



INSURANCE MARKET CONDITIONS

Navigating the Hard Market
Q4 | 2020



Insurance | Risk Management | Consulting



Supporting businesses through a hard insurance market

This report contains information about the factors influencing the current insurance market conditions, and expert guidance to enable effective management of risk solutions for business during hard market conditions.

Risk planning in uncertain conditions

As businesses in Australia, and globally, are facing very difficult landscapes, including in the insurance market, we provide this information to support and guide businesses through these challenging times.

Like many, the insurance industry is experiencing hard market conditions, which follows tightening over a number of years, with significant constraint in insurer capacity and increases in premium pricing across many insurance classes.

This overview provides expert insight to inform businesses of the current market conditions across key business insurance classes, the factors affecting the availability of insurance, and importantly, the strategies and partnership via broker expertise you can take advantage of to adapt, be prepared and better positioned to navigate these challenges.

Partnership to support improved risk outcomes

At Gallagher we are managing these hard market conditions for clients every day. Our constant management of insurance market solutions for clients involves understanding and adapting to the risk market influences and how to secure optimal outcomes for business risks of all shapes, sizes and industries. Combined with our extensive network of local and global insurance markets, we are strongly equipped to provide considerable expertise to support businesses with risk and insurance solutions.

Please do not hesitate to get in touch. We are here to help.



Mark Oatway

Managing Director - Placement

BUSINESS INSURANCE MARKET CONDITIONS

Key impacts and sectors

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Hard market conditions continue to make access to risk and insurance solutions more challenging for SME's through to large corporate businesses, and this report provides our risk broking and insurance market placement experts' key insights and guidance for navigating the complexities to achieve effective insurance renewal outcomes.

Business Insurance market conditions Q4, 2020 – GENERAL OVERVIEW

Insurance and risk markets in Australia and globally continue to be challenged by hard market conditions. As a result businesses renewing or expanding insurance cover are facing a more demanding climate due to numerous factors that have been compounding for the past three years.

Losses, largely driven by recent natural catastrophe claims, lack of investment returns and reductions in claims reserves, have resulted in insurers taking a considerably more conservative approach to accepting risk. This is evidenced by insurance cover being harder to obtain as the capacity for available risk placement is significantly lower than in previous years. The reduction in supply is driving pricing up, causing premium and other factors relating to the total cost of cover to be less favourable – resulting in more stringent risk conditions and premium rate reviews being imposed.



Critical factors affecting the availability of insurance cover

A range of significant factors have reshaped conditions in the current insurance market, including

- **catastrophic natural events** over the last 10 years and recent record losses in Australia following extreme floods and bushfires during 2019-2020, and large individual fire losses
- considerably **diminished insurer investment returns** coupled with higher costs from the treaty reinsurance market are forcing insurers to restructure risk portfolios around long term sustainability
- **increased litigation** from class action activity and greater regulatory scrutiny has resulted in risk aversion where C-suite insurance cover for boards and directors is involved
- **COVID-19 implications and constraints on key insurance market operators**, such as Lloyd's of London, have had a significant impact on turnaround times for terms offered by overseas insurers
- for some industries, **accountability pressures from the insurers' shareholders** are making obtaining insurance cover more difficult in sectors engaged in activities with environmental impacts, such as mining and coal-based energy, for example.

At a glance

Catastrophic natural events



Diminished insurer investment



Increased litigation



COVID-19



Pressures from the insurers' shareholders



Gauging and responding to hard market conditions

The insurance market response to these impacts has important implications for business insurance risk management and renewal strategies. Gaining optimal risk solutions for clients in hard market conditions requires: firstly a partnership approach between the organisation, Gallagher brokers and your insurers; secondly detailed risk management information; and thirdly global expertise in accessing insurance markets to offset local market constraints.

With supply pressures from insurers driving more stringent requirements for documented risk management, and reductions in cover, our Gallagher broking experts are providing critically important advice on

- **managing renewals early** to enable lead time for presenting, reviewing and negotiating risk options with insurers (6+ months for large businesses/insurance programs)
- **re-assessing risk programs and policies** based on the current climate, and considering innovative strategies for structuring and risk options
- **developing thorough submissions to insurers** that contain significantly more detail, demonstrating strong risk management which is critical to gaining support from the market
- **taking a broad approach to the insurance market**, accessing both local and international insurance providers, applying expertise in market selection to tailor cover and pricing options.





Property insurance

The availability of property insurance is constrained, with insurers responding to pressure on their margins from claims losses, amplified reinsurance costs and poor investment returns, resulting in reduced capacity in many areas.

