

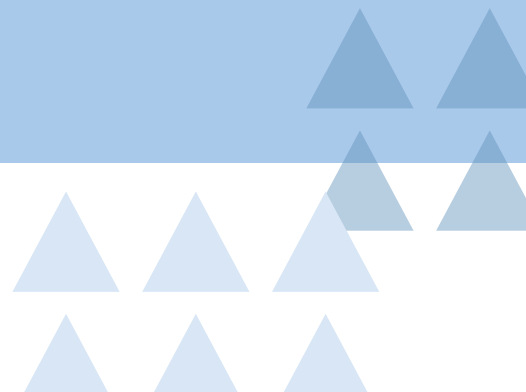


**Gallagher**

Insurance | Risk Management | Consulting

# GLOBAL ENERGY INSURANCE MARKET UPDATE

**June 2022**



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## INTRODUCTION

As the world's economies seek to recover from the pandemic amid an uncertain macroeconomic outlook, and with environmental, social and governance (ESG) considerations becoming ever more influential, the insurance industry continues to enhance its offer for clients in the energy industry. This market update outlines changing market conditions and varied client requirements.

While the overall insurance marketplace has moderated in the first half of 2022, forces such as inflation, property and business interruption value increases, the ongoing Russia/Ukraine conflict, and supply chain disruptions continue to present concerns for underwriters and insureds.

We report on how **upstream** energy clients may see varying rate rises, determined by risk type, with businesses with large-scale assets and good loss records more likely to see some rate reductions. Increased capacity for **midstream** risks means rate rises are relatively low, and we highlight an increase in opportunities around projects such as carbon capture and storage (CCS).

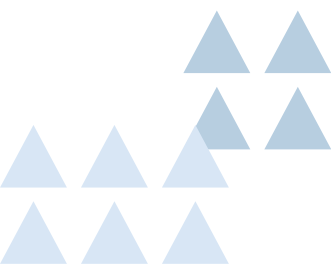
We may be nearing the end of a hard market cycle for **downstream** risks, although underwriters are still focused on natural catastrophe exposures. High and stable capacity is helping limit rate rises, but we are seeing underwriters tighten terms and conditions for some risks, alongside higher rate rises for others, including natural catastrophe exposures.

We also look at both North American and international energy **casualty** risks, concluding that strong capacity and the impact of new entrants are making life easier, less costly and more profitable. However, the effects of inflation and the potential consequences of litigation related to nuclear verdicts may create problems.

Despite significant cumulative loss activity in the **power** sector during 2021, we have seen only modest increases in rates, due in part to wider trends, new capacity and greater competition in the market. We note the impact of the Lloyd's directive on underwriting new coal business and the approaches being taken by some syndicates prepared to work with coal clients that can demonstrate they are working toward an orderly transition to renewable energy.

