Property & Casualty Market Update

Australia - April 2021

Property

The current property market continues to challenge, and we anticipate the emergence of a two-tiered marketplace for Property in 2021;

- conditions starting to ease for good risks,
- difficult conditions will remain for challenged risks, especially those which have not adhered to risk recommendations.

Until underwriting profitability returns, rates will always be in focus with continued scrutiny on sub-limits and coverage extensions, and the tightening of policy wordings.

Natural Catastrophe losses and continued increases in attritional losses, against the backdrop of the uncertainty surrounding COVID-19, are just a few factors contributing to the sustained rate pressure that clients are experiencing. The level and magnitude of these increases vary greatly by the class of business, account loss history and perceived rate adequacy of the account.

- This continues to be a results driven market and not one driven by capital depletion. Despite dramatic increases in rate levels, most property underwriters continue to experience poor financial results due to continued frequency and severity of losses.
- The elevated frequency of events continues to put pressure on the market conditions; insurance losses from the recent QLD and NSW floods have reached an estimated $438M at the

Premium rates

Property

Non Cat, Non Loss Affected

+10% to +20%

Cat Exposed

+20% to +30%

Loss Affected or Challenging Risk

+30% or more

General Liability

Primary

+10% to +25%

Excess

+10% to +50%

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end of March, and with clean-up from the disasters underway, the Insurance Council of Australia (ICA) believe the current estimate could surge past $1B based on comparisons with past eastern states weather disasters that have caused rivers to burst their banks and inundate properties. Insurance losses from a hailstorm event in October 2020 that struck south-east Queensland was estimated at $1.3B.

- This followed the significant losses of late 2019 / early 2020 resulting from bushfires, hail and storm events across the Eastern Seaboard of Australia.
- Globally, the US hurricane season was the most active on record, with 30 named storms, but few of these made landfall. The most damaging was Hurricane Laura, a Category 4 storm that made landfall in Louisiana in August, causing an insured loss of US$9B.

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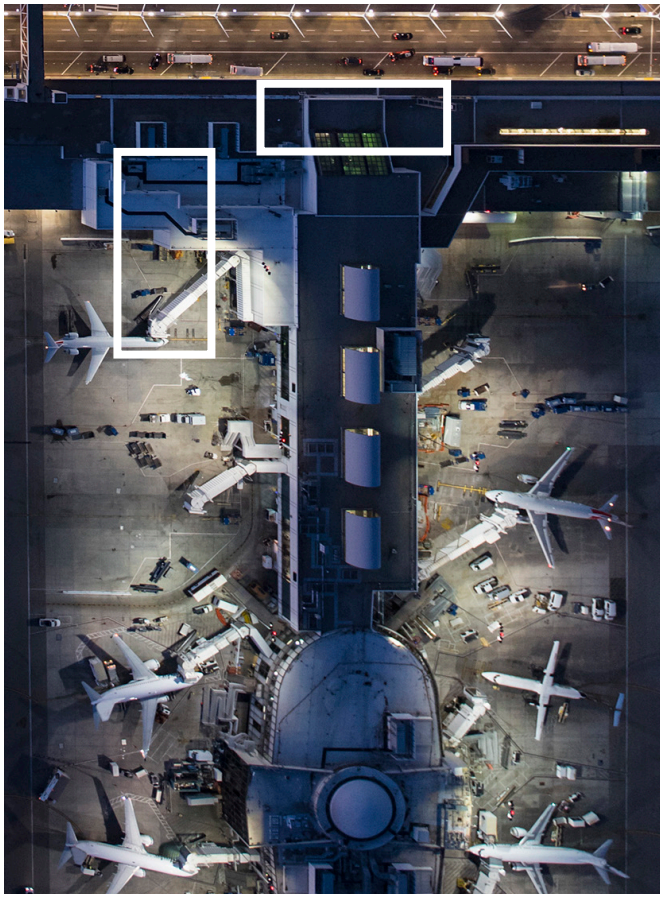
The hard market has forced some clients to take larger retentions, self-insure a portion of their risk as well as reduce overall limits in order to manage costs. In these conditions, clients should review their risk tolerance and make more informed decisions to mitigate the impact of the property market conditions.

