YS UP GOVERNANCE AND BOARDS PODCAST

Episode 26 – Business Insurance Renewal Challenges with Maria Newman and AnnMarie Rodgers

Transcript

Intro:

Welcome to YS Up Governance and Boards podcast brought to you by 3YS Owls Governance Consultants. Covering hot topics in governance, risk, latest regulatory changes and issues keeping directors and executives awake at night. Here are your hosts Ainslie Cunningham and Deb Anderson.

Ainslie Cunningham:

Welcome to another episode of YS Up. Today we're joined by AnnMarie Rodgers and Maria Newman from Marsh. AnnMarie is a Senior Vice President and leads the Queensland corporate segment for Marsh, world leader in delivering risk and insurance services and solutions and part of the Marsh and McLennan group of companies. A fellow of the Australian and New Zealand Institute of Insurance and Finance, AnnMarie started her career in Glasgow and has 30 years insurance industry experience in the UK and Australia.

In her current role, AnnMarie overseas client service delivery and insurance solutions for clients and is also responsible for business development in Queensland. Previous roles include client account management, new business and insurance program placement in local and international insurance markets. Her client servicing experience spans a wide range of industries including real estate, retail, manufacturing, food and beverage, utilities, aviation and government entities. Welcome, AnnMarie.

AnnMarie Rodgers:

Thanks, Ainslie.

Deb Anderson:

So, Maria is the Managing Principal and Vice President of risk management at Marsh. Maria is a corporate insurance broker and risk advisor with over 20 years' experience in design, placement, and management of complex insurance programs. Maria is an accountant by trade, having completed a Bachelor of Business with a major in accounting and a Master of Business Administration with a finance major through QUT's Business Graduate School of Business.

In her current role, Maria works with a diverse range of clients from ASX 200 and multinational companies to government owned corporations across several industry sectors including real estate, retail and consumer goods, infrastructure, manufacturing, and aged care. Maria has expertise in property and casualty lines with special interests in managing multinational programs, insurance due diligence, and contractual insurance, and indemnity reviews. Welcome, Maria.

Maria Newman:

Thank you, Deb.

Ainslie Cunningham:

So, ladies, how has the insurance market been playing out presently?

AnnMarie Rodgers:

Pretty difficult conditions at the moment I think for many clients. Some industry sectors I think are finding it more challenging than others. And obviously depending on the size of your organisation and the amount of capacity, etc. that you're looking for the market to provide to you, you might find that pretty challenging, particularly around directors and officers liabilities. We were talking earlier. But also, even on the property side depending on the industry sector and whether it's considered high hazard. But look, I think it was already a challenging market going into 2020 and having COVID obviously has made that a little bit more challenging. So yes, it's been an interesting year.

Ainslie Cunningham:

So, Maria, what other challenges have you seen in the market at present?

Maria Newman:

So, on top of what AnnMarie's mentioned, obviously pricing has been an issue across all different segments of insurance, be it D&O, property, or casualty. In the Pacific, we've experienced 14 consecutive quarters of pricing increase with the largest one having been in Q2 2020. In terms of capacity, that's also coming down quite significantly. Insurers are wanting to write less risk for a higher price. They are dropping down their deploy capacity. They're not really wanting to write new business. They don't have the appetite for new business like they do. They're not focused on growth at the moment. They're really focused in getting their books back to profitability.

Ainslie Cunningham:

So, has there been impacts from the bushfires, etc. from a natural catastrophe (nat cat) climate change property perspective?

Maria Newman:

Yeah, definitely. So, like I mentioned before, it's been going up consecutively since 2017 anyway. But definitely the events of late last year and early this year in terms of bushfires and then weather events have really exacerbated that. I mentioned before that the pricing increase as at Q2 2020 for property policies across the Pacific was around about 31%, so that's quite large. It's increasing at an increasing rate as well. And we're not out of the woods yet.

In terms of what insurers are doing now as well, this whole climate change risk and changing physical risks and extreme weather events, it's really forcing the need for insurers to make more investments on new tools and new modelling to enable better decision making for them in the long run.

You'll also see the Insurance Council of Australia for example working more with governments and communities to really increase and strengthen that resilience of communities against natural disasters. So, you'll see that the Insurance Council of Australia, they're working around the government in introducing stronger building codes, implementing improved land use planning and all those stuff are all happening now. So definitely climate change is at the forefront of the insurance market's minds and government's minds.

