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Market Segment Outlook: London Market Insurance

Underwriting discipline and rate adequacy remained strong throughout 2023 and into 2024, which is likely to support continued strong underlying underwriting results

AM Best is revising the outlook for the London market insurance segment to Positive from Stable, owing to the following key drivers:

- Strong pricing environment for most business lines is expected to support good underwriting profitability.
- Positive momentum of US excess and surplus (E&S) lines offers opportunities.
- Improved interest rate environment is likely to support healthy investment yield.

Factors moderating these positives include:

- Changing climate trends and unmodelled risks present exposure management challenges.
- Concerns regarding social and economic inflation in certain business lines.

London Market (re)insurers have enjoyed several consecutive years of rate increases, with most major classes of business having shown positive momentum. This, along with Lloyd's scrutiny of Syndicates' performance, has supported continued improved attritional loss ratios since 2017.

Market hardening was initially led by commercial and specialty insurance, with reinsurance price increases lagging. However, the reinsurance segment witnessed exceptional strengthening at the January 2023 renewals, particularly for property business.

Underwriting discipline and rate adequacy remained strong throughout 2023 and into 2024, which is likely to support continued strong underlying underwriting results. Although there are signs of rate softening in certain lines, particularly Professional Lines business, overall rate adequacy remains strong.

Excess and Surplus (E&S) lines insurance in the United States (US) is a notable contributor to the topline of many London Market companies. AM Best revised its outlook on the E&S segment to positive in November 2023.

In recent periods, US admitted insurance carriers continued to tighten their underwriting criteria, driving insureds to seek coverage in the E&S market. Given the positive rate momentum in these lines, and the resulting prospects of strong technical profitability, London Market companies are expected to continue to deploy capacity in E&S lines over the near term.

The profitability of London Market (re)insurers is likely to be bolstered by improved investment yields compared to the past decade, with interest rates expected to remain higher for longer due to persistent inflation.

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Although US and European central banks are expected to lower interest rates in 2024, London Market companies will benefit from relatively high interest yields on their fixed income portfolios at least over the next 12 months.

Modernisation and cost management have been key priorities for the market. Recent efforts made in this regard are expected to support technical profitability and market attractiveness. However, failure to modernise the market in good time could potentially reduce its appeal.

The London Market remains a hub for the development of new product concepts and tailor-made solutions. In addition, companies operate under a stable and sophisticated regulatory regime.

The London Market typically has significant exposure to natural and man-made catastrophes and has historically paid a material portion of losses arising out of major global events. The cost of global catastrophes has increased in recent years, and secondary perils—including wildfires, convective storms and droughts—are accounting for an increasingly significant portion of global losses.

Outside of the traditionally modelled natural perils, losses from major events such as the COVID-19 pandemic and conflict in Ukraine have compelled London Market companies to adequately assess and price for non-modelled risks. Moreover, with the growth of cyber risk within the London Market and its sizable systemic exposures, the assessment of accumulation risk within this class has gained increasing importance.

London Market (re)insurers typically engage in proactive exposure management through comprehensive reinsurance, and advanced catastrophe modelling. However, uncertainty regarding the severity and increasing frequency of major perils, together with a lack of experience of systemic cyber losses, present challenges to exposure management.

Concerns regarding the potential for social inflation—the rising cost of claims due to changing societal behaviour—persist despite London market (re)insurers having been increasingly conservative and explicit in pricing and reserving assumptions for several years. The unpredictable nature of this risk means that only time will show whether the current level of prudence has been sufficient.

With economic inflation tempering on both sides of the Atlantic, the risk of associated mis-pricing and under-reserving reduces. However, (re)insurers remain vigilant as the potential persistence of higher-than expected inflation could prove more costly over the longer term.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
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Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

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BEST'S MARKET SEGMENT REPORT

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