

Insurance market conditions

Navigating the hard market
Q3 | 2021

Expert insight into the current market conditions in business insurance classes and the factors affecting the availability of insurance.

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Gallagher

Insurance | Risk Management | Consulting

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Introduction

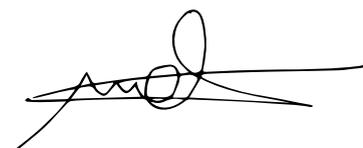
Welcome to the Q3 2021 edition of Navigating the Hard Market, which provides expert insight into the current market conditions across some key business insurance classes, the factors affecting the availability of insurance and the strategies we can help you deploy in order to navigate these challenges.

Partnering with experts

Here at Gallagher, we are managing our clients through this hard market day in, day out, and we understand how to secure the best outcomes for business risks of all shapes and sizes, across all industries.

Thanks to our extensive network of local and global insurance markets we are very well equipped and have considerable expertise in supporting businesses with insurance and risk solutions.

Please do get in touch – remember, we are here to help.



Mark Oatway
Managing Director – Placement

01 BUSINESS INSURANCE MARKET CAPACITY

Q3, 2021 – General Overview

Businesses continue to face very difficult and ever evolving challenges – from the markets they operate in to the way they run their day-to-day operations.

Over the past two years the insurance market has hardened and as a consequence prices have increased as appetite for risk has tightened. We are beginning to see some evidence of price increases levelling out, however, the challenges remain.

Across the board insurers are assessing which areas of the market they want to participate in and overall there's significantly less capacity than there has been previously.

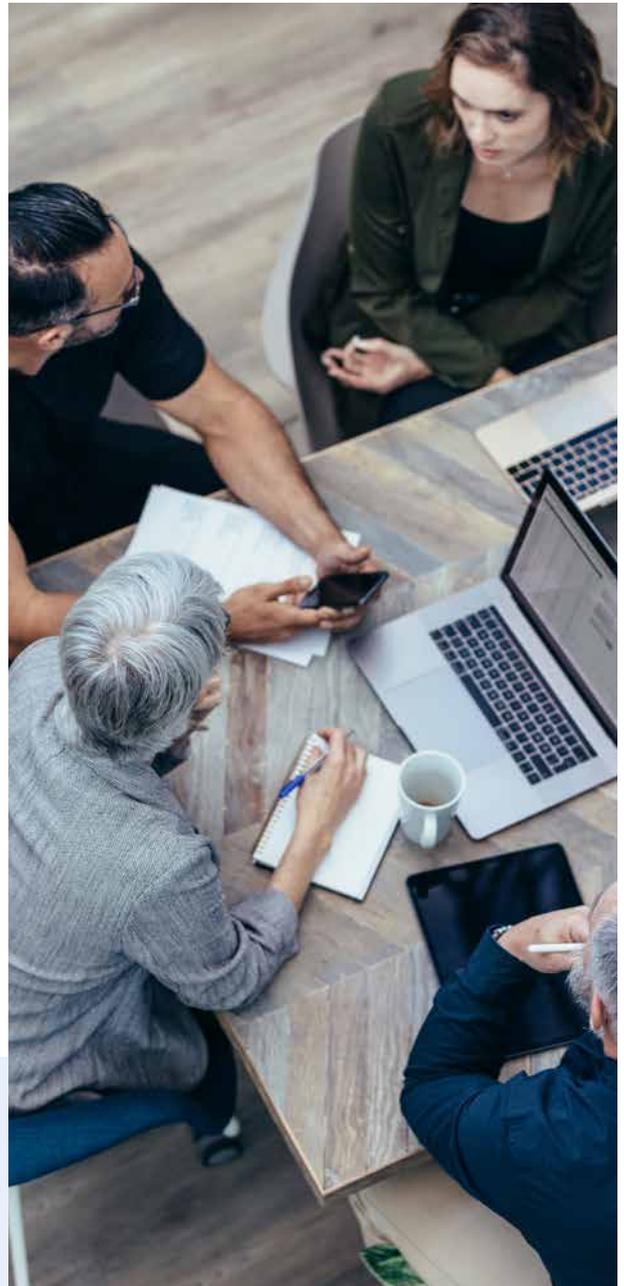
Because of this, placement is more difficult – but we can generally find cover. We have long-established relationships across the globe, and under current conditions these are really delivering results for our clients.

