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Transcript

Alex Murray, Head of Energy, UK

My name is Alex Murray and I'm Somp's Head of Energy in the UK. I'm hosting this episode of Redefining Risk with Somp. For this episode I'm joined by Warren Diogo, Head of Renewable Energy in the UK. Today we're looking at the energy industry landscape, the current market dynamics and why our broad appetite within energy should bring comfort to clients, particularly in a constantly evolving landscape. Join us for this episode and subscribe on your podcasting platform of choice to receive the latest insight. Welcome to Redefining Risk with Somp Podcast. I'm Alex Murray and I'm joined by Warren Diogo. Warren, the energy landscape, what's your view on things currently?

Warren Diogo, Head of Renewable Energy, UK

It's an interesting time to be involved in energy. The geopolitical tensions, the trade disruptions, the policy subsidies, all of these things are under constant change. And I think we're really seeing political priorities shifting in a way that focuses more on energy security, energy affordability and energy stability.

Alex Murray, Head of Energy, UK

Okay, and so if I think about the amount of growth that people talk about in renewables, and there has been a ton recently, is that starting to tail off or what's happening there?

Warren Diogo, Head of Renewable Energy, UK

I think actually we're seeing record levels of investment into the energy transition sector. Most notably, renewables is a key part of that energy transition. And we continue to see that market flourishing and huge amounts of investment going into that sector. On the other hand, I think traditional oil and gas investments, those most definitely are coming down. But overall, the energy transition investment flows are at record levels, as I say.

Alex Murray, Head of Energy, UK

Yeah, from my perspective, I look at our book and I think of our clients and they're in a very mature space. We don't tend to see much growth in those areas outside of some construction business, but midstream is a real opportunity. And there's a huge amount of gas production that's going on and construction for LNG plants that's really being born out of the energy crisis, if you want to call it that, and a need for further energy. If

you think about data centers in the US is probably quite a good example of this. The amount of energy that's needed now and that will be needed in the coming 10, 20 years, we're seeing a huge amount of construction for that. And I think that's something you've probably seen on the renewable side, but equally we see conventional power plants being built to support some of that growth. Can you tell me a little bit about the technologies that you're seeing in your space at the moment?

Warren Diogo, Head of Renewable Energy, UK

The surging power demands from data centres and the AI revolution are absolutely driving huge growth for solar PV and battery storage especially. I think there's going to be a huge challenge for how that sector is able to actually provide the power needs of that AI revolution. But equally, onshore wind continues to be an important part of renewables growth.

Alex Murray, Head of Energy, UK

And there's also a challenge with where these data centres are situated, isn't there? They do tend to be in areas that are highly prone to natural catastrophes.

Warren Diogo, Head of Renewable Energy, UK

Some are, especially those in the areas of the Midwest and some of the tornado hotspots of the US. So yes, absolutely, those assets are going to be extremely vulnerable and I'm sure the market's going to be quite nervous about that NatCat exposure.

Alex Murray, Head of Energy, UK

So how does the market manage NatCat exposure for things, for example, solar panels in tornado areas? How do we manage that?

Warren Diogo, Head of Renewable Energy, UK

There are various different approaches that the market takes. Quite a few of the market rely on some of the established risk modelling vendors that have historically provided a lot of risk modelling for more established perils, such as windstorm risks and earthquake risks. I think the challenge we have with renewables is that we are more concerned with some of the secondary perils things like severe convective storm, things like wildfire, flooding. And the models just aren't designed to look at these risks in the same way as they were for hurricane and earthquake perils.

Alex Murray, Head of Energy, UK

And that's because some of these are more sort of evolving trends, or is it because they are slightly different assets to what the models are used to modelling?

Warren Diogo, Head of Renewable Energy, UK

A bit of both. I think we are seeing quite different technology in terms of its vulnerability. And we're also seeing where these assets are being located within different geographies as being more vulnerable areas or more hazardous areas. and areas that just have never been modelled or. That also is a key factor in how well these models can actually predict what kind of losses we might see from a tornado or a severe convective storm.

Alex Murray, Head of Energy, UK

And presumably you have a sort of aggregation risk as well in terms of lots of data centres being put into one space, power required for all those. How are we going to manage that?