Ainslie Cunningham:

Are there any exclusions being introduced as a result of these changes?

AnnMarie Rodgers:

Look, I think insurers are looking really closely at the risks that they rate. And so the answer to that generally is yes. But you may not find that you have total exclusion on a policy. It might be things where they'll look at the sublimit that they're providing, whether it be flood or whether it be action by the sea or cyclone or bushfire depending in the region that you're in. So, you have to look pretty closely at the terms that you're getting back and what's on offer.

As Maria mentioned, looking at different tools for our clients, things that we talk to them about is making sure that you've actually got a good understanding of what your nat cat risk is rather than rely on the insurer to come back to you with an offering. So if you undertake certain studies, whether it be for flood or for earthquake or bushfire or the like, but get an idea of where your exposure actually lies across your property portfolio, have a good understanding of that.

And then obviously critically look at the offering. An insurer might come to you at your next renewal and see how that actually responds for you in relation to running your business.

Maria Newman:

I think in terms of that tool that AnnMarie's referring to, this nat cat modelling tools, Ainslie, you and I experienced that working with each other in a past life, doing that exercise and just the tremendous insight and monetary benefit it ended up having once you really assess and know what your real exposure is and then make appropriate insurance procurement decisions based on that science.

Ainslie Cunningham:

Yeah, absolutely.

Deb Anderson:

So, what sort of impact has COVID had on the insurance market? Obviously, the questionnaires this year are a lot longer because they're asking a lot more questions, but what other impacts has it had?

AnnMarie Rodgers:

Look, I think we're still yet to see what ultimately the impact's going to be because certain clients will have had coverage under their policies, and some might not. There are a number of claims obviously, potential to pay that the insurers haven't yet paid out. So, in terms of the monetary value around that, I think that's yet to be seen what that impact is. But certainly, in the short term, if you didn't have an exclusion for infectious disease cover before, you will have it now.

So again, as an advisor to your client, looking at their business, what that actually means for you, what that might mean for you in terms of being able to not being able to transfer that risk now but how you're going to actually risk manage that. And obviously impacts different businesses in different ways. And I've had conversations with some of our clients where a certain business model, there's been growth.

But since COVID, that's changed now. So they're having to rethink where potentially they might be focusing in terms of their business growth and their business strategy and objectives over the next few years because what they thought they had perhaps is not quite the same as what it was before.

Maria Newman:

It's definitely changing the insurance markets. I mean, from a claim's perspective obviously we don't know what the outcome of that yet in terms of its economic value. But there are already some indications from Lloyd's that it's even higher than all of the three hurricanes combined in 2017. For example, you've got Irma, Maria, and Harvey. It's more than that combined. It's actually the single largest ... Provided their estimates are fairly accurate in terms of how policies would respond, it's actually the single highest catastrophe compared to those other natural catastrophes that we've had in the past.

So, insurers are really potentially facing catastrophic losses. We don't know yet how the policies would respond. It really depends on your ... And I'm talking about business interruption losses here because that's where most of the contention is in. You've got event cancellation claims and travel claims, they're pretty straightforward. We pretty much know what the outcome of claims from those policies are. But in terms of D&O claims or liability claims and property claims, there's still a long way to go before we really know what that looks like.

In the UK, they just passed the decision, the UK High Court for that FCA test case. And that's really overall in general, that's looking in favour of policy holders. It will probably get appealed so we'll wait and see what's going to happen there.

In Australia, there was a test case as well, similar but narrower in scope than the UK around how business interruption policies should respond. I think that was heard early October, the 2nd of October by New South Wales Court of Appeal. So, we're yet to hear what the judgment is on that. But that could potentially be impacted by the UK position as well.

Ainslie Cunningham:

And I kind of wonder how the cruise industry will be impacted because they're kind of two-fold in terms of business interruption. They're losing in the millions on a daily basis as well as the potential for liability and class action claims being brought against them by passengers or people who have lost their lives.

Maria Newman:

Definitely. It's not surprising. When we hear about it, we shouldn't be surprised that class action of some sort has been brought against them. It's probably bound to happen.

Ainslie Cunningham:

So obviously as a risk manager, insurance is predominantly a risk transfer strategy. But with almost two thirds of the damage off the back of natural catastrophe in the US being uninsured, that would leave millions of people and businesses exposed to a large protection gap. What can businesses be doing to strengthen resilience against climate change and natural catastrophes going forward?