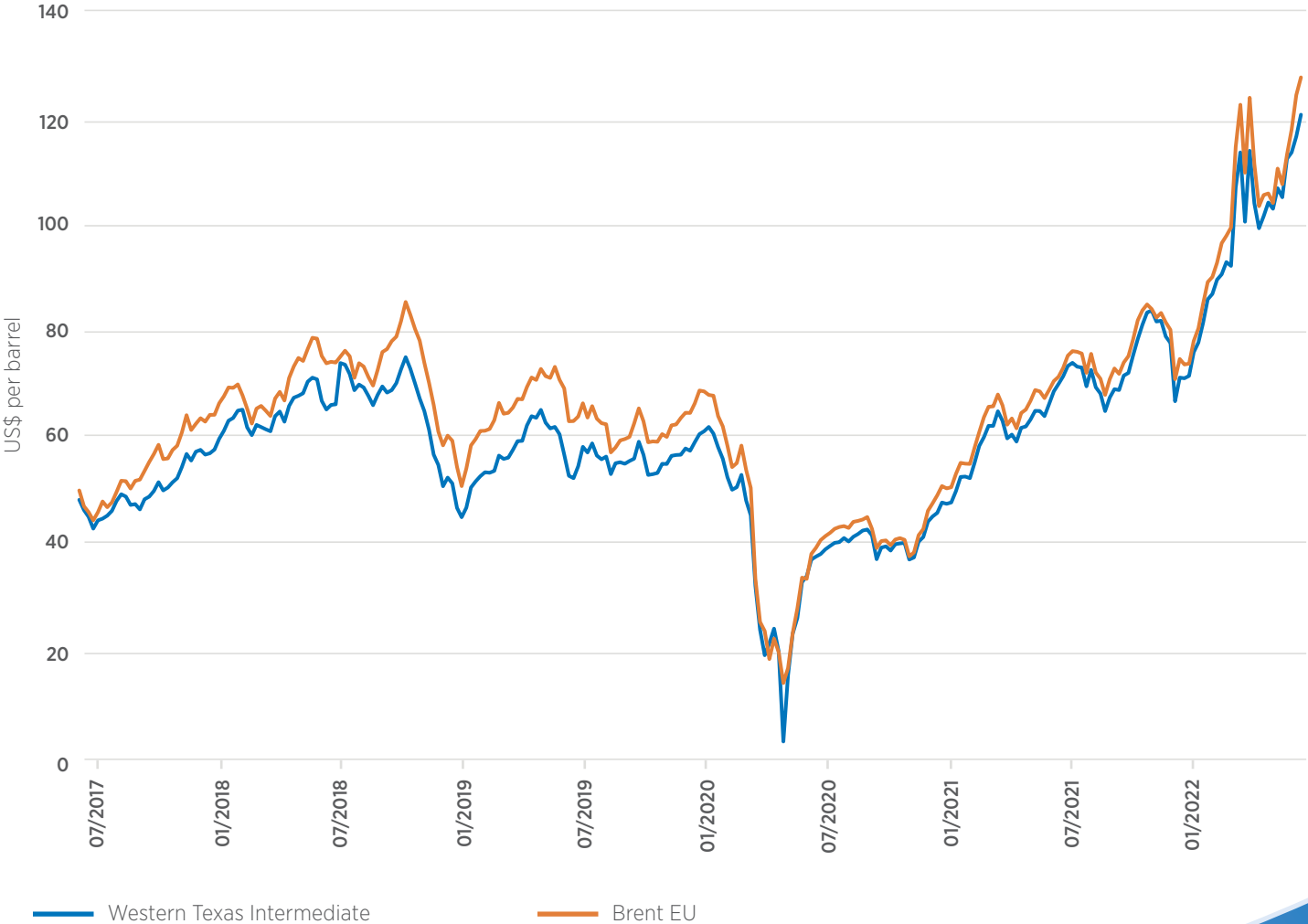
Finally, the **renewable energy** market itself is now more stable and profitable, but we identify trends that will need to be monitored, including the effect of unpredictable global weather patterns on projects in locations with high natural catastrophe exposures, underwriter uncertainty over some new technologies and supply chain disruption. We note that offshore wind should benefit from support provided by the upstream oil and gas market.

Unsurprisingly, **ESG** continues to influence many energy industry clients as they come under increased pressure from investors, policymakers and other stakeholders to mitigate negative environmental impacts. The energy industry is evolving, and our industry will also continue to adapt to support the energy businesses that serve businesses and consumers across the globe.



# WEEKLY OIL PRICES SINCE (JAN. 2017–JUN. 2022)

OIL PRICES—WEEKLY



Source: <https://fred.stlouisfed.org/tags/series?t=oil>

# UPSTREAM

Even during these uncertain times, there are still opportunities to enhance coverage, service and savings while supporting energy industry clients' needs in the upstream sector.

Coming into 2022, rates in the upstream market have remained stable, while we may see an overall rate rise across the whole upstream portfolio. However, as the market has split the portfolio into distinct pools of risk, clients can expect different treatment depending on the type and scale of needed coverage.

Offshore portfolio pricing for large national and international oil companies is either flat or experiencing low single-digit rises, but mldmarket onshore portfolios may see high single-digit to low double-digit increases. Some coverages, such as control of well or loss of production income (LOPI) are being subjected to additional scrutiny; a few risks, including some stand-alone and smaller-scale assets, are attracting some of the highest rate rises.



## ▶ UPSTREAM

### CAPACITY AND PREMIUM

Overall capacity has increased and there is still an abundance of excess capacity available, particularly for businesses with large-scale assets and good loss records. There were some rate reductions in late 2021, which have continued into 2022, particularly where there is intense competition and brokers can remarket placements successfully.

But clients looking to cover smaller-scale assets may face higher minimum premiums, as the market tries to maximize return on capital across the upstream sector. A growing number of underwriters are imposing minimum premium levels on small businesses or introducing artificial rate rises, as capacity is lower for these size of risks.

While a rebound in commodity pricing means energy sector clients are operating in a better economic environment, disruption linked to the COVID-19 pandemic is still a problem, contributing to a cautious attitude toward new investments. But there are also signs that clients will revalue portfolios at higher levels, and that both offshore and onshore activity will increase. As a result, the market is preparing for a stronger year for premium levels—although the potential for losses is encouraging a focus on profit, not income.

