MARKET UPDATE

Gow-Gates Insurance Brokers

JUNE 2023

APRA data for Q1 2023 has revealed a significant underwriting loss for local general insurers, driven by a rise in gross incurred claims; these have gone up 40.6% to $14.4 billion from $10.2 billion in Q4 2022.

Almost all classes of business recorded premium increases, and this will put further pressure on reinsurance costs, which will flow onto Insureds through premium and a reduction in capacity and cover.

The closure of Catholic Church Insurance ('CCI') from general and workers compensation insurance will have ramifications for the wider market.

Though CCI typically focused on certain business sectors, namely aged care, education and religious organisations, the exiting of a major insurer will result in major capacity constraints. Those insurers willing to underwrite these risks to replace CCI are likely to be subject to premium and cover pressure, which will impact their wider capacity for other businesses.
The lessons from CCI's departure will take some time to flow through and will be a reminder to others about the risk of unsustainably low deductibles and pricing across a portfolio of large exposures.

Property and Casualty

Insurers are also preparing for the effect that the El Niño will likely have towards the end of 2023; high rainfall has led to vegetation growth and bushfire exposed risks are already experiencing reductions in capacity and aggregated limits and this trend is likely to continue. The recent withdrawal of State Farm General Insurance Company and AIG from Californian bushfire risks will further highlight these challenges, particularly for local insurers with large re-insurance treaties still to be negotiated.

Lastly, the NSW Court of Appeal has handed down a decision that will have wider implications for builders, owners and residential strata entities. Owners SP 92450 v JKN Para 1 Pty Limited [2023] NSWCA 114 has shown that owners can be successful in obtaining compensation for the full replacement of the non-compliant cladding; this will likely see a spike in insurance premiums for builders & contractors.

Meanwhile, the Insurance Council of Australia (ICA) has appointed Deloitte to undertake an external review into the insurance industry's response to the 2022 South East Queensland and Northern New South Wales floods.

The review will seek to inform the industry's response to future weather events, and will assess response timeframes, resources deployed, claims handling, complaints handling, communication with policyholders, and engagement with stakeholders.

Long tail risks, particularly with contractor and sub-contractor exposures, will continue to see pricing and deductible pressure as the market adjusts for increasing claim costs. Those Insureds' who have incurred claims in this space will continue to experience harder renewal conditions.

'Silent cyber' – cyber and technology exposures in traditional property and liability policies is a firm focus of insurers – and is still being clarified – i.e either being affirmatively covered or excluded.

The recent decision of the New Jersey Appellate court in favour of Merck's $1.4bn claim against insurers means cyber exposure remains firmly in the spotlight across all classes of insurance.

Executive and Professional Risks

The favourable trend in Directors and Officers (D&O) insurance continued through 2022 and into 2023.

New capacity has entered both the domestic and international markets to such an extent that there is now active competition between insurers for risks of a particular profile.

Private companies, smaller listed companies and excess layer placements are all target business for D&O insurers. Clients are seeing favourable outcomes after some difficult years.

Whilst there is active competition, the claims that drove the correction in the D&O market have not gone away and there are new areas of concern. An emerging D&O risk for businesses to be mindful of relates to ESG claims, and accusations of greenwashing. ASIC has begun first-of-its-kind court proceedings against Mercer Superannuation for alleged greenwashing related to claims made about its superannuation products. This is the first action taken by ASIC for unsubstantiated claims made by a business regarding its environmental and sustainability practices.

In some respects, ASIC's action marks a maturity point in the ESG conversation in Australia, with the issue now under far greater scrutiny. Insurers are more conscious of this now and will interrogate ESG positions and statements during the underwriting process.

Cyber insurance is starting to stabilise after a turbulent 18 months during which insurers came to terms with the growing surge in ransomware events. Pricing is no longer subject to dramatic change with insurers' concerns now focused on particular industries and managing their aggregate exposures via policy restrictions.

Robust cyber security measures are now a non-negotiable, with multi-factor authentication, business-grade firewalls and anti-virus software a must. An organisation able to articulate its cyber security stance across people, processes and technology will find itself in a more favourable position with insurers at renewal time.

Competition remains healthy in certain sectors of Professional Indemnity, notably for smaller miscellaneous risks, however, there are industries that continue to face challenges with only a handful of insurers willing to underwrite their business.

Larger risks in the construction sector certainly fall into this category along with financial planners, certifiers and valuers.

Workers Compensation

Broad and significant premium increases should be anticipated across the Victorian and New South Wales jurisdictions, with insurers indicating that rising claim numbers and associated claims costs are driving these rate adjustments.

Gow-Gates remains committed to assisting with premium forecasting and premium mitigation support wherever possible during these challenging times.

New South Wales:

- Scheme premium rates have now been confirmed at an average increase of 8% for the 2023-2024 financial year. icare has indicated significant premium increases are required for the scheme to breakeven and remain viable.
- The Minister has capped the increase at 8% for 2023-2024, and an 8% increase every year for the next 3 years.
- Certain businesses will see an increase less than the scheme average, and some will be greater. The industries most heavily impacted are; Transport and Storage, and Health and Community.

Victoria:

- The Victorian Government has set the average premium rate for 2023-2024 at 1.8%. This represents a 42% increase from 2022-2023.
- WorkSafe has announced it will be adjusting the eligibility for certain mental injury claims in an attempt to limit ongoing claim cost increases.
- Introducing a whole-person impairment threshold of 20% for claims that receive weekly benefits for more than two and half years.

Claims Insights & Drivers:

- The number of psychological claims reported has been increasing since 2017. This upturn includes the associated costs, frequency, and severity of mental health claims.
- Increased costs associated with weekly income support, i.e., workers are staying on the scheme for longer while receiving wage payments.
- Increased frequency and costs associated with whole person impairment and common law workers compensation claims.
- There appears to be a trend of "threshold creep" with more claimants being assessed for whole person impairment above certain thresholds.

NSW Specialised Insurers:

- CCI is relinquishing their workers compensation license from June 2023 due to rising claims costs and other related expenses.
- Hospitality Employers Mutual has applied to expand its Defined Industry to include Restaurants, Cafes, and Takeaway food. This has now been approved by SIRA.

The team at Gow-Gates can help you navigate through the challenges, identifying the risks you face and helping ensure you have robust risk management procedures in place.

To enable us to help you to the fullest extent, it’s smart to begin your renewals early and engage with our insurance partners to help get their buy-in.

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