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Insurance buyers urged to start talking early as market hardens due to Covid-19

Liz Booth July 27, 2020



UK risk managers taking part in our Risk Frontiers Europe survey predict the insurance market will continue to harden, partly as a result of Covid-19, and businesses should expect a lot more questions about their risks. It is key that underwriters fully understand the nuances of each business and that, in return, risk managers fully understand the nuances of policy wordings, they said.

The participants therefore urged risk managers to start conversations early ahead of their next insurance renewal and keep an eye on longer-term risks, as well as those caused by Covid-19. Northern Ireland Water's risk manager George Ong reported a successful 1 April renewal in the middle of the pandemic, but stressed that the conversation had started in June last year at the Airmic conference. He reported few price increases in his programme, except for property, and directors and officers (D&O) cover.

He added that, together with his broker, he was able to negotiate two- and three-year policies despite insurers originally saying they would not do that. But Mr Ong said that without total transparency around his business and quality of information, this would not have been possible.

Going forward, he believes there may be a changing balance in the approach to insurance. Risk managers may well turn to parametric covers and alternative risk transfer solutions to deal with the "big ticket" issues such as pandemics and climate change, where conventional insurance programmes are unable to match the change in nature and complexity of external risk factors, he said.

His words were echoed by Paul Rowland, senior partner at Invictus Risk Solutions, who said: "Risk managers must be able to evidence to underwriters that their specific business presents a low risk. To do so, the risk manager must be able to evidence that even in a challenging and uncertain market, their business stands out from the crowd and can prove its competitiveness. This can be demonstrated by senior management of a business establishing a clear strategy that contains elements of data analysis, investment, optimism and rigorous risk selection."

The risk survey participants were asked whether Covid-19 would harden the market still further, particularly if underwriters saw premium income falling as their clients weather the economic storm.

Mr Rowland can see this argument. "The key driver for an accelerated hardening of insurance premium rates is the financial disruption and impact

of Covid-19, which has shattered the previous buoyancy of the world's capital markets. This in turn has removed investment profit from the balance sheets of the majority of the world's leading under-writing and reinsurance groups," he said.

"I believe that the impact of Covid-19 will lead to a significant tranche of the primary underwriters and their reinsurance partners increasing their cost of cover, with significant premium rate increases. This collective action will enable the insurance industry to replace lost investment returns, replenish cash reserves and protect balance sheets, thus securing an ability to continue offering cover in the future," he added.

"At the same time, support for certain classes may be withdrawn where the ability of the market to assess and provide a meaningful premium-to-risk calculation has become too challenging," he also warned.

Wesley Cadby, who heads the development of business and project risk management capability at J Murphy & Sons, added that insurers with a well-diversified portfolio will be the most resilient during this time and will likely be able to soak up significantly increased claims. "Those that do not have a diverse portfolio will face significant uncertainty in the short-, medium- and long-term future," added Mr Cadby, who is also chair of the IRM's Infrastructure Risk Special Interest Group.

"There will be some time lag for claims to be notified to insurers, so being able to plan the financial impacts of the pandemic for the long term will not be possible, so uncertainty will cause nervousness in taking too much risk, and therefore significantly increased premiums. In addition, falling equity markets and interest rates will likely put pressure on insurers' balance sheets for some time to come," he said.

Insurers may use the Covid-19 crisis as an opportunity to raise premiums, agreed Des O'Connor, insurance specialist at Irish utility Eir. But he suspects the most obvious change will come in wordings, with more insurers explicitly excluding Covid-19 and pandemics.

“It will be interesting to see the outcome of the test cases going on in the UK but whatever the outcome, it is likely to result in more exclusions going forward,” he added. Scott Feltham, group insurance manager at Compass Group, hopes the insurance industry will use Covid-19 to take a hard look at its policies and introduce some innovation and more suitable wordings.

“For example, on business interruption (BI) the insurance wordings have become commoditised and have been sold cheaply. Most policies are linked to physical damage, but the world has changed drastically in the last decade,” he pointed out.

Mr Feltham said much of the current friction stems from buyers’ understanding, or misunderstanding, about how their policy would react. Brokers, he said, have a real role to play to ensure policy wordings are transparent and explain how they would react.

He believes Covid-19 has “opened people’s eyes” to the faults within their insurance programmes and they will be looking to the market for more fit-for-purpose solutions. Greater scenario testing of wordings should be one positive outcome, he added.

“Buyers and insurers should be on the same page when it comes to a claim. We should both know how those wordings will react,” said the insurance manager.

Another risk manager from the construction sector agreed that both buyers and insurers need better understanding of BI risk. But he said buyers cannot be totally surprised by some of the problems that have arisen.

“If you have a choice between underwriter A offering the policy at £50,000 and underwriter B saying it will cost £75,000, you should be asking why. And if you take the lower cost option, then understand you are also taking on more risk yourself,” said Mr Feltham. A voice from the aviation market agreed: “I find it staggering that if you ask some of the brokers and insurers, they simply don’t know how the policies would work. I am fairly

young, but I am seeing so many young brokers in particular. They haven't got the experience or technical knowledge," he said.

Adding: "You ask a question and they have to go away and ask their boss. It's not their fault but there needs to be a shift within insurers and brokers to improve those basic skills."

The insurance buyers are also concerned that broker conflict is only likely to grow as the Aon/Willis Towers Watson merger goes ahead. "We have so much of the business concentrated in the hands of two mega-brokers now," warned one risk manager.

"Is there a danger that risk and insurance managers will lose out through this? I think there is – and not just in buying insurance but in making a claim too. If the head of a large insurer should talk to the head of a large broker and suggest capacity might disappear if the claim doesn't melt away, what will happen? We don't know, but we should worry about it," he added.