### ESG AND ENERGY TRANSITION

Global trends around the transition toward use of low-carbon energy sources, alongside a greater focus on ESG, have seen some clients facing pressure from investors to take more action to mitigate negative environmental impacts.

Both offshore and onshore clients are starting to use CCS in markets across the globe as an alternative to conventional decommissioning, and as a means of generating extra revenue and tax credits (where applicable). Insurers are prepared to cover these exposures, and CCS is likely to become an accepted element within the upstream portfolio.

The Joint Rig Committee has published guidance for underwriters to help them differentiate between clients in relation to ESG. It is only a matter of time before similar issues affect other aspects of the upstream world. Brokers and clients need an understanding of these issues and how they affect business activities and risks

### OFFSHORE CONSTRUCTION

2021 saw further increases in offshore construction and, as barrel prices have increased dramatically, oil companies have given a green light to some projects that had been put on hold. We have seen fierce competition between insurers looking to secure business linked to construction projects with the most attractive characteristics around operator, principal contractor and type of build.

However, overall, the attrition of post-year losses continues to damage the book, so ratings and retentions are both increasing marginally. We are also seeing a shift to only accepting a minimum rate online for any construction risk.

# MIDSTREAM

Many midstream risks related to processing and transport sites or infrastructure can be placed with insurers in both the upstream and downstream sectors — the exceptions are a few particularly hazardous or complex business interruption risks.

The upstream market continues to harden whilst the downstream market is beginning to level off. An increase in year-on-year available capacity means that rate rises for most midstream risks have stayed low since the last quarter of 2021. Upstream, downstream and domestic markets are all quoting high single-digit to low double-digit rises, with pricing in the upstream sector often at the lower end of this range. Following a significant market loss in early 2022, syndicates are focusing on integrated clients who are purchasing business interruption on their first phase processing for their entire revenue stream including gross profits. Accounts of this nature are being viewed as akin to a LOPI risk in the upstream sector, and some wording and rating amendments have taken place to begin to move the book back to profitability. Clients can expect 15% to 20% rate rises for clean business on their business interruption sections and daily caps per location for their indemnity.



## ► MIDSTREAM

### CAPACITY

Capacity in the upstream market is often proving to be a source of more competitive terms for midstream clients, particularly when coverage is for infield assets, so we have seen some shifting of clients from the downstream to the upstream market. For clients that are growing, the upstream market also offers the advantage of being able to use credits for scale, which tend not to be a feature in the harder downstream market.

The rebound in commodity prices has supplied a welcome boost for many energy industry clients. But this also means clients should review their exposures considering this change. In particular, business interruption coverage requires an additional uplift to ensure full coverage if a business is now enjoying higher revenues.

The midstream sector has recently been hit with a significant loss resulting from a routine maintenance (pigging) operation.

Initial reports of estimates were for a full six-month indemnity plus physical damage loss, with worst-case scenario being quoted at US\$240 million. Latest estimates, however, are understood to be considerably lower at approximately US\$100 million, as some critical parts thought first badly damaged turned out to be mostly cosmetic.

However, the loss has sharpened underwriters' focus on time element coverages, particularly regarding daily indemnity caps on a per-location basis. The market sentiment was that pre-loss business interruption terms and conditions were allowing the potential for higher collection of indemnity than had been accounted for in the rating, a fact brought into sharp clarity by the volatility in the commodity price currently.

We expect an increase in business interruption purchases to become a noticeable theme in multiple markets during 2022, caused in part by changing ratios between an insured's indemnity requirements and scheduled values. Underwriters continue to favor clients with a ratio weighted toward physical asset values, while it is more difficult to place accounts with a heavier weighting on business interruption coverage.

### INVESTMENT

As in 2021, there is still a significant midstream investment opportunity for private equity (PE) companies, but there appears to have been a shift in their strategies. Rather than funding new greenfield projects, PE firms are now mainly targeting growth through bolt-on acquisitions and expansion.

### ESG AND ENERGY TRANSITION

We are seeing more opportunities appear around energy transition-oriented projects, such as CCS, or projects linked to the development of solutions for use of green hydrogen as an energy source. The upstream sector has shown an interest and appetite for writing CCS within midstream portfolios, so this may become a fast-growing sector for new business.

# DOWNSTREAM

After a period when both the energy and Insurance industries suffered significant disruption, the experience of the first few months of 2022 suggests that we may be nearing the end of a hard market cycle for downstream risks. The clients most likely to benefit from this will be those with good loss records that can also show effective management of natural catastrophe exposures. Given the recent issues of inflation being experienced around the world, there is also a focus on valuation exercises being required/updated by insureds on their physical damage values.