AnnMarie Rodgers:

We've touched on it a little bit already in terms of nat cat modelling. So, having an understanding of your risk is probably the most crucial thing. Because like you say, you can't simply just transfer that. So depending on the assets that you have, and you can look at it in a couple of different ways, you can have an accumulation of assets in a high hazard area or you can have linear assets which might cross a number of different areas.

Looking at it from a nat cat modelling perspective, it's one of the things that Marsh advises its clients. Get a good idea around what that looks like for you so that you can make an informed decision in terms of if you can buy insurance, you know what limit you need to buy so you can obviously optimise the premium spend. Equally, you might be prepared to take higher retention levels on certain types of catastrophe losses if that obviously suits your organisation.

Other areas, whether it be flood, cyclone again, the same thing applies. It really is just getting that understanding of what your exposure is. If you can buy insurance, how affordable that's going to be for you and make the decisions from there. I don't know if you've got any other thoughts on that, Maria.

Maria Newman:

On top of that, obviously that's a really good way to identify and quantify what your exposures are. In a volatile market that we have now, it places you in a better position than other insureds competing for capacity. But in addition to that, I think really looking at managing the implications of natural catastrophes and climate change risks, looking at the implications of that to your business, reviewing your business's resiliency plans, your business's continuity planning, asset and supply chain resiliency, all those stuff, that's one of the best ways to really look at how those risks are implicating on your business and how you can manage that.

AnnMarie Rodgers:

I suppose one of the things as well is that when you're actually looking to insure this, and Ainslie you have had experience of this before, you look at something and you say I might need $20 million worth of cover. But unless you actually go through that exercise and actually understand why that is the case, you could be putting yourself in a position that you're buying cover in areas that doesn't have that same level exposure. So, it's making sure that the underwriter, who might be writing your risks, knows what that exposure is.

You might also say to me, "But surely they do their own modelling?" And they probably do. But they're not always necessarily depending on where there located. Quite often if you're transferring risk into an underwriter in London for example, they may not be buying the most up to date modelling software. So being able to be in control of what you're actually presenting to the market, and this is the key thing, is the presentation to the market and painting your risk in the best light that you can. That's where you get the advantages as well.

Maria Newman:

We've got this running joke in the industry that London underwriters just think that the whole of Queensland is either underwater or on fire. So, if you say Brisbane, they think it's all flood zone. It's not.

Ainslie Cunningham:

So, in terms of climate change, are you seeing insurers expecting carbon emission reduction targets for clients or not quite yet?

Maria Newman:

Not quite yet. We're not seeing that yet. Obviously, I think they factor that into their modelling but it's not something that they are sort of pushing on clients. I don't they really can do that yet.

AnnMarie Rodgers:

I think it's interesting. Maria and I were having a chat in the last couple of days, and probably something that you're aware of, Marsh and McLennan participates in the production of the Global Risk Report, the World Economic Forum along with Zurich Insurance and others. So, it gives you a broad brush or a broad sort of spectrum of views across business, and government, and academia, etc., in terms of what the top risks are.

That report was released January-February 2020 and virtually all of the top 10 risks were all environmental or climate change related. That's what people were focusing on. So, while insurers are obviously looking closely at that, our clients and businesses are looking at that as well. It's seen as a major focus for them in terms of not only just buying insurance but in terms of their own risk management and how they're running their business.

Ainslie Cunningham:

And I think too with changes of government, etc., globally there could be some government mandated target.

AnnMarie Rodgers:

Absolutely.,

Deb Anderson:

So, in terms of directors and officer's insurance renewals, what are some of the challenges that companies are facing with their insurance renewals?

Maria Newman:

Fun topic. Fun topic for those directors and officers. So, definitely pricing and capacity. They're the two main challenges that insurers are now facing. So according to Marsh's benchmarking data for ASX 100 clients, renewals in the first two quarters of this year, premium spend in that space is up 170% on average. In some extreme cases, they're up 600%. And then retentions are soaring as well, up to 300%.