Impacts on premiums: industries in focus

Property premium rates are typically priced 10% higher for lower risk renewals, and significantly higher for more challenging risk types. Obtaining property insurance requires analysis of policy limits and sub-limits to offset the full impact of the hard market in obtaining cover on competitive terms. Insurers may apply their own internal rating models to some accounts, which often leads to split rating (where risk capacity is split across insurers and insurer rate bases).

Organisations with a claims history may benefit in taking on a greater level of risk with higher retentions/deductibles. Cyber exclusions from property and related industrial special risks covers are becoming common. Businesses are advised to consider cyber insurance protection via separate insurance policies.

Recent large losses have resulted in insurers applying increased scrutiny to more challenging property risk types, including:

- properties located in high natural catastrophe zones
- food and beverage producers with a large footprint of expanded polystyrene (EPS)
- high fire load manufacturing accounts with inadequate fire protection
- buildings with aluminium composite panel (ACP) cladding
- timber constructed hotels and pubs
- recycling operations
- timber mills.

At Gallagher we are navigating these challenging market conditions every day and we are able to provide our clients with options to enable them to make informed decisions around retaining and transferring risk.



Liability

Insurers are taking a broad approach to imposing standard rate increases, with public liability cover subject to increases of 10% upwards, irrespective of claims activity or turnover increases. Actuaries are now becoming much more involved in the underwriting process, and this more detailed analysis and modelling is driving the adjustments to pricing.

Businesses attracting larger increases include those with poor loss histories, policies below insurers' minimum premium requirements, where there is low adoption or lack of appropriate risk management practices, or higher hazards such as

- high bushfire exposure
- high worker to worker exposure
- amusement rides that 'lift and spin'
- trampoline and inflatables entertainment centres
- coal risks and tailing dams
- buildings with aluminium composite panels (ACP).

On a primary basis, insurers are looking to exclude COVID-19 transmission risks, making expertise in market selection crucial to obtaining appropriate cover for an organisation.

Where excess of loss liability and umbrella policy placements have been traditionally competitive, both in terms of coverage and price, we are now seeing restrictions imposed on these risk transfer terms, consistent with insurance market constraints generally.

Tightening of capacity for liability

Insurers are taking a more conservative approach to balance sheet reserving for retroactive claims or long-tail liability, with high incurred but not reported (IBNR) claims driving a negative impact on capacity deployed, claims histories and renewal premiums.

The withdrawal of Allianz Global Corporate & Speciality, historically a leading provider, from long-tail liability business in Australia and New Zealand has also resulted in reduction of capacity – making utilising Gallagher speciality and international placement teams more critical.





Professional and financial lines

Significant pressures are evident in professional and financial lines insurance classes. The business impacts and economic uncertainty created by the COVID-19 pandemic add to the backdrop of heightened risks over recent years, attributable in part to increased litigation from class action activity and greater regulatory scrutiny. These factors have already contributed to material increases in premiums, restrictions in policy coverage and constraints in insurer capacity in many cases.

While the implications of COVID-19 continue to play out, the concentrated efforts by businesses, directors and executive management teams to make material decisions impacting customers, employees, shareholders and other stakeholders throughout the pandemic potentially heighten the risks confronting directors and officers. Externally this includes potential creditor or insolvency claims, and internally this increased risk includes occupational health and safety obligations to a company's workforce, as well as other employment related exposures.

Material changes to pricing and capacity continue to be felt in the publicly listed directors and officers' liability marketplace, particularly for those companies with larger market capitalisations and seeking securities (Side C) entity cover.

What is not well understood is that directors and officers of unlisted companies, including non-profit organisations and private companies, are similarly facing unexpected premium increases and a shortage of available options.

Economic downturn and uncertainty also makes professional indemnity risk more acute.

Professional indemnity is considered by insurers to be a recessionary prone class of insurance. There can be no room for error or expectation gaps at times when there is pressure on revenue and costs. This is when the results of professional services tend to be more heavily litigated. High risk activities in a downturn may involve projects, contracting, valuations, certification, forecasts, new or innovative design/technology and the provision of any advice or service with complexity.



Workers' compensation

In response to the COVID-19 pandemic, workers' compensation jurisdictions in Western Australia and New South Wales have eased constraints and introduced new laws accelerating worker access to COVID-19 related compensation. These laws are intended to provide a presumption of a work-related injury in relation to diagnosis of COVID-19.

Australia wide workers' compensation jurisdictions have also indicated a potential freeze of workers' compensation premium rates or looked to waive selected fees, such as plant registration.

