When uncertainty calls, how does insurance answer?

London Market Group

CII London Market Group
February 2025

Chartered Insurance Institute

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When uncertainty calls, how does Insurance answer?

Throughout our research during the New Generation programme, public **trust** and **reputation** emerged as central themes. Trust is a foundational pillar for the Chartered Insurance Institute (CII), whose mission is to build public confidence in the profession.

This playbook aims to outline the purpose of insurance and the role it plays in times of **uncertainty** by examining case studies through the unique perspective of the London Market.

The London Market stands as a global hub of (re)insurance expertise which is renowned for its innovative solutions, addressing large, challenging and evolving risks, that are often beyond the capabilities of other markets. This report highlights the Insurance Market's strengths through case studies including the Ukraine Grain Facility and Pool Re, which showcase its innovative and collaborative response to large-scale events.

However, these successes can be poorly marketed by the insurance industry and are often overshadowed by negative focus on perceived industry failures. For example, the speed and level of industry response to the Grenfell disaster impacted the public and the building industry, which eroded public trust, damaging the reputation of the insurance industry which continues to be a high profile and well documented event.

This playbook reflects on the response to these events and identifies best practice for **restoring public trust** going forward. We explore the lessons learned from industry response to each of the events, and how the industry can apply these principles to future events, irrespective of how different the topic may be. We aim to demonstrate that by applying three core principles of Collaboration, Certainty and Creativity to evolving risks such as systemic cyber risk or the reputational damage posed by Greenwashing, the London Market can continue to create solutions for consumers and build further trust in the insurance industry going forward."

Ukraine Grain Facility

What are grains & why do they matter?

30% of the world's grain supply originates from Russia and Ukraine

- Grain is the harvested seeds of grasses such as wheat, oats, rice and corn. Other important grains include sorghum, millet, rye and barley.
- Grains are a food staple in almost every culture on Earth. Humans get an average of 48% of their calories/food energy from grains.
- Grains are also used to feed livestock and to manufacture cooking oils, fuels, cosmetics and alcohols.
- Ukraine and Russia are two of the top five grain producers and exporters in the world, alongside the US, Canada and France.

Event & Market Response Timeline

FEB 2022

Russia invades Ukraine

- Sanctions were put in place, preventing distribution of grain
- Insurance coverage was voided
- Ships/seafarers stranded in Ukraine
- Humanitarian issues

MAR 2022

Market collaboration begins

- Marsh and Ascot worked with the UN, World Food programme & governments to set up Grain facility
- 45+ London markets approached

AUG 2022

Facility Launch

- 'As One' facility launched by Ascot/Marsh with 18+ carriers' support
- Opened up for all Lloyds brokers to use FOC
- 1st shipment placed end of Aug '22

SEP 2024

Legacy

- 'As One' facility launched by Ascot/Marsh with 18+ carriers' support
- Opened up for all Lloyds brokers to use FOC
- 1st shipment placed end of Aug '22

Lessons learned

Collaboration

Working together as the London market to **deliver solutions** to real-world problems.

The Ukraine grain facility was also an example of an insurance solution reaching wider markets, collaborating with the UK and Ukraine governments and the UN world food programmes. This demonstrates the influence the insurance industry has in responding to global events

Creativity

Innovation in creating **'first of its kind'** solution to meet changing global demands

The insurance industry took pride in addressing global issues head on, combining specialist insurance knowledge with their understanding of global needs

Certainty

Restoring trust in our industry by providing a solution that gave certainty during an uncertain time

The Ukraine Grain facility solidified the insurance industry's promise to pay, heightening the fact that insurance will be there in times of need