Worryingly as well is the shareholder or the securities class action that's impacting on the ASX listed company space, that's reverberating as well into all of the D&O policies for small to medium sized enterprises and not-for-profits. So, for some not-for-profits and SMEs, it's actually getting to the point of unaffordability now. So, across Marsh's SME and not-for-profit clients, renewals this year are up anywhere from 40% to 200%. Retentions for ASX listed clients are soaring into the tens of millions and in some extreme cases, hundreds of millions.

So, insureds are now holding much more of the risk than insurers used to hold. But even with that, you're still seeing insurers exiting from the market. You've got Allianz for example exiting from all long-tail liability claims and that include D&O. And that's again impacting on the whole supply and capacity of insurance, which is then driving up the prices like a vicious circle. So, pricing and capacity definitely are where the challenges are.

Deb Anderson:

And you're seeing some exclusions on royal commission from those policies?

AnnMarie Rodgers:

I suppose depending on the industry, aged care and the like, again, it's just a challenging market. So, yes. And certain insurers come in, they'll want to add their exclusions on there. Giving yourself enough time to make sure that you actually have some options, and you can actually look closely at any of those exclusions or limitations they're putting on a policy is really important. Don't leave things to the last minute because if you do think ... you want to have a conversation with them, you'll want to sort of examine exactly what those sorts of exclusions actually mean for you and your organisation.

Maria Newman:

And there have been. I think I've heard of some certain exclusions being applied in certain clients. It's not a broad-brush exclusion being applied across for certain clients. And as AnnMarie said before for certain industries, there have been some exclusions being applied and certain policies around royal commissions. So, the implication of that is if anything is going to come about from the royal commission, you should already know that so you should be reporting that already. So that's when the importance of timely notification. Because as you know, D&O policies are what you call claims-made policies.

So, the importance of timely notification comes in because the intention of the exclusion is that notify to us now everything you know that could come out of a royal commission before your renewal. Because if you notify us after your renewal and exclusion comes in, then it's no longer covered. So, clients and insureds can still have the protection as long as they notify it before the exclusion comes on.

Deb Anderson:

It's just that transparency isn't it.

Maria Newman:

That's right.

Ainslie Cunningham:

And so, in terms of the parliamentary inquiry into class actions and litigation funding, how are you seeing that impact the D&O space?

AnnMarie Rodgers:

It will obviously have an impact. Insurers as we say, they're not necessarily not going to be in a hurry to write new business, etc. So, I think all of this coming in will improve the situation. But when Maria mentioned earlier just with COVID, when you look at potentials for class actions coming in, I don't think that's going to go away. I think a bit more rigor and legislation around how those can be conducted will be a good thing and I think it'll have a benefit towards how the insurance market then responds.

Maria Newman:

I echo that. When there are parliamentary inquiries and royal commissions, obviously what comes out of that is increased pressure in terms of higher levels of compliance and standards. So with that, underwriting from insurers will also become tighter. They might want more information as well around how you're managing those solvency risks and all those things. So I think in terms of how it impacts insurance market and insurance renewals, it's just really on insurers putting more scrutiny in terms of how directors and companies are managing their business.

Ainslie Cunningham:

So, I guess given so many increases across so many quarters consistently, presumably the market is expected to harden further. What can boards be doing now to ensure that they have continuous coverage and that they retain and attract the right director talent around the board table?

Maria Newman:

That's the conundrum because if you don't have the right protection and the right levels of insurance, why would anyone want to be your director when their personal assets could be at risk? Being a director in this climate, I don't envy that position. It's hard. But there are ways that you can ensure coverage continues at least to some level. It might not be to the level that you want it but at least to some level. And also, ways to again better position yourself in a market where you're competing for very limited capacity.

So firstly, really examining the coverages that you have now and looking at what those cover and whether you need it. The thing that most insureds did back in the soft market when there was a lot of capacity and pricing was fairly cheap was that, and we do this at Marsh, we've got a colleague that calls it the Squirrel Effect. It's like in the soft market when times are good, you gather all your nuts and put all the bells and whistles and you put so much fat in your program. When it doesn't cost you as much or anything at all so that in a hard market, you've got a lot of fat in your program to give away when you need it.

So really looking at reviewing what coverages you have, do you still need it, do you need that much. We're seeing also more clients taking more actuarial based decision making in the D&O renewals. So, Marsh has a tool called IDEAL tool, which is a benchmarking tool, which really tests the appropriateness of insurers limits relative to their size and the nature of their business. So, using tools like that really help with ensuring coverage.