Underwriters are still considering aspects of these risks very carefully, particularly in terms of scrutinizing management capabilities. We appear to have reached a leveling-off phase in rates, where flat to single-digit rises are more the norm, and small reductions are becoming achievable with underwriters—but where insureds still have poor loss records or assets are in locations at a greater risk of natural catastrophes, we are still sometimes seeing meaningful rises in rates.



## ► DOWNSTREAM

### CAPACITY AND PREMIUM

Capacity has remained broadly stable during the first quarter of 2022. We would estimate realistic capacity at about US\$4 billion for international programs and US\$2.5 billion for North American programs. The amount of capacity available is part of the reason lead insurers have not felt the need to impose harsher terms on policies during the past few years.

Although pricing conditions are improving for many clients, there is still a trend for tightening of certain terms and conditions. There is a continued push for the inclusion of a testing and commissioning clause (with a push for use of the LMA5197A Clause outlining the limits of cover given) as many downstream insureds either have or are considering investing in renewable diesel or similar projects. In relation to business interruption cover, the preferred route is to use the LMA5515 Business Interruption Volatility Clause, which underlines how important it is for clients to keep insured values up to date to ensure they will receive the full value of business interruption cover/claims.

Meanwhile, as the effects of the pandemic and associated restrictions ease in markets across the world, we have already seen an increase in on-site engineering visits. This should bring some benefits after two years, during which insurers have largely been forced to rely on virtual visits, but we cannot yet be sure that it will have an impact on the perceived or actual quality of the engineering in use at these locations — or on insurers' attitudes to risks at these locations.

### ESG AND ENERGY TRANSITION

An ever-greater focus on ESG issues among policymakers, regulators, investors and the wider public in markets across the globe will undoubtedly affect almost all fossil fuel programs eventually. Many insurers are coming under increased pressure from investors and their own leadership to review downstream portfolios, with a particular emphasis on the E in ESG.

There is no market consensus on how the downstream market will be altered because of more ESG-related activities during the next few years. But it does seem reasonable to suggest that insurers will probably need to conduct more in-depth analysis of clients' ESG policies, so they can prove to their own management and shareholders that all relevant ESG considerations have been considered when assessing the balance of their portfolios.



# CASUALTY

## NORTH AMERICAN ENERGY CASUALTY

The overall picture is bright for this market, but some challenges remain. Following beneficial market developments during 2021, the market now offers a broader range of options to insurers and brokers delivering umbrella coverage for these risks, although some clients will find there is a limited appetite for larger limits. With new entrants also keen to support placements and a healthy level of competition, especially for loss-free business, pricing for these risks is reasonable.



## ► CASUALTY

### **NORTH AMERICAN ENERGY CASUALTY (CONTINUED)**

The knock-on effects of prior-year claims in this market are undermining profitability for some insurers. At the same time, the effects both of inflation and of ongoing litigation linked to nuclear verdicts are both causes for some concern. However, neither of these issues seems to have had a noticeable impact on the treaty reinsurance market.

Underwriters are continuing to manage line sizes carefully and have looked to reduce the largest limits.

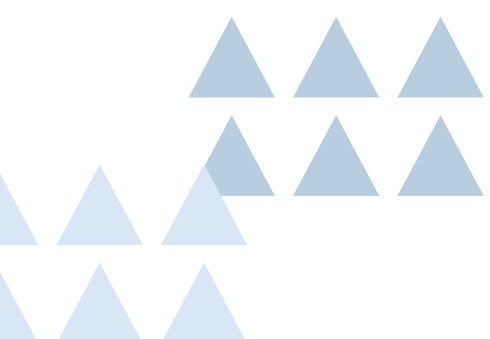
There is still ample capacity in this market, including for additional top-up excess layers of coverage. This has helped stabilize the market, with rate growth slowing and even some rate reductions.

New entrants that came into the market in 2020 and 2021 now have a book of business they can use as the foundation for further growth, so their work will help to support strong competition in this market during 2022. Brokers should be aware ahead of renewals that they may have an opportunity requote for placements using other available capacity to fill layers. But there are still challenging conditions in some parts of the market, in relation to wildfire risks and some midstream coverage, for example.

### **INTERNATIONAL ENERGY CASUALTY**

Capacity for this business appears sufficient at present, and buyers have an adequate choice of insurers and coverage. New entrants continue to arrive in this market, helping boost competition. Rate increases have been relatively gentle, with renewal discussions typically starting at around 5% following year-on-year increases during each of the past three years.