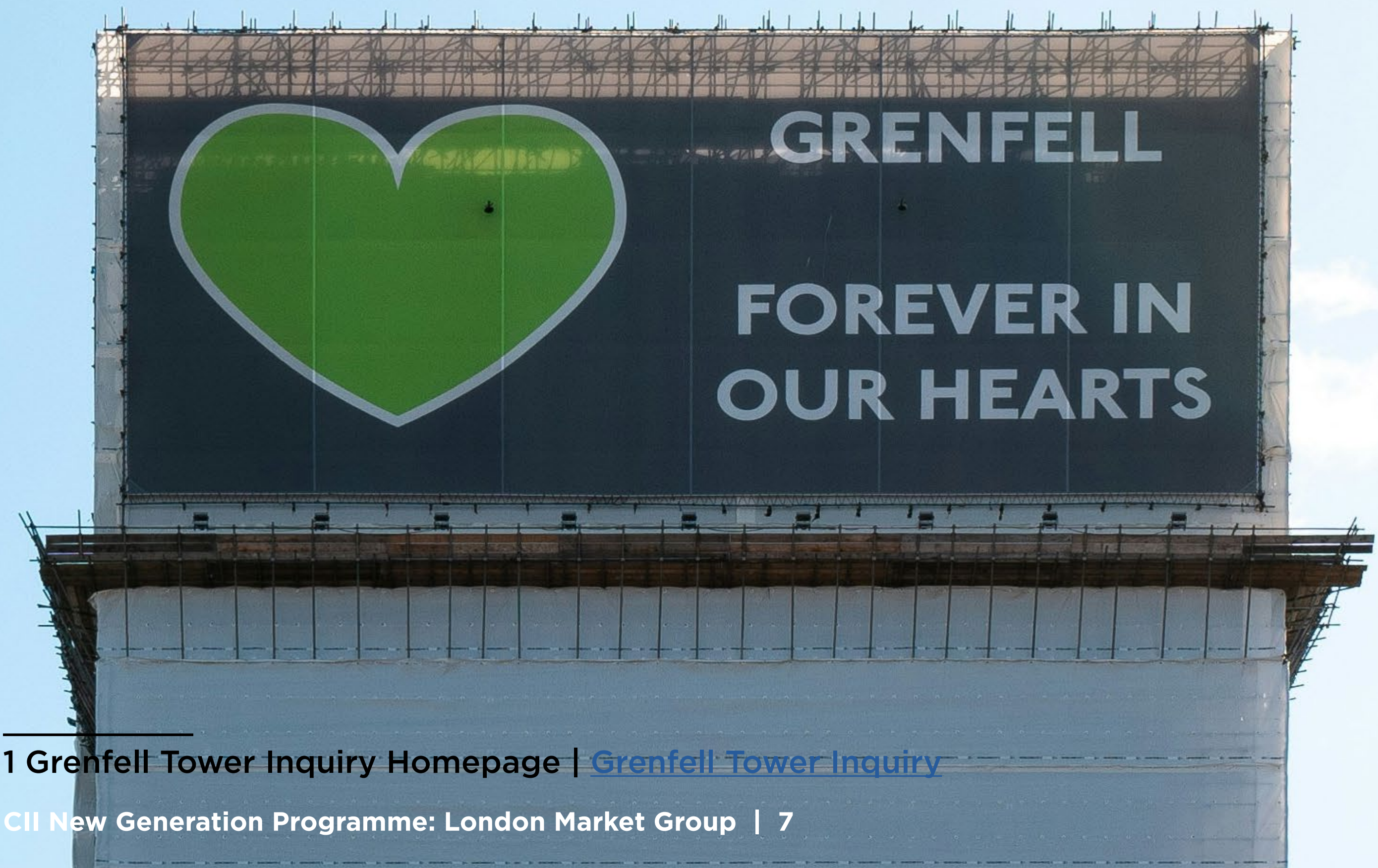
The Grenfell Disaster

A fire broke out in Grenfell Tower on 14th June 2017. Grenfell Tower was a 24-storey residential building, covered with combustible cladding. Within 30 minutes the fire had engulfed the tower and tragically claimed the lives of seventy-two people, in one of the worst modern disasters to unfold in the UK.

The key contributor for the rapid progression of the fire was the combustible external cladding which covered the full tower. Following the tragedy, an inquiry was ordered by the Government to examine the circumstances leading up to and surrounding the fire[1].

Following the Grenfell tragedy, many insurers withdrew capacity to insure multi-occupancy buildings with combustible cladding which resulted in a lack of competition for affected risks and, in many cases, a drastic increase in rates. Tenants of these multi-occupancy buildings were forced to pay more for an insurance policy, often with restrictive terms, which contributed to the erosion of trust in the insurance sector. This was compounded by the significant media coverage focusing on the unaffordability of insurance.

A similar response was also felt in the Professional Indemnity market which saw the availability of cover reduce, premiums increase, and the exclusions of perils such as fire being applied.



1 Grenfell Tower Inquiry Homepage | Grenfell Tower Inquiry

Event & Market Response Timeline

2017

Grenfell Tower Tradegy

On 14th June 2017 seventy-two people lost their lives in a fire which engulfed a 24-storey residential building which was covered with combustible cladding.