Also, insurers might opt for a higher retention option as well to mitigate those pricing increases. And sometimes those higher retentions are out of choice. Sometimes it's forced. Sometimes insurers don't want to attach until at a much higher level. So when you are going in that pathway of increased retention, really making sure that your company has the plans and processes in place to manage those below deductible losses.

AnnMarie Rodgers:

I think also, Ainslie, just to your point around what can organisations do in terms of attracting the right type of director or talented directors. I think if you're on a board, if you're the director of an organisation is making sure that you understand I suppose the impact on your D&O cover, that those business activities are going to have, and take a really keen interest in what's happening with that insurance renewal as well.

I suppose our approach is where we can in terms of D&Os to ask our clients to actually sort of be involved in that presentation to the market. One, nobody knows your business obviously better than you do. And if you can sort of talk through what your risks are, what your risk profile is with an underwriter, that's really important. But equally important as well is giving for us perhaps going into boards and actually giving those boards presentations about what the drivers are and what an insurer is perhaps looking at and what's going to be the driver in that next renewal. Because if you sit in a number of boards, it might be different for each different organisation as you'd know. So just getting an idea of what that means for you and being involved in and making sure that you've got, as Maria says, you've got the broadest coverage come renewal.

Maria Newman:

So, the challenge really is finding that right mix, level or right balance between the mounting cost of insurance and the right mix or level of protection for directors. So, companies and directors potentially facing a decision to reduce coverage or eliminate coverage in certain areas. So, it's really important that you have an understanding of what you have and then the insurance market also has an understanding of your business.

In terms of anything more creative on the larger scale, some larger companies, and it doesn't need to be a very large company, they're turning more into captives. So, from January to July this year, Marsh created 76 new captives. So that's about, if you look at year on year growth, that's about a 200% year on year growth. So where they can do it, where it's appropriate to a company, they're turning more into captives so that they can remove themselves from the volatility of that market and have more control around how they're transferring that risk.

Ainslie Cunningham:

So, for the benefit of our listeners Maria, can you explain what a captive is? For us, we've got it down pat.

AnnMarie Rodgers:

In a nutshell.

Maria Newman:

In a nutshell, basically the insured forming their own insurance company. Don't ask me how you do it. You can do it in certain jurisdictions where you form this company, like Bermuda I think is very common, where you can form these captive companies. But essentially, it's creating your own legal entity, which is an insurance company. And then you then have control over how things are underwritten, how things are priced.

AnnMarie Rodgers:

And you obviously only underwrite your own risks. You're not open to other third parties. So if an organisation was interested and looking at that, obviously size and premium spend is a big driver, size of the organisation. It's not going to be appropriate for every company. But you can do a pre-feasibility study and whether a captive option would be attractive and a possibility for you. And then if that looks as if that could work for us, then you can go into then doing an actual feasibility due diligence and what that would mean and what risks that you might choose to transfer in there.

Over the years, sometimes companies that I've been involved in have transferred only their first party risk, their property risk, etc., but not the liabilities. But organisations I'm talking to now, interesting you were talking a little bit about professional indemnity insurance earlier, for certain industries, professional indemnity is a huge premium spend. And capacity's really hard to find at the moment.

So certain clients have said, "Look, I just don't know whether over the next couple of years we're going to be able to afford this or actually want to transfer all of that risk into the insurance market at that price. So perhaps we should be looking at captives to transfer risk that way."

Deb Anderson:

It's quite a long lead time on captives though isn't it. It's not the sort of thing you can sort of decide two months out of your annual renewal.

AnnMarie Rodgers:

You don't. You really need to be thinking at least the next 12 months and maybe even beyond that. Because there's a lot of due diligence involved and there's obviously a lot of work to do leading up to that. I suppose on that point, there are other alternate risk transfer ideas such as discretionary trusts and the self-captives, which might be a little bit more straightforward. But again, discretionary trusts for certain clients is a way that some of our clients have sort of been going. Different risks probably work better than others depending on things like claims and what that looks like.

So, you've really got to do the modelling again. You probably take sort of three to six months for that at a minimum as well. Because you would do the modelling around what your losses have been, what the technical prices being transferred into the market are, and how you would set the price for the discretionary trust. But at the end of the day, what it gives you is a bit more control and not just riding that market cycle and waiting for things to get better.