We have seen an increase in insurers looking to impose climate change exclusions. So far brokers and insureds have been successful in resisting the use of restrictive language, but this is an area we will continue to watch throughout 2022 and beyond.



# POWER

Despite significant cumulative loss activity in the power sector during 2021, we are seeing more modest increases in rates than in the previous 12 months. In part this is because there has been a significant slowing of rate increases among underwriters in the general property market, some of whom also write power. We have also seen the appearance of new capacity, which has helped to boost competition.

In addition, the final quarter of 2021 saw two large U.S. accounts leave the conventional market to join the Oil Insurance Limited (OIL) mutual insurance company, resulting in a substantial loss of premium in several markets, with knock-on effects on strategies of some insurers and brokers.

Power clients who have substantial exposures to natural catastrophe perils have seen only modest increases in rates. While insurers' appetite and capacity for these risks are both still relatively limited, clients with renewals during the first half of 2022 will have been pleasantly surprised by lower rate increases than those experienced in previous years.



## ▶ POWER

### CAPACITY

Underwriters continue to show plenty of discipline in their underwriting of power business. Insureds able to supply recent and/or high-quality information will find that this is still a major factor in a successful placement outcome.

While the appearance of the omicron variant of COVID-19 meant that engineering reviews continued to be conducted virtually in late 2021, we are now seeing physical inspections returning. We are actively working with clients to help them prepare for these inspections, as this could deliver tangible benefits in placing their business.

### COAL ACCOUNTS

January 1, 2022, saw the introduction of the new Lloyd's directive calling for an end to underwriting new coal business. However, we have since seen a subtle change of emphasis, with each syndicate now taking responsibility for its stance toward new coal business. Many have chosen not to put any new coal accounts on their books — in some cases this was already their policy. But others have adopted a policy of accepting new business in cases where a client can prove it has a clear approach to working toward an orderly transition to renewable energy.

We are watching this change in strategy and its implications for clients looking to future-proof their insurance arrangements very carefully as ESG considerations continue to become more important.



# RENEWABLES

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The market adjustment that occurred mid-2019 through January 2020 saw significant rate and deductible increases that have since stabilized through 2020 and 2021, with 2022 offering a more consistent approach to renewals and new or boosted capacity supporting competition.

Whilst long-established specialist renewable energy insurers presenting as lead insurers have seen increases to their deployed capacity, there has been an influx of power and energy capacity now writing both offshore and onshore renewable energy. This bodes well for the renewable energy industry, which requires an inflating insurance market capacity to sufficiently protect the continual rapid growth of installed GWs globally.

Renewable underwriters assessing individual risks are tending to focus above all on performance and perceived natural catastrophe exposures. Insurers' expectations for renewals are generally between flat and 10%, with rate reductions now being achieved in certain circumstances.



## ► RENEWABLES

### TRENDS TO MONITOR

Increasingly unpredictable global weather patterns — new renewables projects are regularly deployed in locations with high natural catastrophe exposures.

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Rapidly evolving technologies present added challenges to insurers looking to assess risk.

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Underwriters tend to be more comfortable with some advances in technology (for example, upscaling of wind and solar energy technologies) than others (e.g., floating technologies; battery energy storage systems; anaerobic digestion systems; technologies for deriving energy from waste, biomass or geothermal sources).

