MARSH

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# State of the Insurance Market: Implications for the Public Sector

At the start of 2020, the insurance market had very clearly moved into transitional or hardening market conditions. This means along with increases in premiums, insurers are looking for more detailed risk information, and have a greater tendency to require risk improvements, and apply exclusions and requirements (subjectivities) on quotations. A number of Insurers were aware they might have capacity issues, which would limit their ability to accept risk, and therefore, they implemented a more stringent selection process for the risks they are prepared to insure.

Historically, motor business has been very price sensitive but the areas causing the most concern at the start of 2020 were financial lines business; this class includes professional indemnity, medical malpractice, fidelity guarantee/crime, and most significantly Directors and Officers liability.

In these sectors, we started to see doubling of premiums and at the same time, increasing deductibles and reducing limits of indemnity. The problems started in the US market, mainly driven by poor claim experiences but very quickly became a worldwide problem. For public sector organisations we saw the most concern around risks involving property, design and management and of course, cladding issues.

Many public sector bodies began to see their suppliers and contractors experience difficulty in obtaining/providing required insurance protection; often this was well before the concerns became apparent in their own placements.

All this was prior to the COVID-19 pandemic. Currently the scale of the impact of Covid-19 upon insurer results is uncertain, but it will inevitably affect profit margins and solvency levels, potentially placing further pressure on already fragile pricing. The big concern however, is how the market will respond to future risk exposures.

When we start to look at the market for core property, casualty, and motor covers, it is both challenging and unpredictable.

Underwriting losses have been fuelled by more than a decade of declining rates, persistently low interest rates and increased claims frequency, particularly in relation to large natural catastrophes.

Since the start of 2020, there has been significant contraction of management liability (directors & officers) and professional indemnity markets, particularly for construction related risks, with resultant pressure on cover limits and premium rates. These risks are now very difficult and sometimes not possible to place.

In other areas, we are starting to see a shortage of underwriting capacity, as insurers are being more selective over where it is deployed. In addition, there is renewed focus on underwriting discipline – looking closely at each client's unique risk profile to ensure adequate rating.

Similarly, while there is a trend of steady price increases, rates are largely being reviewed on a 'case by case' basis leading to no clear pattern emerging; 'best in class' accounts can expect little or limited change but those with heavy losses must anticipate remedial action linked to their own particular risk characteristics.

## Public Sector Insurance Market

The above developments follow through to the Public Sector risk arena – changes in the availability and cost of reinsurance directly influence domestic underwriting strategies and stricter reinsurance terms, conditions and pricing inevitably filter down to all policyholders. It is anticipated all the increases in reinsurance pricing will be passed directly across to clients.

While the number of insurers actively writing public sector risks remains limited in comparison with the general corporate sector, there are still sufficient players to ensure a competitive market provided the Insurers have the required information to underwrite the risks presented to them.

The main UK public sector markets also remain unaltered;

**Maven –** a bespoke Underwriting Agency with capacity provided by AXA XL, Aviva and others. Motor risks previously underwritten by Amlin are being transferred to Aviva.

**Protector –** a major insurer of Nordic municipal risks who has made a big impact on the UK market.

**Risk Management Partners –** a well-established Underwriting Agency with capacity from AIG, QBE, Ecclesiastical, and HSB.

**Travelers –** a large US owned insurer focussing on property led risks, emergency services, and smaller local authorities without social service, highways, and education exposures.

**Zurich Municipal –** a 'direct dealing' sector specific insurer who retain a significant market share

In addition, there are other insurers, notably Avid & Ocaso, focussing exclusively on leasehold/right-to-buy covers, which can be very difficult to manage in relation to water damage claims and the amount of administration involved and therefore remain very price sensitive.  There are a couple of London Market Motor underwriters such as Edison, who are prepared to consider Public Sector Fleet risks on a standalone basis.

At the same time, Amlin and Tokio Marine, who at one time were both looking to develop public sector accounts have now withdrawn from the market, favouring a return to more conventional and profitable lines of business.

Medical malpractice and professional indemnity also remain difficult areas and options for cover on a standalone basis can be limited, often resulting in punitive terms and conditions.

In summary, we are seeing all insurers exercise caution as they work to produce an acceptable return on capital. Accounts are reviewed on a 'case by case' basis at renewal, often with increases being proposed. Well performing accounts with good claims experience and a real commitment to risk management can still expect genuine competition but potentially a higher premium spend than in recent years.

## Sector-Specific Issues

### Coronavirus

Covid-19 is a particular challenge for local authorities and while insurers have generally been accommodating of new activities and responsibilities detailed information is required.

It is anticipated that exclusions will continue to be imposed across policies, restricting the insurance cover available in this area.

### Austerity Measures

The compound effect of funding cuts over the past decade has affected insurers in several areas including, for example, increased highways claims due to poor road maintenance and more frequent abuse allegations attributable to reduced social care resources. At the same time, many clients have lost experienced insurance and risk management staff and expertise.

On property risks it is essential that risk improvements are still completed in a timely fashion. There is concern on the impact that the lack of general maintenance is having. The water-related claims experiences for leasehold Right-to-Buy risks are generally deteriorating, leading to some very substantial premium increases being required.

As a consequence, underwriters are particularly keen to hear about the steps taken to mitigate exposures.

### Building Control

Dame Judith Hackitt's post-Grenfell Report introduces a number of key measures aimed at improving fire safety in new buildings via a robust 'holistic' management approach.

At the same time, local authorities and others are required to identify and manage any inherent design and construction risks, particularly those associated with composite cladding.

Both elements introduce additional responsibilities and underwriters need to understand how related exposures are being managed, for both 'first party' and outsourced/sub-contracted risks.

### Climate Change

Insurers globally have been severely impacted by changing weather patterns and the increased frequency and severity of major weather events.

Not surprisingly, this has led to increased focus on management controls, including general business continuity arrangements and flood risk management plans, and in some cases limitations to or withdrawal of storm and flood cover.

### Cyber Risks

General Data Protection Regulations have reinforced the need to protect information while highlighting the remedies available to individuals affected by data breaches.

At the same time cyber criminals have become increasingly sophisticated in their attempts to target personal information and system attacks continue to be reported on an almost daily basis.

The reputational impact of a breach on organisations can also be extremely damaging.

As with many emerging risks the number of public sector bodies purchasing insurance protection remains relatively low and the primary focus should be on identifying system vulnerabilities and implementing appropriate education and control measures.

It is important to note that changes in re insurance arrangement will potentially mean that any element of cyber cover provided under a non cyber policy (for example a property or liability policy) will be removed.

### Public Sector Liability Claims

As a rule, the overall cost of liability claims is ever increasing; the enhanced ability of the medical professions to save injured parties' lives has increased the volume of the most expensive cases – those with life-changing injuries, along with reliance on medical treatment and care. This position is exacerbated by the present level of the personal injury discount rate.

### Reinsurance

A significant number of reinsurance contracts were due on the 1 January and these are expected to have had premium rate increases of perhaps 20%, potentially some very restrictive exclusions in relation to communicable disease. These changes will in the main follow through into the primary insurance policies.

In addition, silent cyber exclusions being applied. 'Silent Cyber' refers to potential cyber-related losses stemming from traditional policy wordings that were not specifically designed to cover cyber risks. The re insurers are applying silent cyber exclusions to remove any ambiguity and uncertainty in this respect.

### Conclusion

The insurance market is hardening and as a result significant premiums increases and restrictions in policy cover are anticipated in the coming months.

Should you require further information or possible alternative solutions please contact your usual client executive today or contact:

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