

Global FINEX: FI Observer

# Market realities – global financial institutions (FI) insurance

In this edition of our FI Observer, as we near the end of 2019, we review the global financial institutions (FI) insurance market conditions and look back at our overview from earlier this year (see FI Observer: Disruptive factors in the insurance market). Additionally we offer our thoughts on how best to manage the market in the face of continued disruptive factors.



## North American FI market conditions

*Key takeaway: Decreases are essentially gone, but increases are manageable.*

- Overall competition:** Leading insurers have demonstrated pricing discipline in general. While replacement capacity may not always be available at a more competitive price, it is often prudent to market programs to ensure optimal results, especially if not marketed in the past few years. Some US insurers have reduced or ventilated capacity on individual programs and many are more closely managing their overall capacity across programs. The U.K. and Bermuda markets continue to offer solutions for the right premiums and retentions or attachment, but will pass on thinly priced programs.

- D&O marketplace:** On a relative basis, the FI D&O marketplace is more stable than the overall commercial industries marketplace, which is experiencing severe increases. One driver of this phenomenon is that rate decreases for FIs over the last 10+ years were not as pronounced as in other industries. While more stable than other industries, FI rate increases are no longer limited to the primary. Excess carriers are also pushing to follow underlying increases to avoid deterioration in their increased limit factors (ILFs). ILFs for FIs, however, had not dropped to the same levels as on commercial excess placements (<65%), and the needed correction is not as significant.
- Side-A/DIC D&O:** Even Side-A, which historically has remained very competitive, is now flat. Some carriers are trying to achieve rate increases on lead Side-A and follow underlying ABC increases, but in general, most carriers are supporting flat pricing.
- IPOs:** All public offerings are facing a much tougher marketplace, regardless of industry.
- Retentions:** Insurers are also looking to increase retentions applicable to merger objection claims (M&A claims) for public companies/D&O.
- E&O (professional liability) marketplace:** E&O is a historically challenging line of coverage for most FIs, with carriers wary of claims severity in their portfolios. Today, there is some upward rate pressure, but nothing materially different from prior years.

**Future predictions:** Looking to 2020, we expect primary and excess insurers to continue to be focused on capacity and the profitability of their books, likely with insurers seeking more rate increases than in 2019.



## GB FI market conditions

*Key takeaways: Insurer capacity and how it is deployed on risks, is under pressure and premium increases commonplace.*

- **Overall competition:** Key FI markets in London have continued to proactively reduce and/or manage capacity on 2019 renewals. Insurers are being selective about how they deploy capacity and this has dampened competition for new business, particularly on larger risks. Primary capacity has reduced, and excess layer capacity management is driving pricing upwards; this is more acute for those clients buying large limits. Premium increases have become common on primary layer insurance and excess insurers have been correcting their pricing and often requesting larger percentage increases than the primary.

The volatile environment in Australia for FIs continues, with on-going reduction in local insurer appetite. In fact, we saw Allianz Global Corporate & Speciality withdraw from the local FI market<sup>1</sup>. This has meant more business moving to the London market at increased rates. Insurers are also seeking rate increases on life companies due to a high level of claims.

- **D&O and E&O (professional liability) marketplace:** It is currently difficult to negotiate material policy improvements for no cost as has been possible in previous years. Where insurers will still offer improvements in policy coverage they are likely to require premium uplifts. Some excess insurers are refusing to follow any coverage changes in the primary.
- **Retentions:** Insurers are seeking increased retentions across the board, in some cases to reflect claim and costs inflation.

## Summary

Although we have seen total market capacity remain stable, how insurers are choosing to deploy their capacity has changed. Generally, they are looking to deploy less per risk, whilst maintaining premium income through pricing increases. Across the market there is inconsistent underwriting behaviour. Although some insurers have been acting in a controlled manner, reviewing each risk independently, others are seeking significant increases across their portfolios regardless of risk type and exposure.

**Future predictions:** We expect these conditions to continue throughout 2020.



## Australian FI market conditions

*Key takeaways: Significant price increases and a reduction in capacity continues*

- **Overall competition:** The FI insurance market in Australia has continued to deteriorate since the February 2019 release of Commissioner Hayne's Final Report following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry<sup>2</sup>. In his final report, Hayne made 76 recommendations, of which more than 15 have already been introduced. The Australian Government announced in August it has committed to fast-tracking a further 40 of these new laws, with the plan to have introduced all the legislation necessary to give effect to Hayne's recommendations by the end of 2020<sup>3</sup>.

Following the release of the Final Report, we have seen a number of class actions filed against participants in the financial services sector as a result of Hayne's findings, as well as actions being brought by regulators<sup>4</sup>.

- **D&O and E&O (professional liability) marketplace:** Local insurance market conditions are marked by:
  - Continuing upwards pressure on premiums and risk rates along with policy excesses
  - Insurers managing their capacity and looking to reduce limits offered
  - Tightening of policy conditions and coverage
  - Heightened scrutiny in risk selection.

**Future predictions:** We do not foresee a change in local insurers' appetite in the near future. There's no doubt we will see continued premium and retention increases; the upward trajectory may well, in time, see a number of Australian insurers once again offer further capacity and return as an option for clients, but this is likely to be some time away.

1. <https://www.insurancenews.com.au/breaking-news/allianz-to-exit-australia-and-nz-long-tail-risks>
2. <https://financialservices.royalcommission.gov.au/Pages/default.aspx>
3. <https://www.afr.com/companies/financial-services/josh-frydenberg-fast-tracks-royal-commission-response-20190816-p52hu1>
4. <https://www.investordaily.com.au/regulation/45711-betting-against-the-banks-class-actions-litigation-funders-and-risk>



## The key to a smooth renewal process

- Engage with your broker and insurers early in the placement process:
- Willis Towers Watson encourages face-to-face meetings with your key insurer partners.
  - Your broker should help you anticipate issues and questions and be willing to help you provide additional information to insurers.
  - Consider all potential marketplaces: London, US, Bermuda and local (if applicable).
  - Agree on a robust renewal plan with your broker that caters for problematic insurers. The key here is to have options in order to maintain leverage and make an informed decision on your terms.
- Use analytics and benchmarking to understand what the optimal structure may be based on different scenarios:
  - Be flexible throughout the process and expect your existing programme structures and insurers to potentially change
- Understand the critical coverage points that you would like to include or retain in your policy wording.
- If any material changes to the program are anticipated (limits, retention, coverage), consult with your broker and claims advocate to ensure all claims/notice of circumstances are made appropriately and in good time.

## For further information please contact:

### **Marcus Porter-Wright**

#### **GB Head of FINEX Financial Institutions**

Marcus.Porter-Wright@willistowerswatson.com  
+44 20 3124 7563

### **Alex Muralles**

#### **US Head of FINEX Financial Institutions**

Alex.Muralles@WillisTowersWatson.com  
+1 ( 212 ) 915 7680

### **Theresa Lewin**

#### **FINEX Australia**

Theresa.Lewin@WillisTowersWatson.com  
+613 868 19936

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FPS812 WTW-FINEX-424107/12/19

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