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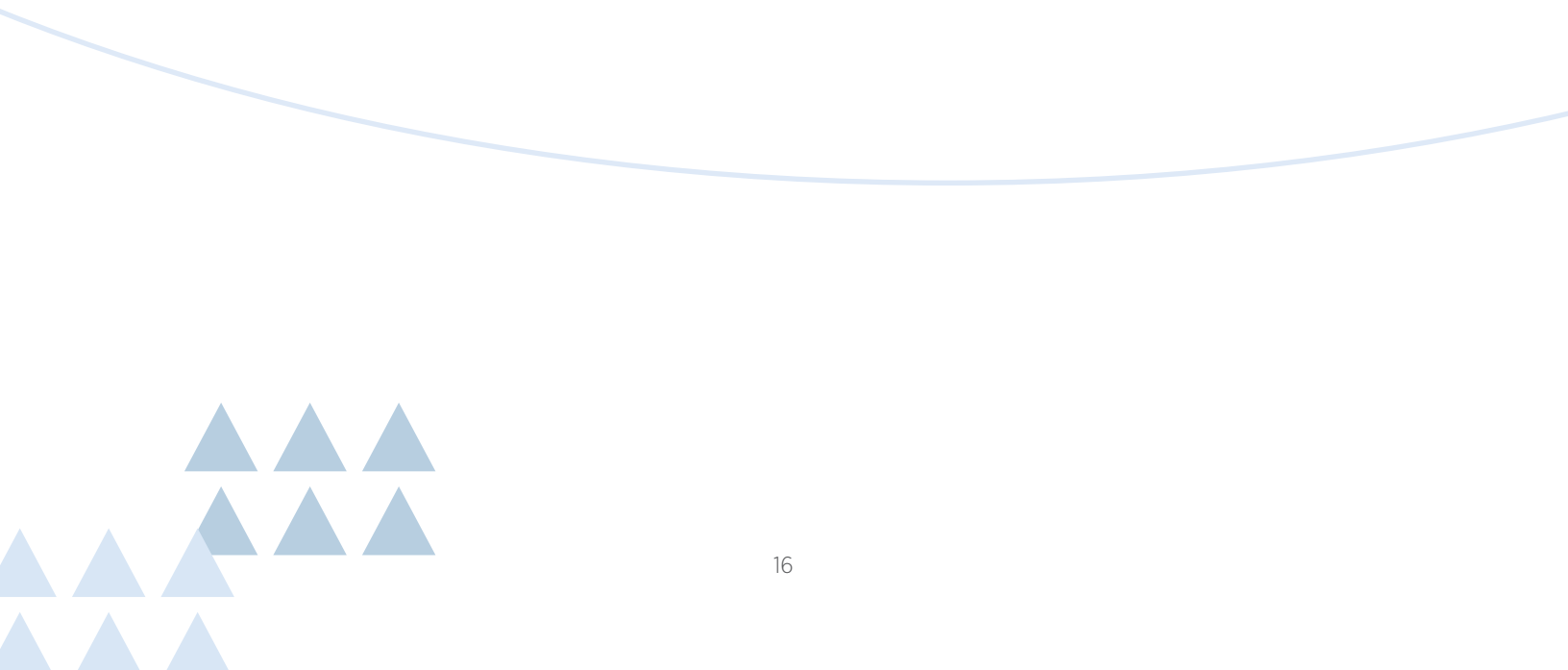
Further growth in offshore wind in the North Sea, parts of Asia, North America and elsewhere will present new risks and opportunities for insurers and brokers. Technologies still under development, such as floating energy generation facilities, are often still regarded as unproven, while there are still concerns related to risk aggregations in areas prone to high levels of natural catastrophe risks.

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Problems in supply chains, including the impact of labor shortages and inflationary pressures, are driving up costs of construction projects.

Each of these trends will require consideration by insurers and brokers to decide the proper deployment of underwriting capacity.

In the case of growth in the offshore wind sector, we expect this part of the market to benefit from support provided by the upstream oil and gas market, as companies working in the upstream sector also increase their involvement in delivering projects linked to renewables.



# CLAIMS



## ▶ CLAIMS

### TOP 10 LARGEST UPSTREAM ENERGY LOSSES IN 2021

Up/Down/Power	Land/Offshore	Country	Cause	Category	Subcategory	Total/ Actual US\$
Upstream	Offshore	Malaysia	Leg punch through	Rig	Jackup	136,000,000
Upstream	Offshore	U.S.	Blowout, no fire	Well	Well	70,000,000
Upstream	Offshore	U.S.	Windstorm	Platform	Platform	38,000,000
Upstream	Offshore	U.S.	Blowout, no fire	Well	Well	36,500,000
Upstream	Offshore	Guyana	Unknown	MOPU	FPSO	31,000,000
Upstream	Land	U.S.	Fire and explosive/VCE	Well	Well	28,000,000
Upstream	Offshore	U.S.	Windstorm	Rig	Drillship	27,000,000
Upstream	Offshore	Norway	Impact	SSCS	SSCS	17,700,000
Upstream	Offshore	Norway	Supply interruption	Platform	Platform	16,400,000
Upstream	Land	Russia	Collapse	Rig	Land rig	15,760,000
<b>Total 2021 Upstream Losses (70):</b> US\$757,896,020			<b>Operational (55):</b> US\$645,986,020			
<b>Total Top 10 Losses:</b> US\$416,360,000 = 55%			<b>Construction (15):</b> US\$111,910,000			

