



INSURANCE MARKET OUTLOOK

Q4 2021

Allegiant IRS

A McCullough Robertson Company

INSURANCE MARKET OUTLOOK

Quarterly General insurance Performance Statistics – December 2021¹

In Australia the General Insurance Market is principally regulated by the Australian Prudential Regulation Authority (APRA), which monitors and reports on the General Insurance Performance each quarter. This reporting provides useful insights into the insurance market including its profitability and sustainability which ultimately impacts the premiums able to be offered to insureds.

In March 2022 APRA released its report with respect to the industry's performance for the Quarter Ending December 2021 (**QTR Dec 21**). From this data we note that the Australian General Insurance industry reported a net profit after tax of \$1.7 billion for the year ended December, being an increase from \$600 million by comparison to the year ended December 2020 and losses prior to that. This trend was driven mostly through domestic lines as well as Industrial Special Risks and Professional Indemnity whereby some early market stabilisation regarding rates has begun to flow through. This was compounded by reductions in gross loss ratios by approximately 23%. Be that as it may insurer income from investment greatly suffered from global catastrophes and was reported in at 0.4bn (last December 2020 was 1.7bn). This somewhat has tempered market outcomes.

Key performance statistics for the general insurance industry in the year ended December 2021

	December 2020	December 2021	Change (annual)
Gross claims expense	\$47.4bn	\$38.9bn	(-18%)
Underwriting result	-\$0.08m	\$4bn	Significant
Investment income	\$1.7bn	\$0.4bn	-76.3%
Net profit after tax	\$0.6bn	\$1.7bn	Significant

From a quarterly outcome perspective the results were less favourable demonstrating that the tempering of the market performance occurred in the later part of 2021. This was largely due to catastrophes in Victoria, Tasmania and South Australia in addition to continued poor investment returns. It must also be said that the impacts of the War in the Ukraine together with the calamitous QLD and NSW Flood events are yet to be seen but are otherwise predicted to have a further impact on the Australian General Insurance Market.

Key performance statistics – QRT September 2021 v QTR December 2021

	QTR September 2021	QTR December 2021	Change (Quarterly)
Gross claims expense	\$9.4bn	\$10.8bn	(7.3%)
Underwriting result	\$1.5M	\$1bn	-37-5%
Investment income	\$300M	-\$300M	Significant loss
Net profit after tax	\$900M	\$0.1bn	Significant loss

Furthermore Chart 1 and Chart 2 (below), extracted from the APRA June 2021 results, demonstrate that while insurer profitability has been dramatically reducing since 2018, the market is beginning to demonstrate early green shoots of returning to profitability.

¹ APRA General Insurance Statistics – QTR December 2021

Chart 1 – Profitability

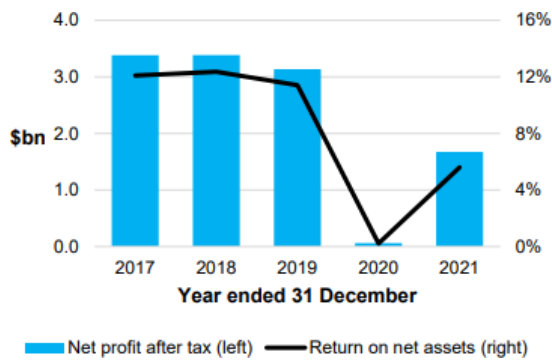
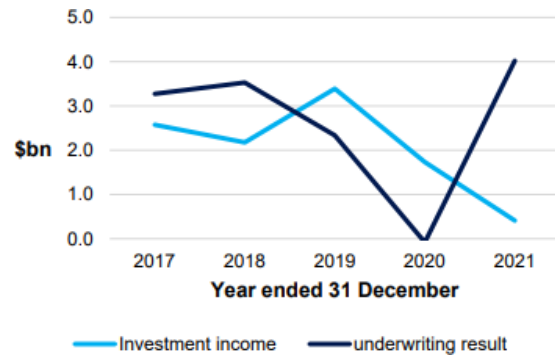


Chart 2 – Major Profit Components



While this continued trend of insurer profitability and rate increase deceleration is a promising first step to returning to soft market conditions this is largely driven by strong underwriting results from premium and claims scrutiny. However, we recommend a cautious optimism as the December 2021 Quarter results demonstrate that this is a precarious balance still easily influenced by national and global forces.