Many general insurers immediately closed their books to new high-rise residential blocks with any external cladding, and started to assess what action they could take on their existing book. This included declining renewals, sky-rocketing premiums, and onerous risk management procedures amongst other things.

2022

FCA Urge Action

In January 2022, FCA wrote a 'Dear CEO' letter, urging the insurance industry to "develop market-led solutions"[1] to improve the availability and cost of insurance for multi-occupancy buildings, including a review of distribution costs to ensure they provided fair value.

Following this, the FCA published a report in September 2022 on insurance for multi-occupancy buildings which found that "the average cost of insurance for buildings with combustible cladding increased 187% between 2016-2021". This was driven in part by insurers existing this class, resulting in reduced capacity in the market.

2024

Fire Safety Reinsurance Facility

In April 2024, the Fire Safety Reinsurance Facility was launched which is a broker led facility that aims to improve the availability of insurance to multi-occupancy buildings with cladding issues whilst also improving competition. Although this facility is a step in the right direction, it has still taken nearly 7 years for a market insurance solution to be created.

1 FCA Letter [Dear CEO letter: Insurers: Insurance costs for multi-occupancy buildings]

Grenfell - Summary

	Professional Indemnity	Property
Response from insurance market	On 28th November 2018, UK Government announced a ban on combustible materials on high-rise buildings (devolved Governments followed). Availability of Professional Indemnity (PI) insurance in construction sector reduced due to higher premiums, lack of appetite, carving out fire perils or excluding cladding. Available insurance was provided on restricted/ stringent terms.	Some blocks of flats became 'uninsurable' with untenable premiums due to cladding. Costly risk management was required which, in many cases, fell to leaseholders to pay. Lack of affordable and adequate insurance for leaseholders.
Impact	Contractors looking to get insurance to remediate faulty or combustible cladding on high-rise buildings have greater difficulty getting the insurance they require to carry out works. Amending terms, such as fire exclusion, impacts contractors as PI is on claims made basis, so fire claims may have been covered at time of work BUT no longer would be, irrespective if related to cladding.	Multi-storey flats became 'uninsurable' with untenable insurance premiums due to cladding. In addition to restricted cover, costly risk management was also required which in many cases fell to leaseholders to pay.
Where are we now?	In September 2022, International Underwriting Association (IUA) published a new clause in collaboration with Government to improve availability of PI Fire Safety insurance policies for companies looking to replace cladding on high-rise properties. This set out management processes to ensure works met recognised industry standards.	Reinsurance facility launched April 2024 with aim of increasing availability of insurance for buildings with combustible cladding and other fire safety defects. It aims to increase capacity in the market which should drive competition and reduce premiums.

As of the end of August 2024, there are **4,771 residential buildings** over 11 metres in height identified with unsafe cladding which also highlights the lack of co-ordinated response in the PI Sector.

Lessons Learned

Collaboration

Prices were increased and capacity withdrawn, individual insurer actions led to inadequate levels of insurance availability. This unbalanced approach meant premium levels increased quickly while cover reduced, putting further pressure on the tenants of these buildings and the construction sector to rectify them.

After seven years, a broker/market body has used their positions within the market to facilitate a solution within the market.

A third-party needed to facilitate across the market for a solution to be developed

Certainty

Further eroded public trust in the insurance industry due to lack of access to affordable insurance. Negative press continues, which includes unaffordable and unreasonable terms of insurance being passed onto leaseholders.

Responsiveness

The market failed to work together to develop a response to address the issues surrounding capacity. It's taken 7 years for progress to be made in addressing property market failures.

PoolRe

On 10 April 1992, the Irish Republican Army (IRA) bombed the Baltic Exchange, killing three people, injuring 91 others, and severely damaging the building and its surroundings.

The purpose of targeting the financial district in London was to cause as much disruption and damage as possible to try to destabilise UK markets.

The Baltic Exchange bombing cost approx. £800 million in damages*.

In response, PoolRe was set up to ensure businesses could get Terrorism insurance cover to protect their assets.

PoolRe helped to bring stability to the UK markets and encouraged investment in the UK, as it gave confidence assets would be protected.

Event & Market Response Timeline

1992

IRA Bombs Baltic Exchange

Terror attack carried out on Baltic Exchange which saw a large explosive device detonated in the heart of London's financial district, costing an estimated £800 million in damages.