Through utilisation of the markets in our global networks, particularly in Singapore and London, in addition to what's available in Australia, we canvass availability comprehensively to ensure we achieve the optimum coverage possible.

For every client, however, we are being asked for an increasing amount of information about the business and the risk mitigation in place, and because of this it's imperative that the renewal process starts earlier than it may have done in previous years.

The impact of COVID-19 test cases

We haven't yet seen a resolution to the COVID-19 business interruption test cases, however, the impact is already being felt, as insurers tighten up policy wordings – not just in relation to the pandemic and how policies could be perceived to respond, but across the board for all of their policies and exclusions to ensure they're not leaving themselves open to cover unintended exposures.



01 BUSINESS INSURANCE MARKET CAPACITY

Critical factors affecting the availability of insurance cover

There are a number of factors with an ongoing effect on the current insurance market, including:

- **catastrophic natural events** over the past decade, the increasing prevalence of extreme weather events 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, and
- for some industries, **environmental accountability** pressures.

At a glance

Catastrophic natural events



Diminished insurer investment



Increased litigation



COVID-19



Enviromental accountability



01 BUSINESS INSURANCE MARKET CAPACITY

Responding to hard market conditions

Operating in a hard insurance market brings its own unique challenges, and it has significant implications for risk management and renewal strategies.

Insurers and underwriters are much more cautious about the risks they take on, so it's imperative that you and your organisation work closely with your Gallagher broker and insurers.

While Gallagher's international reach means we can access global insurance markets to offset local market constraints, the requirement for detailed risk management information is now a given.

To support this need for greater risk management detail our broking experts are providing critically important advice on:

Managing renewals early
to enable lead time for presenting, reviewing and negotiating risk options with insurers (six-plus 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 high-quality submissions to insurers that contain significant detail and demonstrate strong risk management – critical factors to gain support from the market

Taking a diverse approach to the insurance market, accessing both local and international insurance providers, applying expertise in market selection to tailor cover and pricing options.

We work with strong strategic insurer networks locally in Australia, and as an international business we also access global insurer markets in the United States, United Kingdom, Europe, Asia and Bermuda, for specific client options and needs.



02 SPECIFIC MARKET CONDITIONS

Property insurance



Property insurance is particularly constrained as insurers respond to pressure on their margins from claims losses, amplified reinsurance costs and poor investment returns. These factors are resulting in reduced capacity for certain property risks.

Premium increases continue, however, the level of increase is greatly determined by a number of factors, including location, use and construction type.

Obtaining property insurance requires analysis of policy limits and sub-limits to offset the full impact of the hard market when 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). In response to such premium rate increases, organisations with a claims history may benefit in taking on a greater level of risk with higher retentions/deductibles.

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.



In some cases, engineering reports are required by underwriters, and whereas in previous years a recommendation of risk management may have been made, insurers are now insisting those changes are put in place before insuring the risk.

We are seeing multiple carriers becoming the norm on property placements, which is a stark contrast to four or five years ago, where a single market leader underwrote the account 100%.

Consequently, the planning itself takes significantly longer, and Gallagher is utilising its full range of domestic and international markets to get the best coverage we can for our clients.

02 SPECIFIC MARKET CONDITIONS

Liability insurance



Public liability cover is continuing to be subject to increases, regardless of claims activity or turnover increases.