Classes of Insurance

This quarter on a Australian Insurance vs Global Insurance perspective demonstrates the first time the pricing increases have aligned with Australia typically trailing Global insurers with higher rates. In Q4 2021 Australia reported General Insurance pricing increases of 13%, mirroring the current Global average. This is an improvement from the 17% reported in the previous quarter and represents the first 12-month period of pricing increases decelerating. This positive trend was mirrored in most major classes but for casualty which remained constant.

Notwithstanding, we predict that the hard market will continue for another 12 months as insurers continue to correct the course through premium increases, capacity constraints and deductible restructuring. The charts below graphically demonstrate the Australian General Insurance Market Pricing quarter on quarter for Property, Casualty and Financial Lines (D&O, PI, Cyber).



Figure 1 – March Q4 Index Australia Pacific Major Class Pricing

Globally market trends were up 1% in the QTR December 2021, which whilst demonstrating the 17th consecutive quarter of pricing increases also shows a continued deceleration of those increases since Q1 2021. The below chart graphically represents the global general insurance pricing trends.

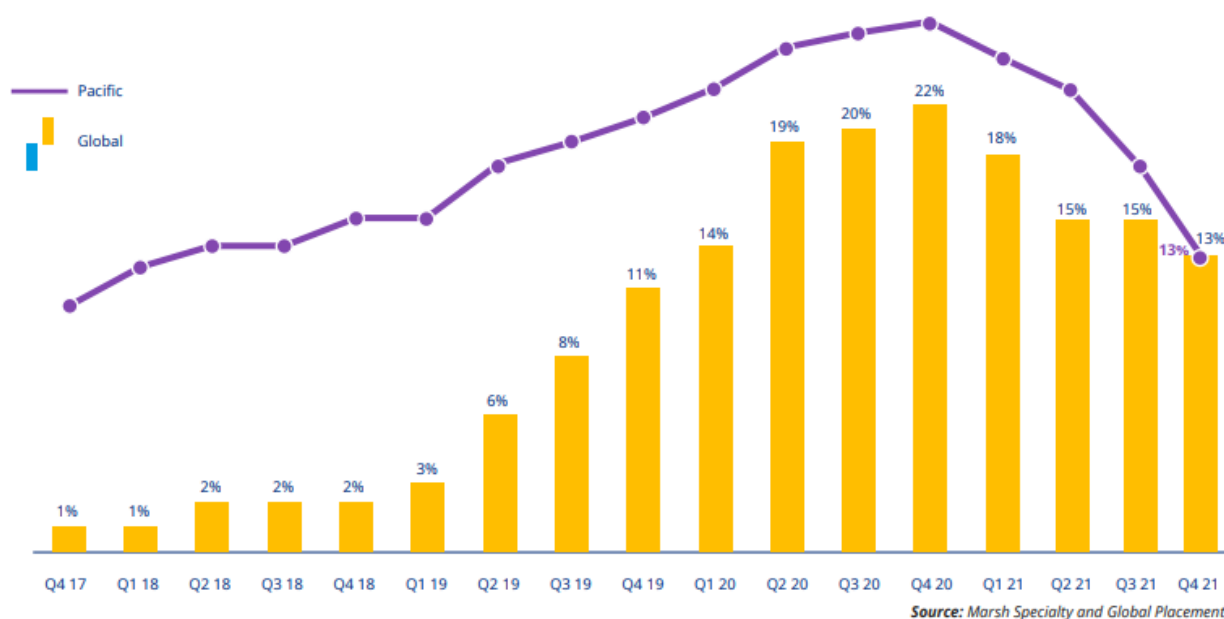


Figure 2 – Global Pricing Increases (Yellow) by comparison to Australia and Pacific – Marsh Q4 Index

The Outlook – Major Classes

PROPERTY / INDUSTRIAL SPECIAL RISKS INSURANCE

In the Australian Property and Industrial Special Risks sector the quarterly pricing increase has been in the order of 8%. This principally has been due to capacity increasing for quality and low claims clients. Notwithstanding, there remain challenges for high-hazard industries such as mining, timber and saw milling as well as for North Queensland and CAT exposed locations. Furthermore, insurers have continued to also focus on secondary CAT exposed locations of hail and bushfire which rural and regional areas have been subjected to. Pricing increases in these areas remain at between 15% - 25% in some instances with risks holding poorer claims histories being subject to the London Market, this was largely matched, however the pricing increase of 10% was more pronounced due to global exposures to that market.