1993

PoolRe is formed

PoolRe is formed to provide capacity in the market to cover Terrorism risk and bring stability to the UK market. It provides fire and explosion cover and has unlimited financial backing by the UK Government.

2002

Changes to the scheme

Following 9/11 Terrorist attacks, cover was widened to 'All Risks' basis to ensure cover was still suitable to changing types of Terrorist attacks.

2018

Evolving Risk

Types of Terror attacks continue to change and PoolRe has evolved the cover offered to keep pace. In 2018, PoolRe started to offer cyber-terrorism cover.

Lessons Learned

Consistency

Pool Re provided stability to the UK financial markets at a time of uncertainty by offering cover which was moving towards being uninsurable. Over time, terrorist attacks have changed in nature and Pool Re have continued to evolve cover to ensure it keeps pace and meets customers needs.

Responsiveness

The market responded to the events quickly. Although the risks had been present for some time they escalated and swift action was taken via a treaty with unlimited Government backing to secure the market at earliest opportunity.

Collaboration

The London Market worked with the UK Government to find a solution to ensure Terrorism cover could still be provided to customers despite the significant increase in risk in some areas.
Over time, Terrorist attacks have changed in nature, and Pool Re have worked to understand this and ensure the cover evolves to keep pace.

Cyber & Systemic Risk - The Growing Challenge

Cyber risks are becoming increasingly systemic, impacting multiple sectors and amplifying vulnerabilities. A single cyber incident can cascade across the economy, creating complex challenges for insurers.

As a broader impact, the ripple effects are felt downstream as businesses dependent on the impacted organisations experience delays, lost revenue and increased Cybersecurity spending.

These incidents can spread and lead to multi-party claims, stretching current insurance frameworks and demonstrates the systemic and underwriting challenge in managing vulnerabilities that can expose thousands of policyholders.

A notable recent example was the July 2024 Crowdstrike outage.

This incident affected 8.5m Windows devices according to Microsoft, including 25% of the Fortune 500 (approx. 124 companies).

At its peak this type of incident can lead to hundreds of millions in losses.

Cyber: The story so far

2015

Initial Exclusions

Insurers began explicitly excluding certain cyber-related risks from traditional policies, focusing on limiting coverage for 'silent cyber' i.e unintended cyber coverage in non-cyber policies. This acknowledged that Cyber was a unique risk class requiring specialised treatment.

2018

Increased Underwriting Rigour

Insurers started offering more tailored cyber policies with specific coverage triggers and higher scrutiny on cybersecurity practices. This shifted the market toward more standalone cyber policies, with enhanced policy wordings/cyber risk assessments becoming a norm in underwriting.

2019/20

Insurer/Regulatory push to address silent cyber

January 2019: Prudential Regulatory Authority instructed insurers to "have action plans to reduce the unintended exposure that can be caused by non-affirmative cyber cover."

July 2019: Lloyd's Market Bulletin Y5258 required all policies be clear on coverage for losses caused by a cyber event – either providing affirmative coverage or excluding coverage.

January 2020: Lloyd's Market Bulletin Y5277 confirmed phased implementation across all classes.

2021

Cyber Aggregation Models

Following high-profile incidents like the SolarWinds attack, insurers invested in Cyber aggregations . Models to manage potential systemic losses. These efforts aimed to quantify potential systemic losses, enabling insurers to better price policies and adjust capital allocations against large-scale cyber events.

2023

Reinsurance developments/alternative solutions

The Reinsurance market also responded, with new cyber specific reinsurance options emerging to help manage accumulation risk.

Parametric solutions also start to appear for Systemic Cloud Outages.

Emerging Cyber Risks - how should we respond?

Collaboration

Systemic risk is now integral to cyber cover, 74% of Underwriters/Brokers say it is the biggest risk facing the cyber market, according to the Gracechurch survey of over 500 Underwriters and Brokers (2023).

Insurers, regulators and brokers have worked together swiftly to address shifting trends in exposure such as Systemic risk, Cyber CZ property damage and now looking ahead other trends such as AI – to ultimately ensure the product remains timely and relevant.

Certainty

The cyber market **can and will** respond to systemic events, brokers should ensure that policies include broad wordings including unplanned outage and programming error for clients.