Ainslie Cunningham:

And do you still use market assessments in terms of obtaining quotes from the market to price your captive accordingly for future renewals?

AnnMarie Rodgers:

You would. So essentially what you're doing is the captive underwrites the risk but then you're looking to reinsurers to then reinsure out. So essentially that's the same process.

Ainslie Cunningham:

So in terms of historically where D&O cover has been hard to obtain and Australian markets have looked overseas and predominantly in the London market to obtain cover, have you seen a change in their appetite as well recently?

AnnMarie Rodgers:

Yeah, for sure. I think that there's been a contraction in that market as well. I think that there's been price increases. London's not the only I suppose market entry point that you would want to look at with clients. And again, it's not just necessarily just Asia as well. For Australia, certain Asian markets and London markets were always the obvious ones. But clients, we've used North American markets, Canadian markets for a number of different risks.

So, I think you've got to be really conscious of what you're actually going to market with, where your best entry points might be. Because London's just not the saviour for everything. If I can't get in Australia, I'll go there and I'll find the capacity because that's not necessarily the case. Particularly around construction, those sorts of risks as well.

Maria Newman:

Construction, PI, and all those things. London is not what it used to be I guess in terms of you used to be able to use London as competition for your domestic market. Now you pretty much need both, especially for D&O when you're filling quite a large high tower program. You're pretty much going to need both Australian markets and London markets to give you all the capacity that you need because you just won't have enough here in Australia for larger programs.

And I guess in terms of profitability in London as well, Lloyd's of London has undergone review of their syndicates, so the profitability of their syndicates. And all the syndicates were forced to sort of revise their business plan and present that to Lloyd's as to why they should continue on. And some couldn't really come up with a plan to be able to continue profitably. So, there are actually a number of syndicates that have been shut down, so that again reduces that capacity available in the market.

Ainslie Cunningham:

So, with those sort of high tower programs, are you seeing an increase in the number of layers?

AnnMarie Rodgers:

Yeah.

Maria Newman:

Yeah. Because what's happening now is again in the soft market you used to be able to get a primary limit for say $20 million to $30 million. You're not really getting those primary limits now. I think you'll probably be more likely to get $5 million or $10 million limits now. So you really need more insurers to jump in and fill that tower if you want to maintain that limit. Some are even forced to have a lower limit because they just can't fill it with enough capacity.

AnnMarie Rodgers:

And obviously that will have potentially an impact on price as well.

Maria Newman:

Yes. The more insurers you have there, then the more...

Deb Anderson:

So, I think you said before that there's been some insurers like Allianz that are pulling out of the market. Have you got any new entrants coming into the market?

Maria Newman:

Not really. In Australia, Berkshire Hathaway, they've been around for a couple of years now. They're doing really well. They have a different business model where they don't use reinsurance, so everything is underwritten, and everything comes out of their balance sheet when they pay out claims. So, they have a slightly different way of underwriting. It needs to be a really good risk for them to underwrite it.

But if anything, there's just consolidation of insurers that's even driving the capacity down. You've got AXA XL or XL Catlin ... No, AXA XL? Chubb and ACE, two really large insurance companies globally have now merged. So, there's consolidation, there's companies exiting but there's really no one new coming in.

AnnMarie Rodgers:

I suppose what I would say is looking broadly at the risk that you're trying to place into the market, you might find that you're using insurers that you wouldn't have used before. So that's what we're finding. So, your traditional markets, property markets for example that might've written something 100% might reduce that to 50% and then you've got to make up that other 50%. And sometimes some of the smaller niche type markets or underwriting agencies are coming in to help fill placements that you didn't have to turn to previously.

Deb Anderson:

And have there been quite a few travel claims because of COVID?

AnnMarie Rodgers:

Yeah, there has.

Maria Newman:

I think there would, yeah.

AnnMarie Rodgers:

Yeah, there has. And insurers have paid out on those. So, a lot of cancellations obviously. Obviously, companies are also not travelling now, or executives are not traveling. And so, the interesting thing coming around is when you're actually going through that renewal and saying what does your next 12 months look like, which is very different to what it looked like before. So, making sure that you can actually ... Most organisations are maintaining cover but in a different way. So, you might be paying say a minimum deposit premium and then looking to sort of make a declaration to insurers later in the year rather than sort of declaring trips that you probably not-

Ainslie Cunningham:

Won't be taking.