Considerations for organisations with staff working from home

Employers who have moved their workforce to home-based activity need to be aware that for the purposes of workers' compensation the employee's home (while they are performing work-related activities) has become a designated workplace.

Organisations with employees working from home need to consider health and safety issues that may arise in these environments, obvious ones relate to ergonomics and equipment use, but also emerging mental health and home based safety risks like domestic violence have also arisen in recent cases.



INSURANCE MARKET CYCLE

Core dynamics



Partnership | Working together

Being informed and prepared as your business faces the challenges of hard market conditions in the risk and insurance market is important. Combined with expertise from an insurance broking partner to work with your business to advise and develop effective client risk management and renewal strategies is an essential partnership to ensure your business is protected through the dynamic cycles of change.

Gaining optimal risk solutions for clients in hard market conditions requires the combined expertise and capability Gallagher can provide through:

- **a partnership approach** between the organisation, Gallagher brokers and the insurers
- **detailed risk management information**
- **global expertise** in accessing insurance markets in order to offset local market constraints.

As an experienced broker and risk advisor we work to explore all the options available to your business, discuss a range of pricing and funding options and ensure that you are appropriately protected against all insurable risks.

We work with a large variety of businesses, each exposed to unique risks and all dealing with individual business challenges and circumstances. As one of the leaders in risk management, we remain fully committed to supporting businesses through these uncertain times. As a guide to working on effective risk outcomes for business these key steps remain a focus.

1

Building strong relationships ahead of renewal

Your relationship with your insurance broker and their relationship with providers in the insurance market are of critical importance. It's imperative that your broker understands your organisation and knows the individual risk exposures associated with your business. This enables them to design a fit for purpose insurance and risk program, ensuring you get value for money with the correct coverage in place.

2

Starting renewal preparations early

The more time your broker and you and your business team have to work on the renewal of your insurance program, the more likely you will gain an effective result in this challenging insurance market. That demands putting in the time to gather the relevant and comprehensive information so that it can be presented to potential insurers well before the renewal date.

Building in a longer lead time enables your broker to properly market your insurance program to and negotiate with potential insurers, presenting your business in the best possible light.

3

Provide detailed information that represents your risk profile in positive terms

Be prepared to document and detail your risk management protocols. In the current market conditions insurers will require more underwriting information. Collect and collate accurate, up-to-date building valuations and risk surveys. Insurers will also want to see your business's risk control processes, supply chain management and your risk management program.

Work with your broker so that they can present your insurance needs to potential insurers in a tangible manner that will resonate and be attractive.

4

Being open to flexible, innovative ways of structuring your insurance program

The insurance market isn't static but in fact highly responsive to claims impacts and events that alter the perspective on risk. Be open to working with your broker around changes to pricing, deductibles and coverage.

Your insurance broker may be able to offer creative solutions for high risk businesses where the insurance market may be unwilling to deploy their capital. If you're willing to take more risk on your balance sheet, let your broker know.

Building business confidence for more than 90 years

At Gallagher community means many things, the places we live and work, industries where we do business and new connections we form. As your community insurance broker and consultant, our purpose is to help you move forward with confidence. Confidence that is built on trusted advice in managing your risks, global reach and local expertise, and a partner who holds themselves accountable to the highest standards in business.

With 30+ regional and metropolitan branches nationally, we understand local business communities because we're part of them ourselves. Keeping our focus where it's always been – helping you and your business through every challenge you face. Building confidence, together.

Our commitment: the Gallagher Way

Our pledge as your trusted advisor is to hold ourselves to the highest ethical standards in all our dealings with you, and your business. For nine consecutive years, we have been the only insurance broker in the world to be named one of the world's most ethical businesses by the Ethisphere Institute and we take that commitment seriously.

ETHISPHERE®
WORLD'S MOST
ETHICAL
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2012-2020

The Gallagher Difference

A client-led approach

We don't just claim a "client-first" focus, it's embedded into our strategy and structure. It's what ensures we always act in your best interests to achieve the best outcomes.

A values-led culture

The people who started our business back in 1927 lived and breathed a very particular set of values, and it still stands today. We call it The Gallagher Way – it puts people first, no matter what.

We'll fight for what's right

We hope you'll never have to make a claim, but if you do, we'll stand with you. Because insurance is essentially a promise – and you need people who will keep theirs.

Creating tomorrow's solutions, today

You only get to stay around for the long haul if you know how to evolve and adapt.

For more information on obtaining the cover you need in a hard insurance market, please contact your Gallagher account manager for a friendly and informal discussion on your current insurance program.

If you are new to Gallagher, we'd be delighted to help.

Please call, 1800 240 432 or visit:

ajg.com.au



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