Insurers and regulators have worked to eradicate 'silent cyber' across traditional policies, creating further certainty re affirmative coverage and clearer wordings for policyholders, including re systemic risk.

Creativity

Understanding lessons from systemic events such as Crowdstrike, MoveIT, Solarwinds etc will strengthen how the market provides cyber & tech solutions to systemic risks going forward.

There are already parametric and reinsurance solutions purpose built for Cyber systemic risk, and there are wider discussions ongoing between organisations such as BIBA and the ABI as to how the market demonstrates 'fair value' to policyholders around systemic risk.

Climate changed: the ever-evolving landscape

The topic of CLIMATE CHANGE is at the forefront of everyone's minds and the evolving regulatory landscape presents significant challenges and opportunities for the insurance industry, especially in the context of increasing climate legislation and the heightened risk of greenwashing allegations.

According to the EU-wide Eurobarometer survey carried out by EIOPA in June 2022, **over 3 out of 5 of EU consumers do not trust the sustainability claims made by insurance** undertakings or distributors and the same percentage **says that sustainability claims about insurance products are often misleading.**

The anti-greenwashing rule (AGR) of the Financial Conduct Authority (FCA) has now come into effect, and insurance firms are being urged not to underestimate what it takes to achieve compliance. The ruling emphasises the need for transparency, accuracy and accountability in sustainability claims made by financial institutions, including insurers.

The FCAs Anti-Greenwashing Rule (AGR) is aimed at fostering the industry's long-term development and competitive edge by aligning business offerings with consumer expectations and enhancing the transparency of financial products that are centred on sustainability. Under this new regulation sustainability claims about products and services need to be truthful and accurate. Kennedys partner Alex Nurse pointed to the significance of the new standard: *"The anti-greenwashing rule marks a significant step towards establishing greater transparency and corporate accountability for consumers and, in the long term, will help mitigate the risk of greenwashing claims brought in the financial services sector."*

Climate change regulation: The story so far

2021

EU's **Sustainable Finance Disclosure Regulation (SFDR)** enacted, placing new climate disclosure requirements on **financial players**

2022

UK Streamlined Energy and Carbon Reporting (SECR) released, requiring **all publicly listed and large UK companies** to provide climate disclosures

2023

EU's **Corporate Sustainability Reporting Directive (CSRD)** released, extending new climate rules to listed and large companies

2023

ISSB issues **first global standards (IFRS S1 and S2 on climate risks, opportunities and transition planning)** which will likely shape reporting standards in the UK, Canada, and other G20 countries

2023

UK launches **TPT disclosure framework** which will require companies to disclose transition plans in the future

2023/24

Proposed **SEC climate disclosure enhancements** and "**Federal Supplier Climate Risks and Resilience**" rule expected to be released

Lessons Learned

Collaboration

Collaboration with the whole industry is vital, if only half the industry is committed to acting against the risk of climate related disaster, then effective action will not be achieved. The market needs to ensure that any innovative products explored with the intention of protecting customer against climate change are reliable and accessible (we do not want a repeat of the post Grenfell Tower premiums). The industry's response to the Russian invasion of Ukraine is a reminder that effective communication can be effectively achieved, and in a timely manner.

Certainty

The industry has to ensure that any of its climate offerings cannot be interpreted as greenwashing and are not marketing efforts to seem as if they are more 'green' than they are. Insurers need to establish robust compliance systems and include greenwashing in their risk management framework to ensure any claims they are making are "fair, clear and not misleading". Failure to do this could further damage trust in the industry.

Creativity

PoolRe showcases how innovative models can adapt to emerging risks and creative solutions like this can be used for the insurance industry to comply with the Anti Greenwashing Rules.