Warren Diogo, Head of Renewable Energy, UK

Great question. I think aggregation is going to be one of the major challenges for the industry. I'm thinking more what we're seeing in the renewables area in terms of where solar PV and battery storage risks are being built out. And we already see just for those sectors, real concentrations of risk and clustering around particular grid connection points or in particular pockets of states within the US. So yes, I think the way that we're able to adequately monitor aggregate and understand what our true exposure is, is going to be a major challenge.

Alex Murray, Head of Energy, UK

And critical to pricing risk appropriately.

Warren Diogo, Head of Renewable Energy, UK

Absolutely, yes. Pricing is a good point. I think one of the things we've noticed is that the market sometimes over-relies on what the models produce, and that can obviously impact pricing to differing degrees.

Alex Murray, Head of Energy, UK

So if I look at some of the models that we've used, and they've been around for decades, but they really have been targeted at solid structure buildings that would be very different to how you might model a wind farm or a solar farm. something that's completely outside and open to the elements.

Warren Diogo, Head of Renewable Energy, UK

One of the challenges I think we face relates to the risk modelling and hazard assessment for renewables specifically. Not only are these assets generally viewed to be a bit more vulnerable compared to property assets or other more conventional energy assets, but I think the underestimation of what these large convective storm losses can produce has been a major problem for the industry. And there's been quite a lot of notable big losses in the market that clearly have been completely

underestimated and underpriced. We view these different models and the different hazard assessment tools with more uncertainty than anything else. And I think because of that, we are fairly conservative in how we then use that data and approach the modelling side of the business.

Alex Murray, Head of Energy, UK

And underestimating some of these events and how big they can be is not just a problem for us, it's a problem for clients and clients who are planning on building assets in certain regions, isn't it?

Warren Diogo, Head of Renewable Energy, UK

Absolutely. We need the market to function, you know, as one. And I think If the market as a whole is underestimating some of these losses, then that's only going to be bad news for clients and brokers.

Alex Murray, Head of Energy, UK

And you have under insurance problems and so on.

Warren Diogo, Head of Renewable Energy, UK

Yes, absolutely.

Alex Murray, Head of Energy, UK

That's all sort of the onshore side of things. What about the offshore side? How do we model those sort of risks? And are there any other concerns with offshore wind, electrification, cabling, that sort of thing?

Warren Diogo, Head of Renewable Energy, UK

The modelling side for offshore wind, is still an area that is being developed. So I think we're probably going more down the upstream energy approach to how we model offshore wind. But I think in terms of some of the challenges, yes, we do see offshore wind as being an area that continues to present not just attritional losses, but increasingly so more large losses. We see the installation of subsea cables as continuing to be a problem area for the offshore wind sector. Unfortunately, we've seen many years of not just typical construction attrition in offshore wind, but equally cable claims, and they continue to be a problem area for the market.

Alex Murray, Head of Energy, UK

Away from industry and more onto the insurance side, how do you see the current market environment in renewables?

Warren Diogo, Head of Renewable Energy, UK

In renewables, really challenging. The market is fiercely competitive. We're seeing an abundance of new capacity coming in. and just the supply of follow capacity is something that is creating real challenges for us.

Alex Murray, Head of Energy, UK

What's driving that? Is that because it's particularly profitable or is it because it's good to be seen to be in? Where are you seeing the growth come from our peers?

Warren Diogo, Head of Renewable Energy, UK

It depends who you talk to. The market more recently has been fairly profitable, but we have come off the back of a number of very unprofitable years. And I think part of the drive for increased appetite and new capacity coming into the market is just the attractive growth that you can achieve in this renewables market. You know, this is genuine new growth opportunities and it's a real positive new area of business to get involved in.

Alex Murray, Head of Energy, UK

And as touched on before, if you're in energy insurance and you're not seeing much growth in the upstream space or you're not seeing it in downstream, then to see new construction and opportunities come through renewable space is obviously a growth area for people.

Warren Diogo, Head of Renewable Energy, UK

Absolutely. We've seen real interest from some of the more traditional upstream and conventional power markets looking to get into renewables.

Alex Murray, Head of Energy, UK

Moving away from upstream.