- Clients must look at risk transfer options, both traditional and non-traditional.
- Analytics provide important guidance as clients align offerings in the market and their rapidly shifting needs. The shift towards structuring the data to help deliver meaningful insights has moved to the forefront for clients as well as insurers.
- Technological/analytic advances are helping determine where clients will spend critical CAPEX dollars along with where insurers will commit capacity — and how overall risk quality is presented and assessed.
- Capacity offered and wording restrictions remain a key focus.
- Shared and layered placements have seen an increase in the number of markets needed to fill the program, making renewal negotiations more complex and longer to finalise.
- Insurers are attempting to tighten coverage for strikes, riots and civil commotion hence stand-alone options for these exposures need to be considered.
- Due to COVID-19, infectious disease coverage has been extremely limited at best, or more commonly outright excluded.
- Engineering is being heavily scrutinised, meaning clients need to address any outstanding risk recommendations prior to renewal or be prepared to discuss specific plans to address those recommendations.
- We will continue to see reductions in capacity for challenging industry classes as underwriters realign their portfolios and deployment of their capacity to improve their key performance measure (combined ratios) that are driving the hardening rates.
- Final decisions on pricing and capacity are being driven by the Insurer's head office. While relationships still matter, the quality of your data and submission will impact how favourably you are considered against your peers.



General Liability

As a result of various factors continuing to negatively impact loss trends and underwriting profitability, the liability market conditions will continue to harden through 2021, especially for excess liability.

- Renewals are taking longer to complete, with participation from additional insurers needed to replicate expiring limits that are purchased.
- Insurer continue to manage their capacity deployed by way of reduced primary limits or ventilation of capacity through multiple layers / attachment points.
- In some cases, clients have chosen to reduce the total excess limits capacity purchased.
- Securing coverage for bushfire, sexual abuse, concussion/brain trauma injury and communicable diseases is proving to be more difficult.
- Differentiating risk profiles, exposures and loss experience is more critical than ever, and analytical tools are crucial in this effort.
- Utilisation of analytics enables clients to identify trends in their loss experience and exposures, create sound go-to-market strategies and quantify alternative and optimal program structures.

The excess liability market continues to experience extensive disruption. Deteriorating loss trends continue to negatively impact underwriting profitability driving underwriters to require continued rating increases whilst narrowing the underwriting appetites, re-evaluating coverage and requiring changes to program structures (reducing available capacity and requiring higher attachment points).

- The liability market continues to be impacted by significant losses from many sources, including personal/worker injury, sexual abuse, concussion/brain trauma injury and bushfire. The result is unsustainable combined ratios.
- Loss severity is increasing along with the percentage of claims that are litigated.

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- Insurers are reducing renewal capacity on both primary/lead and excess layers but have not been providing corresponding premium relief.
- A significant reduction in global capacity as a result of Insurer consolidation through mergers and acquisitions in recent years, market exits and withdrawal of capacity by some insurers and underwriting restrictions.
- Rate increases on excess layers have been larger when incumbent insurers do not renew (as opposed to reducing deployed capacity) forcing the risk back into the market.
- Because of the reduction in overall market capacity, towers with $100M or more in total capacity have been seeing larger average excess rate increases than with towers of less than $100M.
- Underwriting and pricing guidelines remain fluid, with insurers continuously reacting to market conditions and, at times, changing their positions over the course of discussions with insureds.
- Communicable disease exclusions have been added to most renewal programs in exposed industries since the COVID-19 outbreak.
- Accounts expiring with lower excess pricing (price per million) have experienced greater percentage rate increases, as insurers have become more focused on adequate rates for capacity regardless of attachment points.

Contact Us

For more information please speak with your Willis Towers Watson broker.

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