Looking Forward

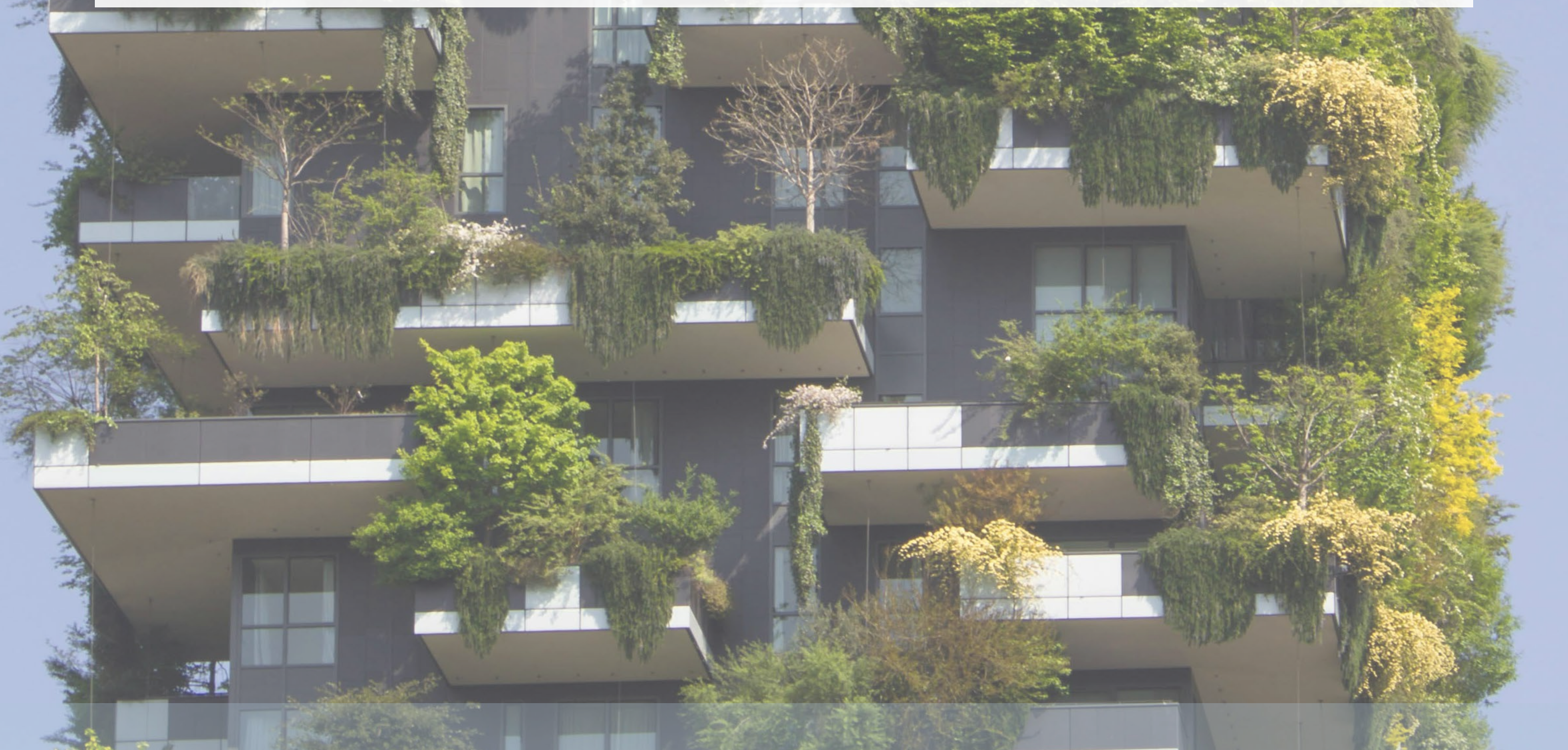
Reflecting on past case studies provides valuable insights into how the London Market has succeeded—or failed—in responding to complex challenges. We have looked at notable examples where the industry has come together to provide innovative solutions, demonstrating the power of collaboration and clear, coordinated responses in times of crisis. In these instances, the market has delivered certainty and reassurance when it was needed most, bolstering public trust and showcasing the industry's role in supporting resilience.

However, there are also cases where the industry's response has fallen short, undermining public confidence and highlighting areas in need of improvement. By comparing these successes and failures, we can draw critical lessons that will help shape a more resilient and trusted industry.

This playbook applies these lessons to emerging risks, such as cyber threats and greenwashing, which present new challenges in an increasingly interconnected and environmentally conscious world. Cyber risk is rapidly evolving, demanding innovative coverage solutions and proactive risk management strategies. Similarly, greenwashing—misleading practices around environmental responsibility—threatens to damage the reputation of insurers, especially those supporting high-pollution industries.

The World Economic forum places misinformation and disinformation as the top risk in the next two years and climate related risks dominate the top four spots of emerging risks in the next ten years. They also place Cyber insecurity in fourth place for global risks ranked by severity.

By adopting the three C's: **Collaboration; Creativity and Certainty**, we believe the industry can better address these emerging risks, restoring and strengthening public trust.



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