### TOP 10 LARGEST DOWNSTREAM ENERGY LOSSES IN 2021

Up/Down/Power	Land/Offshore	Country	Cause	Category	Subcategory	Total/ Actual US\$
Downstream	Land	U.S.	Ice/snow/freeze	Petrochemical	Olefins	640,000,000
Downstream	Land	U.S.	Windstorm	Petrochemical	Olefins	381,000,000
Downstream	Land	Russia	Unknown	Refinery	Secondary process	180,000,000
Downstream	Land	U.S.	Fire, no explosion	Chemical	Chemical	178,000,000
Downstream	Land	Saudi Arabia	Unknown	Petrochemical	Olefins	162,876,712
Downstream	Land	U.S.	Fire, no explosion	Petrochemical	Petrochemical	146,000,000
Downstream	Land	Russia	Fire and explosion	Gas plant	Gas processing	130,000,000
Downstream	Land	U.S.	Ice/snow/freeze	Petrochemical	Petrochemical	115,300,000
Downstream	Land	Saudi Arabia	Unknown	Petrochemical	Olefins	114,700,000
Downstream	Land	U.S.	Ice/snow	Petrochemical	Olefins	105,000,000
<b>Total 2021 Downstream Losses (92):</b> US\$4,077,922,293			<b>Operational (83):</b> US\$3,650,003,293			
<b>Total Top 10 Losses:</b> US\$2,152,876,712 = 53%			<b>Construction (9):</b> US\$427,919,000			

Losses are incurred actual amounts, as reported, not indexed, sourced from the Willis Towers Watson's energy industry loss database for ground-up losses of US\$1 million or more at the time of loss. Note that 2021 figures are subject to further development, both in terms of frequency and severity of losses. As at February 21, 2022.

## ▶ CLAIMS

### TOP 10 LARGEST POWER ENERGY LOSSES IN 2021

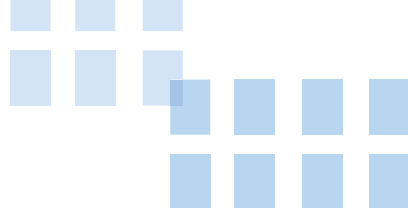
Up/Down/Power	Land/Offshore	Country	Cause	Category	Subcategory	Total/ Actual US\$
Power	Land	UK	Fire, no explosion	Power substation	Substation	440,350,000
Power	Land	UK	Fire, no explosion	Power thermal	Gas	83,870,000
Power	Land	U.S.	Collapse	Power other	Coal	74,550,000
Power	Offshore	Netherlands	Unknown	Power T&D	Cable (elec/control)	65,000,000
Power	Land	Argentina	Mechanical failure	Power thermal	Multifuel	37,600,000
Power	Land	UAE	Fatigue	Power thermal	Gas	55,000,000
Power	Land	U.S.	Ice/snow	Power renewable	Solar	21,000,000
Power	Land	Oman	Unknown	Power thermal	Multifuel	20,698,300
Power	Land	Thailand	Fire, no explosion	Power thermal	Gas	20,966,000
Power	Land	U.S.	Mechanical failure	Power thermal	Solar	18,340,000
<b>Total 2021 Power Losses (39):</b> US\$988,045,246			<b>Operational (32):</b> US\$958,470,646			
<b>Total Top 10 Losses:</b> US\$837,374,300 = 85%			<b>Construction (7):</b> US\$29,574,600			

Losses are incurred actual amounts, as reported, not indexed, sourced from the Willis Towers Watson's energy industry loss database for ground up losses of US\$1 million or more at the time of loss. Note that 2021 figures are subject to further development, both in terms of frequency and severity of losses. As at February 21, 2022.

# CYBER

Cyber attacks are becoming increasingly prevalent as criminals develop ever-more-sophisticated modes of attack. Companies are growing faster and expanding their reach further, and COVID-19 has accelerated the need to digitize sooner. It means they've left themselves much more exposed to cyberthreats, which have increased in both severity and frequency.





## ► CYBER

### ENERGY FIRM TARGETS

At the top of hackers' list of targets are energy and utility companies worth billions of dollars. Their large geographic spread and organizational complexity, coupled with the unique interdependencies between their physical and cyber infrastructure, makes them more vulnerable to exploitation.

The most high-profile attack in recent times was on the Colonial Pipeline, which supplies 45% of the oil used by the U.S. East Coast. Hackers managed to shut the company down for five days in May and accrued a US\$4.4 million ransom demand, half of which was paid in bitcoin. Industrywide, the total cost of data breaches for the energy sector is US\$6.39 billion per year, well in excess of a global average of US\$3.86 billion.