Warren Diogo, Head of Renewable Energy, UK

Absolutely, yes. Shifting appetites and refocusing appetites to be more inclusive and to be able to start writing renewables.

Alex Murray, Head of Energy, UK

When I think of expertise in the market, I think of upstream underwriters looking for growth in a space where there isn't growth. And we're aware that they're moving into that renewable space, offshore wind construction or offshore construction, full stop.

Warren Diogo, Head of Renewable Energy, UK

I think fundamentally the renewables market is still quite immature by comparison to the upstream market and the downstream market and the conventional power market

within that. I think there's some very good transferable skills, if you like, that can be brought in from the upstream market and some of those established energy sectors. But on the whole, the renewables market is still very immature and does require a very specialist approach to underwriting these very, quite technical and quite niche areas of the market.

Alex Murray, Head of Energy, UK

And in terms of transferable areas, we've seen, certainly in our experience, dealing with marine warranty surveyors who've moved across from the upstream energy space to renewables. That's quite a good skill to have, isn't it?

Warren Diogo, Head of Renewable Energy, UK

Absolutely. We need a lot of those skills to be transferred. There's a huge reliance on some of those transferable skills, such as marine warranty surveyors. Their value to the upstream industry is equally required in the offshore wind sector.

Alex Murray, Head of Energy, UK

And risk control in offshore energy or offshore wind is just as important in onshore, isn't it? How have you found dealing with our onshore renewable risk engineers?

Warren Diogo, Head of Renewable Energy, UK

Hugely valuable, actually. I think the onshore area from a risk control perspective has again been something that's been underutilized. And as we've seen our portfolio grow over the last five years, The increasing need to be able to understand exactly how those assets are being managed and operated is extremely important.

Alex Murray, Head of Energy, UK

And those technological updates, I guess, as well.

Warren Diogo, Head of Renewable Energy, UK

Yeah, just the need to be able to understand the condition of those assets and how they're being looked after, hugely important. But as you say, with the technological evolutions that we're seeing and the race for scale, We absolutely rely on our risk engineers to be able to give us the latest industry insights and opinions on that new technology.

Alex Murray, Head of Energy, UK

I think of risk engineers in sort of two forms, one being to help us assess risks ourselves, but equally one to add back value back to clients. How are our risk engineers helping in that sense?

Warren Diogo, Head of Renewable Energy, UK

So we've had a couple of exercises now where we've brought in our risk control capabilities to discussions with clients. The more we can engage with the clients and the brokers, with our risk engineers, the more value we're actually able to provide as part of an overall insurance solution. How do you see our risk control capabilities in the broader energy sector?

Alex Murray, Head of Energy, UK

I think the most exciting thing for us is that we have risk control engineers that see assets across the globe. and they bring that experience to clients who are otherwise isolated in their own regions and won't have that knowledge base. So making sure that an engineer that assesses a site or a power plant in Asia can go to the US and can say, this is what we think people do best over here, and share that knowledge. And that gives us a huge USP. For us, this is about adding value back to clients and making sure that we aren't just transactional, offering capacity or follow capacity in some cases. It's about making sure that we are educating clients and offering something different to what our peers can.

Warren Diogo, Head of Renewable Energy, UK

I'd add to that, but I think the risk control capability also gives us more opportunity to lead business and we are selectively looking to do that on more and more of the business that we see. And I think within our market, it is crucial if you are going to lead business that you do have that risk engineering capability.

Alex Murray, Head of Energy, UK

And claims capability, which I think we can be quite proud of as well, can't we? So in terms of the market, it feels like it's a good time to be a buyer?

Warren Diogo, Head of Renewable Energy, UK

Absolutely, yeah. Brokers are finding it increasingly easy to get things placed these days. There's huge options available for clients in terms of available capacity and where they want to place their business. We're seeing limits increasing on critical cap perils and some of those key coverage areas that used to be very difficult to place in the market. So yes, I think a very good time to be an insurance buyer for renewables. How are you seeing the market?

