining segment

However, we see more casualty insurers active in the mining segment than we have in many years. Starr continues to add experience to their team, many from AIG, and Liberty as well has begun ramping up their mining expertise. Rather than opportunistic rate hunting due to a soft market, we see a concerted effort by insurers to hire and train the right teams that will be in a position to support the US mining industry for some time. Other than a few like Zurich and Chubb, the Liability mining

underwriting community in the US has been rather transient over the past few years, allowing companies to obtain seasoned teams in a relatively short timeframe. However as rates move upward, insurers' fortitude to sustain mining losses and continue underwriting will have to be tested.

Environmental market still limited

From an environmental standpoint the market is still very limited since AIG left this sector, with Ironshore and Zurich being the only key markets. Coverage for tailings dams is still the biggest challenge, where markets have instituted sub-limits, leading to layered programs to achieve required limits, inevitably driving prices upwards. However, there has been some interest from new carriers though, notably Channel 2015 (supported by Scor Re) in Lloyds, where creative approaches have gained some favor and we have been successful in structuring two recent new programs for mining companies.

Surety remains competitive

Broadly, North American surety remains competitive, with new entrants quarterly. Performance by the product line of a combined ratio in the lower 70 percentile attracts capital resulting in markets returning (such as XL Caitlin), markets entering (such as Euler Hermes and Sirius), reinsurance markets growing their primary writings (such as Swiss Re) and – not surprisingly – underwriting talent moving as competition for senior teams intensifies.

Specific to mining, underwriting terms and conditions are favorable to our clients as the appetite for remediation and reclamation bonds is at an unprecedented level. The surety markets have witnessed the US coal industry reorganize its financials without bearing a loss to the markets which has caused a response of them increasing their overall capacity to the product. Rates and collateral requirements continue to relax as commodity prices improve. Expectations are that the current federal administration will cause a favorable effect on the mining and extraction industries, further improving conditions for our clients. Barring an economic event, the near-term future is brighter for the space than experienced the past several years.

The Canadian market perspective

Property – still a buyer's market

The oversupply of capacity in the Canadian property market continues to support a buyer's market; insurers are supporting single digit rate decreases for buyers with good loss history and solid preventative maintenance programs. Insurers' focus continues to be on risk management, loss prevention and engineering; insureds that can differentiate themselves from their peers in these areas will receive preferred rates.

There have been some changes in market appetite, especially given the recent mergers and acquisitions in this sector, as insurers review their portfolio to determine fit and limits. Meanwhile there has been some market restructuring at AIG and Zurich, and internal operational changes at these insurers could impact capacity and coverage in the future.

In general terms the recent loss record has been benign for the last 12 months or so, although the portfolio continues to be impacted by the significant losses incurred during the past 3 years and 2016 also saw several hot-work claims impact the market. Tailings dam exposures remain a focus, with specialist mining insurers requiring detailed information, while risks with high Natural Catastrophe or marginal risk management standards will continue to prove to be more difficult to place.

As mentioned in the London market perspective, increasingly Canadian clients are opting for 2-year Long Term Agreements (i.e 24-month policies), reinforcing the view that the market softening may be beginning to bottom out.

Casualty – additional excess market capacity but basically flat

From a casualty perspective, Zurich has been reducing capacity from C$30m to C$15m on larger mining accounts, although they are still comfortable in deploying these limits on a primary and umbrella structure. Other key liability markets that are providing the "buffer" layer and comfortable in playing down low include AIG, Allianz, XL Catlin and Ironshore.

Meanwhile breach of tailings facilities and foreign employers' liability are continuous concerns for Canadian carriers, with additional requests for underwriting information on inspection process and protocols – design of TMFs are now required to underwrite the risk properly.

We have also seen some renewed interest and additional Excess Liability market support from the likes of Berkshire Hathaway, Liberty, AIG, Temple and Ironshore. However, Lloyd's syndicates continue to dominate the Excess Liability sector by offering larger capacity and more competitive pricing.

For the best risks, Primary GL and Umbrella programmes are seeing flat to minimal premium increases, while High Excess Liability markets are maintaining flat premiums. Rate reductions can still be achieved, but this will likely involve a full remarketing exercise and replacing the incumbent insurers.