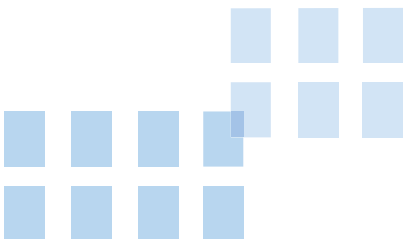
Given the growing threat of such attacks, demand for cyber insurance from energy companies has skyrocketed in recent months.

### TAKING A HOLISTIC VIEW

The problem is that energy companies have traditionally classed cyber risk under two distinct categories: those that affect either information technology (IT) or operational technology. As the two have increasingly converged, though, thanks to digitization and the internet of things, companies now need to consider them as one risk.

Cyber risk isn't limited to these two categories either; it encompasses every department of the organization from supply and procurement to corporate information security and legal. To mitigate the problem, an effective ownership and accountability structure needs to be put in place.

Companies also need to have full oversight of third-party suppliers and get them to adhere to the same rigorous cybersecurity procedures. Those that fail to do so should be held to account or, in some cases, let go for a more cyber-conscious partner.



### INSURANCE SOLUTION

Insurers have been ramping up their rates by as much as 25% to 40% in response to a surge in claims coming from a rise in recent ransomware attacks. Prices are set to climb even further still, with cyber insurers' average loss ratios increasing year-on-year (44.8% in 2018 and 67.8% in 2019).

Underwriters have also been increasing their scrutiny of risks, requiring more information from insureds before quoting the risk. They have also been pulling back on coverage and capacity, and inserting sublimits and exclusions into their policies.

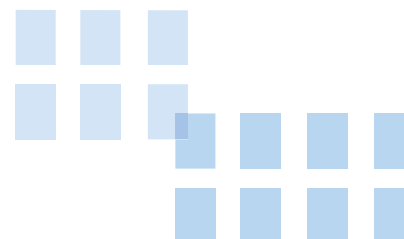
Another problem is that many companies mistakenly believe they'll be covered for cyber attacks under their property or liability policies, but they're not. So they need to take out a specific cyber insurance policy or write back add-ons to plug any coverage gaps.

But where companies are able to find affordable coverage, they'll be protected against losses related to damage to or data loss from IT systems and networks. They can also help to manage the incident in the media, which is essential when faced with reputational damage or regulatory enforcement.

### RISK MITIGATION STRATEGIES

From a company perspective, there are key steps energy firms can take to proactively mitigate cyber risk. They should:

- » Examine their current property and casualty, liability, and crime insurance policies to determine exactly what level of cover they have in the event of a cyber attack, and identify any gaps or overlaps.
- » Work with their brokers to ensure they have a comprehensive cyber insurance policy in place, considering the use of self-insured retentions; any exclusions, liability limits and security standards required; and regional regional restrictions.
- » Use the pre- and post-breach services provided by their broker and insurer to improve their risk management practices, and access the legal, forensic and claims teams required if an event should occur.
- » Have a regularly tested incident response plan in place that includes the time frame to identify and report a breach, and appropriate actions.
- » Integrate their cybersecurity protocols into critical decision-making and expansion plans, proactively devising robust programs and processes that reduce geographic, operational and supply chain vulnerabilities, and emerging tactics, techniques and procedures used by cybercriminals.



# D&O

The pandemic boosted the prices of many commodities, with COVID-19-enforced shutdowns and labor shortages at some projects restricting supply. As the world began to recover, we saw an increase in activity and demand for commodities rise.



## ► D&O

Beginning in February 2022, the conflict in Ukraine has pushed global commodity prices even higher, highlighting UK and European dependence on Russian oil and gas, and the need to find alternative supply sources. Oil and natural gas are trading at levels not seen in over a decade.

Higher energy prices are likely to persist for some time, driving inflation around the world. For energy companies, this has been a boon to their balance sheets, allowing them to pay down debt and return cash to shareholders via share buybacks or dividend increases. D&O insurers will be pleased to see the improvement to share prices and overall financial health in this sector.

Underwriters continue to focus on financial health and ESG, and there are still certain guideline restrictions for companies with exposure to parts of the natural resources sector (such as coal, nuclear and heavy oil). Lloyd's, for example, has mandated that the syndicates write no new coal-exposed risks from the start of 2022.

After several years of hard market conditions, some normalization is returning to the energy D&O market. While nominal increases may be sought on the primary layer, there is plenty of competition for excess layers, pushing down overall prices in some cases. Some D&O insurers who stated in 2019 and 2020 that they could no longer write oil and gas risks have begun to return to the space with new capacity, adding to the ease in pricing.

While the consensus is that the world will eventually shift more to cleaner energy sources, there is a realization that the move will still take years to achieve and that society will still rely heavily on fossil fuels for some time.



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