AnnMarie Rodgers:

Not going to have.

Deb Anderson:

Not going to have international travel in the next 12 months.

Maria Newman:

No. And that's the thing because this economic contraction means you have less people traveling, businesses are earning less money, less revenue. That's really seeing insurance companies lose premium volume as well from this downturn in the economy. So, they will have to make up that lost premium volume somewhere else through, again, further increases and it's already increasing.

Ainslie Cunningham:

As a result of COVID with a lot of people working from home and things like that, are you seeing any changes to EPL or any type of programs like that that are around employees?

AnnMarie Rodgers:

In terms of changes, nothing marked. It's a professional risk product and therefore it's a difficult market. So yeah, are companies seeing increases and some limitations across those covers? Yes, to a certain degree. I think in terms of how you actually manage your workforce is certainly of interest to those insurers who are rating that. So, they want to know what your strategy is, what your COVID plan is. That's a separate questionnaire completely, which has to be filled out in terms of those sort of cover.

So not huge changes that I've seen for any of our clients on EPL. Maria, I don't know if you've seen-

Maria Newman:

Nothing much in terms of policies itself, in terms of terms and conditions or premiums and exclusions. But more so we're probably still yet to see it if it happens. But there's definitely a change in risk or an increase risk in terms of workers' compensation policies. I know we did it at Marsh where we all had to make sure we're all ergonomically assessed and things like that at home. So, there's definitely increased risk to your workforce and their wellbeing from that.

In terms of the EPL, we're yet to see it I think because, again, speaking about the economic downturn and usually when there are employees being laid off, you'd usually typically see claims against companies coming out of ... I know GFC for example, when that happened then there's a lot of employee layoffs happening. We did see a fair bit of claims happening in that EPL space.

COVID, we're yet to see it, whether there will be some claims coming out against companies. It's a bit hard. I guess it's a different situation because GFC was more they're being laid off because of financial management or mismanagement, however you want to look at it. But this is COVID and it's no one's fault. It happened. Everyone's affected. So, do we really want to sue the company that made us redundant or something like that for dismissal? It's a bit of a different context.

Deb Anderson:

I think too with the job keeper and the job seeker payments still.

Maria Newman:

That's definitely helping.

AnnMarie Rodgers:

It's been helpful.

Ainslie Cunningham:

It's propping them up still.

AnnMarie Rodgers:

Certainly, underwriters take an interest in how you actually managing that workforce. Another interesting this is, just in terms of risk management, is the mental health of your employees and making sure that you're looking after them. Organisations that have those protocols in place and actually have introduced new ways of working and systems that look their employees in that way I think will benefit. So those are all the sort of things that underwriters are going to be really keen to understand in terms of your workforce, I think.

Deb Anderson:

Like EAP programs in place and things like that.

AnnMarie Rodgers:

Correct. That's exactly right.

Maria Newman:

Definitely more information is being required because of COVID.

Ainslie Cunningham:

Well, we know ourselves as we went through a new renewal at the moment. So, you briefly touched on it before, AnnMarie, with exclusions around infectious diseases. So, with specific pandemic exclusions coming out at the moment, is that something that can actually be put on as an endorsement?

Maria Newman:

The exclusion put on or the write-back put on?

Ainslie Cunningham:

Write-back. So actually, saying we do need pandemic cover or infectious disease cover or is it just flat out exclusion?

AnnMarie Rodgers:

It's pretty much flat out exclusion. Different insurers obviously have different wordings. But no, you pretty much can't get cover.

Maria Newman:

It's not subject for challenge. Because I think many insurance companies will argue that pandemics were never intended to be covered by those property business interruption policies because you can't really model them. They're pretty hard to model. But the wordings have never fathomed something like this happening. So, there are some avenues for insurers to make a claim for infectious diseases, so now every renewal that happened since March. There are standard

London wording exclusions around pandemics, so flat out exclusion for communicable diseases. And that's also driven by the reinsurance market. It's not just your insurance company that's doing that. It's driven by the reinsurance because they can't get reinsurance for it. So it's not for challenge I'm afraid.

Deb Anderson:

And are you finding the aged care sector a big challenge with the royal commission and the pandemic as well, getting insurance?