There are a number of factors influencing this, including an increasingly litigious environment and the outcomes of legal cases. In addition, workers' compensation insurers are increasingly seeking to reclaim costs by suing other insurers under their liability policy on the basis that a safe place to work wasn't provided, and this is a particular issue if you have contractors working for you, or you're providing labour hire.

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

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



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.

02 SPECIFIC MARKET CONDITIONS

Professional and financial lines



Significant pressures remain in the professional and financial lines insurance classes, however there are early signs of some new capacity entering the market, particularly out of London. It is too early to determine the implications, if any, around any premium relief or increased competition for risk.

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 driven material increases in premiums, restrictions in policy coverage, and constraints in insurer capacity for many clients over recent years.

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 ASX 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. This is also loss driven, and insurers requiring a greater pool of premium in order to pay new claims, as well as adverse loss development on historical losses.



Economic downturn and uncertainty also make 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. History has shown that declining economic activity, such as the current environment, is when the results of professional services tend to be more heavily litigated. Insurers will respond to certain industries they consider to be "high risk activities" such as projects, contracting, valuations, certification, forecasts, new or innovative design/technology and the provision of any advice or service with complexity. As economic pressures increase, there is likely to be further impact on premium rates and capacity in this segment of the market also.

02 SPECIFIC MARKET CONDITIONS

Workers' Compensation



As with many other areas of insurance, the Workers' Compensation market has become harder over recent months, and there have been some significant increases in the costs of schemes around Australia.



This is as much to do with increases in essential industries, where there have been some significant costs, as it is with the overall market at present.

In Victoria, CGU – one of the five nominated insurers – has made the decision to exit the Workers' Compensation scheme. This is indicative of insurers across the whole country looking constructively at their risk profile, and assessing whether being an agency representative is actually profitable. This could be a real turning point for Workers' Compensation, and it'll be interesting to watch.

While it's unlikely to prompt others to leave the scheme right now, it does start to disrupt the market in Victoria. Other agents will need to take on new staff to manage the work being moved around by the regulator, and it's likely that over the next two or three years we could see Victoria go on a similar journey to icare in NSW, which reduced from five agents to two, and has now had to beef back up to four.

Insurers will be watching this with interest – QBE didn't have its licence renewed a few years ago, and has gone from strength to strength, and that's an evidence-based example for other insurers to make a business decision on.

We're now starting to see more evidence about the impact of COVID-19 for businesses and the mental health aspect, especially now businesses are beginning to reintegrate and bring people back into workplaces. This is starting to be a major factor in the impact of premiums as they flow through.

For business COVID safe plans, a reminder that it needs to be reflective of what your current practices are, so if you've decided to increase working from home, for example, you need to ensure you're treating that home workplace as a true workplace, and you've considered all of the risks attached to it.

03 INSURANCE MARKET CYCLE

Infographic of core dynamics



04 PARTNERSHIP

Navigating the hard market with expertise at your side

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.

Gaining optimal risk solutions for clients in hard market conditions requires the combined expertise and capability Gallagher can provides 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.



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, ensuing you get value for money with the correct coverage in place.



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.



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.



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.

05 ABOUT GALLAGHER

Building business confidence for more than 90 years

We are Gallagher, a global leader in insurance, risk management and consulting services. Since 1927, we've been working together with our clients to find effective solutions to their challenges, and helping them face their future with confidence.

Much more than simply an insurance broker, we provide cost-effective, client-centric and expertise-driven risk management solutions. Our leadership team fosters a dynamic, entrepreneurial culture that has made us an innovator in creating new products and services for our clients.

Wherever you are in the world and whatever your industry might be, we create and uphold a passionate culture based on strong values, collaboration, and professional excellence.

With over 35,000 experts globally, and 130,000 clients in Australia and 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.



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.



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.

World's Most Ethical Companies" and "Ethisphere" names and marks are registered trademarks of Ethisphere LLC.

Get in touch

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

Call, 1800 240 432 | Visit: ajg.com.au



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