The Australian Market Perspective

Mining insurance programmes in Australia continue to require the participation of key mining insurance markets if the risk profile features natural catastrophe exposures or where large underground policy limits are required.

Diminishing rate reductions

Consistent with our 2016 viewpoint, we can report that rate reductions have continued to diminish in the second quarter of 2017. However, competition continues for those risks that demonstrate a commitment to ongoing loss control and risk management; this commitment allows insurers to either review or maintain their level of participation at favourable terms. As part of the request for risk profiling, significant information around tailings dams' management and design remains a feature of renewal negotiations with the insurance market.

Cyclone Debbie poses CBI aggregate issues

Following Tropical Cyclone Debbie, insurers continue to monitor accumulations arising from natural catastrophe and contingent business interruption exposures.
The improvement in commodity prices has resulted in increases in declared Business Interruption values, particularly as a percentage of overall values. With base rates for Business Interruption being higher than material damage, this is also placing further pressure on the ability to maintain existing pricing.

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Most programmes still placed domestically

Capacity for most programmes continues to be sourced in the local Australian market. Large and complex programmes are led by markets that remain dedicated to the mining sector, such as Swiss Re. The consistent offering of lead capacity is supported in both the local and global markets. Global markets that provide significant capacity include Munich Re and Scor, while mid-tier programmes can be led by competitive local markets, including Zurich, AIG and Vero.

QBE steps away

Berkshire Hathaway Specialty Insurance, Allianz, AXA, Liberty, CGU and CV Starr remain significant supporters of Australian risks. Support from these markets remains dependant on operation type, commodity, and risk profile of each client. FM Global has also been competitive through the back end of 2016 continuing into 2017. However, some incumbent insurers such as QBE have been unable to support ongoing rating and terms of programmes such that their participations have been replaced.

As rating reductions continue to diminish, clients will have to balance long term relationships (and the associated consistency of coverage and capacity) against any further potential savings by selecting new markets to participate on their programmes.

The South African market perspective

The market begins to stabilise

Following a series of mainly general property losses (which have affected profitability), the South African mining market appears to have stabilised, following several years of rate reductions. At this stage it is still possible to negotiate small discounts for quality, well-engineered programmes with good claims experience, whereas stable rates with coverage restrictions are the normal outcomes for lesser quality risks. Interestingly, the market is also currently less eager to provide competitive terms for new business, in contrast to other mining markets around the world.

Emerald involved in hot works losses

Emerald is considered one of the lead South African markets for mining risks and has a deep technical understanding of the sector. They were reportedly the lead market in two large property losses at just under US$100 million, both caused by hot works. Their rates are often higher than other local insurers but they have the capacity, technical expertise and market security to secure the business.

Axxis the new kid on the block

Axxis is a new underwriting manager (MGA) established by two respected mining underwriters, with we understand about US$40m of underground capacity; they use Centriq Insurance Co's licence (a wholly owned subsidiary of SA's largest insurer Santam). It is possible that this new entity may be able to reinvigorate the competitive tension in the market that was lost with the closure of AIG South Africa's Energy & Engineered Risks division in 2016. However, as a new entrant in the market they are not quoting as a lead market for the moment.

Most markets retaining a cautious approach

Larger mining risks have become treaty referrals following Hollard's loss of its two senior sector underwriters, while Old Mutual Insure (formerly Mutual & Federal) remains a potential lead market for mining risks and are able to quote for underground risk which many other markets are reluctant to do. However, their underwriting philosophy does remain conservative on new business, despite the fact that they will aggressively defend existing accounts. Meanwhile other markets are generally adopting a more cautious approach than in the past, following recent large mining losses in South Africa.

Conclusion: is this the turn of the tide?

We have seen that our review of the global Mining insurance markets shows some very differing underwriting trends, largely depending on geography. It is perhaps a little early to suggest that some of the signs of resistance in South Africa and Australia are indicative of an overall market turnaround – particularly when one considers the continued glut of (re) insurance capital and the continuing soft insurance market conditions in North America. However, we should remember that Mining is only a part of an insurer's overall Property or Heavy Industry portfolio, and choosing to deploy capacity away from Mining and towards other areas would for most not be a difficult decision to make. Buyers should therefore be alert to any further changes in market conditions and be prepared to react quickly to ensure optimum terms and conditions continue to be secured.

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