



State of the Market Report: **A Focus on the Energy Sector**

In 2022, the energy market experienced a complex landscape of record losses and rising premiums across its downstream, mid-stream and upstream sectors. In 2023, the market struggled to recover –plagued by catastrophic events that continued to drive up costs and technological advancements that created coverage challenges, particularly in the power and solar markets. On the flip side, professional and property lines began to see some relief.

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 energy property sector stabilizes

After years of a hardening downstream energy sector, the beginning of 2023 brought little change – premiums reached their highest levels since Hurricane Andrew in 1992. However, as the year progressed and the market experienced fewer shock losses and limited natural catastrophe events, insurers became profitable. This, combined with ample supply, has created a more favorable year for insureds.



Rising severity in natural catastrophes

While some softening has occurred within current renewals, the financial burden of higher insurance costs continues to be a focus for downstream energy clients – especially as the average annual severity of natural catastrophes continues to rise. For example, the 2024 windstorm season is predicted to be highly active and severe, with Hurricane Beryl marking an early strong start. Wildfire also remains a constant concern for carriers – according to the [National Interagency Fire Center](#), 2024 has seen more than triple the amount of acreage burned in comparison to 2023.

The market impact of an active season remains uncertain. Before Hurricane Francine, which was quickly downgraded to a tropical storm upon landfall, we expected softer conditions and favorable reinsurance renewals for the remainder of 2024 and into 2025, with underwriters maintaining terms and conditions. Whether this holds true after the flooding in Louisiana, the impacts of Hurricane Helene and the final two months of the season remains to be seen.



Power

The casualty market within the power sector has shifted as key players have exited the space leaving gaps for markets to fill. Placing business has stabilized but hasn't softened as quickly as other areas of the market. Technological advancements, far from slowing down, continue to contribute to a rise in attritional losses. Factors such as growing populations, higher temperatures, the surge in cryptocurrency mining and the rapid expansion of artificial intelligence (AI) and electric vehicles are all driving an unprecedented demand for power.

As demand escalates, the supply infrastructure is struggling to keep pace. Although the downstream sector may be experiencing a relatively softer market, the power sector remains stable in most pockets, necessitating robust partnerships and strategic support. Power-focused mutuals continue to play a significant role in navigating these challenges.

Battery storage facilities are growing in installation, rapidly. And we are seeing increased capacity from the insurer side for proven technologies with excellent loss control. New technologies without developed loss mitigation are still facing a challenging insurance environment.

Downstream energy property sector stabilizes *(continued)*



Solar power

Solar installations have also experienced substantial growth. This ongoing expansion is driven partly by technological advancements and increased investment in clean energy, making it a key area of focus within the downstream market.

Another growing concern within the industry is the increasing severity of hailstorms – as solar farms are found in open areas and made of materials that are easily damaged by hail. As more of these high-value assets are exposed to potential damage, the risk of significant hail-related losses has risen.



Looking ahead

The downstream energy property market is experiencing a softening. This shift is being furthered by a decrease in rates and an increase in capacity, with rate decreases projected anywhere from 2.5% to 7.5%. This trend reflects a market adjustment following last year's increases of up to 30% for insureds with significant losses.

Mid-stream sector faces numerous challenges amidst persistent M&A activity

While the property market within downstream energy is feeling some relief, the mid-stream property sector is now showing signs of increased competition from new facilities in London and increased appetite on the domestic side. Nuclear verdicts continue to drive losses on casualty programs, which in turn drives higher limits that may experience tougher scrutiny from underwriters.

The hard market within the casualty mid-stream sector boils down to a surplus in claims driving premiums up and capacity down. With carrier limits seeing a significant cutback and markets reducing their capacity, multiple carriers are now needed to fulfill coverage marking a significant difference from years past.

Similarly, third-party litigation funding and tort reform are creating struggles within the mid-stream sector. Insureds in states with a record of tough judicial outcomes are subject to increased pricing within a capacity landscape that is already very limited, while third-party litigation funding often results in more claims being brought before a court. It can seem an endless cycle.

The midstream sector also continues to see consistent mergers and acquisitions (M&A) activity. However, large transactions have become more rare, partly due to regulatory constraints imposed by the current administration. Despite this, the sector remains active – albeit on a smaller scale when compared to previous years.



Upstream energy sector confronts capacity constraints

Demand and supply challenges remain a contributing factor as the market for traditional energy sources like coal, heavy oil and gas faces constricted supplies due to environmental, social and governance (ESG) stances. With these constraints in place, pricing for materials has increased.

In the upstream sector, particularly for casualty coverage, two of the three dominant carriers have significantly reduced their market presence over the past decade. This reduction in capacity has placed additional pressure on pricing and overall market capacity.

Traditional upstream markets, already constrained by regulatory and ESG pressures, are experiencing further strain as reduced capacity from key insurers exacerbates hard market conditions. Texas and Louisiana have become notorious in terms of jurisdiction within the U.S., as they hold most of the energy accounts. At the same time, auto coverage remains very difficult to place.

It is this dynamic that is contributing to higher costs and tighter availability of coverage, compounding the challenges faced by upstream energy companies.

Professional lines see favorable D&O rates and a softening cyber market

D&O rate trends are favorable within the sector, and despite the lack of new players, there is plenty of capacity. Companies with proven financial strength are seeing more aggressive pricing, with some able to negotiate renewals at a double-digit rate decrease. For debt leveraged insureds, coverage may be harder to place as underwriters focus on financial strength and claims.

In a time where many insurance segments remain entrenched in a hard market, cyber continues to be the exception, with renewals coming in at level or below expiring pricing. As reported in our [Cyber State of the Market](#), we have seen upwards of 30% decreases in premiums since 2023. Although claim activity continues to increase, underwriters are taking a positive approach to placements and renewals. And until loss ratios begin to produce widespread concern, we anticipate conditions will remain soft.

Even amid a soft market there are still challenges. Ransomware remains a concern within the space due to increased activity, inability to predict targets and growing severity of demands and payouts. The industry is also beginning to see an alarming rise of class action lawsuits related to privacy, pixel tracking and targeted data collection, which if exacerbated is likely to impact market conditions.

London

Social inflation remains a challenge due to escalating court-awarded payout amounts. As a result, insurance policies that once had coverage limits of \$5M may now require coverage limits of up to \$15M.

Efforts to address rising claims, nuclear verdicts and the climbing costs of goods have led to only a slight drop in rates with few new entrants increasing market capacity. However, the market is beginning to show signs of softening, and this trend is expected to continue as the year progresses.

Takeaway

Navigating the energy market requires a nuanced understanding of the interplay between risk, regulation and market dynamics. At Amwins, we have a keen grasp on how the sector adapts to these evolving challenges – from fluctuating premiums to the growing impact of environmental factors – and the fact that stakeholders must remain vigilant and proactive.

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. We keep you informed and anticipate market shifts, helping you help your clients better manage risks and capitalize on emerging opportunities.

Our team of energy specialists works with you to deliver the most effective risk transfer programs to insureds. We help you win.

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