Alex Murray, Head of Energy, UK

It depends what part of energy you're in. If you're a buyer that's in renewables, I completely agree with you. If you're a buyer that's in the upstream space or the downstream space, There's a limited amount of capacity going forward. In 5, 10 years time, I don't see that amount of capacity growing or have grown. Whereas in renewables, I think it's a great opportunity. There will always be an abundance of

capacity. How do you think the needs of a buyer have changed relative to, say, 15, 20 years ago?

Warren Diogo, Head of Renewable Energy, UK

For an energy client these days, there's a whole host of new coverages and lines of business that need to be packaged together. Whereas many years ago, there were quite distinct classes of business or subclasses of business that you would have to go and get placed distinctly and separately with different underwriters. The requirement these days is to be able to do more of that as one package and as one comprehensive solution.

Alex Murray, Head of Energy, UK

So an offshore risk and an onshore risk potentially in the same placement, the same client.

Warren Diogo, Head of Renewable Energy, UK

Absolutely. But equally, I think conventional power risks being placed alongside renewable energy risks is an increasingly important part of the client's insurance requirements these days.

Alex Murray, Head of Energy, UK

And so how do you think we can differentiate ourselves to take advantage of that and to serve our clients better?

Warren Diogo, Head of Renewable Energy, UK

Well, one of the key things we do is that within the energy team, we all sit together. We have downstream underwriters, upstream underwriters, conventional power underwriters and renewable energy underwriters all sitting together and all working within the same team. So we can very quickly identify in a placement which is our area of expertise and combine our efforts to be able to provide the right solution.

Alex Murray, Head of Energy, UK

So essentially breaking down the barriers between the previously thought to be subclasses of business.

Warren Diogo, Head of Renewable Energy, UK

Absolutely. Spot on. So Alex, in a market where we've got an abundance of capacity and huge enthusiasm to get involved in the various parts of the energy sector, how do we differentiate ourselves?

Alex Murray, Head of Energy, UK

To me, this is about responsiveness. It's about making sure that now we're in this market, we get back as quickly as possible to our brokers. Rightly, whether it's positive or negative response, we need to get back to them quickly. We also need to make sure that we don't let bureaucracy get in the way of making decisions, and we have empowered underwriters who can make decisions there and then.

Warren Diogo, Head of Renewable Energy, UK

And I guess equally alongside that, the ability to offer large limits and the capacity required to fully place some of these huge assets is important.

Alex Murray, Head of Energy, UK

Exactly. Meaningful capacity, particularly in a market where, and we've seen this in the past, some of the smaller players and smaller capacity becomes a problem to keep on a placement and quite often get knocked off. So the most important thing is having big capacity, the ability to lead, the ability to quote and add value to the transaction with clients and with brokers. So Warren, from a renewable energy perspective, what keeps you up at night?

Warren Diogo, Head of Renewable Energy, UK

The thing which really concerns me is the increasing frequency and severity of some of the weather events that we're seeing around the world. In particular, severe convective storm in the US is something that continues to deliver some of the largest losses that we see in the market. In relation to the aggregation risk that we've been referring to, what we've noticed is that there is clustering and pockets of risk in particular parts of the US, notably Texas, Arizona, and California. And those three states, I think, carry some of the highest potential for real severe and catastrophic losses to the market. So for me, yes, just the continued volatility that we see around extreme weather events in the U.S. is something that is concerning. We've also just seen the start of the severe convective storm season, And already, very early on in the season, we've seen some severe tornadoes impacting several states in the US, and already notifications from severe losses from hail and tornado are starting to come through. Alex, I'm interested to hear what's keeping you up at night.

Alex Murray, Head of Energy, UK

For me, it's performance in the downstream energy space. The last six or seven years, Performance hasn't been great. There's been an increase in severity and frequency of downstream losses, refining losses in particular. And I don't really see that as a particularly profitable part of anyone's energy portfolio. Unfortunately, it's something you need to be in. If you're going to offer the full package across the energy spectrum, you need to be in that space. But I don't think the market is learning from lessons there.

We've covered a lot of ground today. I think we can leave it there. Thank you very much, Warren, for your time today.

Warren Diogo, Head of Renewable Energy, UK

I've enjoyed the conversation with you, Alex, so appreciate the opportunity. If you enjoyed the podcast, please like, share, or subscribe.

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