AnnMarie Rodgers:

There's a number of different issues. Obviously, we had the royal commission. Now with COVID coming in as well, I think what we will see is the potential again for going back to class actions possibly where residents, families of residents are looking to bring actions against certain aged care providers around their sort of management of that and handling of that. So they were already in a challenging time and obviously going through much more scrutiny and governance, etc. I think COVID's added to that. So certainly, the aged care sector is definitely facing a few more challenges I think as we go along.

Maria Newman:

And again, what we're seeing in terms of PI, med-mal type renewals and public liability renewals are insurers are now having their own sort of addendum questionnaire that they need insureds to fill out. Without that information, they'll apply a total exclusion as well under liability for diseases. But certainly, the aged care sector is under tremendous pressure, even more so than they're used to. I mean, you've got the royal commission, you've got the introduction of the Aged Care Quality Standards in July last year. And then just looking at the high vulnerability of elders for death or to be severely sick from catching COVID, they're certainly under enormous pressure.

In addition to that, last week or the week before they announced in the federal budget $1.6 billion worth of funding for the aged care sector. So of course, that's not going to come without the additional obligation and onus of higher compliance and higher level of care.

Ainslie Cunningham:

And with a lot more organisations potentially accelerating their technology strategies in terms of digital transformation, going online, Zoom meetings, people working remotely, have you seen an uptick in cyber cover that clients are taking?

AnnMarie Rodgers:

It's always on the agenda. And it's always when you go through a strategy meeting with your clients then obviously cyber liability, etc., definitely has to be one of the risks that you're talking about more frequently. What I would say is that in terms of cyber policies, not one size fits all. So again, depending on your business and your organisation, make sure that the policy that you're buying is the one that's going to respond best to your needs.

And probably the key thing about any cyber liability policy that you might buy is seeing who those service providers are behind. So, if you do have a cyber-attack, if you do have a breach, that you've got the right service providers in terms of the investigation, the PR. All of that is the right service providers that you've got that you can work with. That's probably more important than the actual what limit that you buy is making sure that you actually have that service available to you.

Ainslie Cunningham:

Definitely.

Deb Anderson:

Major policy.

AnnMarie Rodgers:

Absolutely.

Ainslie Cunningham:

But so many people don't. They don't even know what cover they really have.

AnnMarie Rodgers:

It's been quite a few years now since cyber sort of first came out. But very difficult to sort of think what's going to happen, what does that mean. And there's also a bit of is it a cyber liability breach or is it crime with social engineering. Social engineering's obviously huge in terms of risk. I can't imagine there would be many organisations that have either experienced it already or going to.

So, looking at how those policies actually dovetail together if you have a crime policy and you have a cyber policy, how those work together is really key as well in understanding the coverage. But again, going through the risk profile for your business is a really good exercise to do rather than just say how much will underwriter A, B, C, offer me and how much it's going to cost. That's probably not the place to begin.

Maria Newman:

It's not just about filling in an insurance proposal form and say get me quotes and then I'll get the cheapest one. It's not like that at all. At Marsh, we have a self-assessment form which really looks at the level of cyber maturity of a particular business. And that also translates into a proposal form for the insurance market. So, the insurance market accepts it as a proposal form. So that's a really good start because it gives you an idea of where you're at with your cyber maturity, where you need improvements in your cyber resiliency, and then what's the appropriate policy that suits that.

Ainslie Cunningham:

Well, I think that's about all we have time for today ladies. Is there any sort of top tips you wanted to leave our listeners with before we wrap up today?

AnnMarie Rodgers:

If your insurance renewal is coming due and you're not thinking about it, I'd say start thinking about it. This is a year where you have to allow yourself as much time as possible, not just to go out to the market and get alternatives but to actually think about what you're purchasing and how much that that might cost you. So if your broker hasn't spoken to you about insurance that's due either in the next three months or six months, they should be thinking about it really carefully because it's not going to be a case of it will all work out. Some clients are finding that it doesn't quite work out as they were expecting.

Maria Newman:

There's a lot of surprises. So, if you're not there early, then you'll get your surprise in the last minute and you're forced with terms and conditions that you're not necessarily happy with.

Ainslie Cunningham:

Great tips ladies. Well, thank you so much for joining us today AnnMarie and Maria.

Maria Newman:

Pleasure.

AnnMarie Rodgers.:

Thank you very much.

Outro:

That's all for today. Until next time, happy podcasting. And remember if you're enjoying the show, check out our other episodes and all things governance at www.3ysowls.com.au.