FINANCIAL LINES / D&O

Pricing increased in the financial lines in Australia by 18% (down from the 25% recorded in the previous quarter). In Australia D&O pricing continued to level however the availability of Side C cover remains a key issue for insurers with only very nominal capacity being reserved for industry leading risks. The deceleration has been less pronounced primarily due to continued increases in the professional indemnity class as well as in Cyber. However, competition between insurers driven from D&O lines has alleviated this to a small degree. In London financial lines remains incredibly challenged with pricing increases of 43% being reported for the December 2021 quarter. In the 2020 calendar year major insurers departed from writing D&O business in the London market and this capacity is yet to be completely replaced. As a result, available limits generally remain lower.

D&O in the mining and coal spaces continues to be a challenge for most markets with key insurers such as AIG tightening the reins on environmental exposures and cover for defence costs for directors in environmental prosecution matters.

PROFESSIONAL INDEMNITY

Professional Indemnity continues to be a significantly challenged insurance market globally. In QTR December 2021 pricing increases in the order of 20% to 30% remain the current norm in the global market. Engineering,

design and construction risks are the sector's experiencing the largest increases while financial institutions, mainly through London markets, have achieved increases in available capacity due to new entrants to the market. Specific industries which remain challenged in the current professional indemnity landscape remain largely unchanged from previous issues and include:

- + Engineering, especially structural, geotechnical and design and construct where very little capacity remains in the market. On a similar note certifiers and valuers continue to experience difficulties with very little appetite remaining in the market for those occupations;
- + Accountants, particularly those who provide auditing services for listed entities, M&A services and financial institutions have experienced appetite and capacity withdrawals, with those markets willing to participate increasing their pricing greatly;
- + Financial Planners, who continue to see markets withdraw from writing business in this space and blanket exclusions on core components of business such as MDAs. Note however that due to additional capacity being available in the London Market, pressures have eased to a small degree for some financial institution sectors; and
- + Lawyers where the professional indemnity market continues to experience significant and frequent claims. As a result, less capacity at a higher cost, is available in the market due to insurers continuing to remediate their books to stay sustainable.

CYBER

Cyber continues to remain an extremely difficult space for insurers. In Australia ransomware claims continue to place enormous pressure on pricing and deductible structures with Australia recording increases in the order of 72% in some instances. In London this was more pronounced with an average of 90% being reported. As a result, markets are narrowing coverage on key areas such as business interruption, social engineering and recovery costs.

As mentioned in previous issues ransomware claims (which now accounts for 75% of all claims in this sector), deterioration of loss histories and large high-profile global claims, such as the Colonial Pipeline Ransomware attack are the major driver in this insurance class currently. With significant losses being continually reported Cyber insurers have changed tact requiring as a mandatory entry into the market clients to have robust risk mitigation measures in place. These include as a minimum:

- + Multifactor Authentication for remote access be implemented companywide;
- + A Cyber Breach Incident Response plan or incident response addressed through a company's business continuity plan; and
- + Authentication on all transfer or account detail changes.

Without robust measures in place market leaders have been unable to offer renewal terms and are unable to consider new business.

CASUALTY (LIABILITY)

Casualty markets in Australia experienced an 15% uplift in pricing for the QTR December 2021 being the second quarter of decelerated pricing increase after 17 quarters of pace-increases by insurers. Pressures arising from increased claims inflation costs, high litigation rates and reduced capacity from major insurers have driven this trend; however, market correction in the form of continued injury to work excess scrutiny has provided some relief. This however has principally started at the top in competitive in excess layers returning resulting in positive outcomes in the market.

ALLEGiant IRS – OUR APPROACH

Clients in the current market conditions continue to face significant challenges in all facets from pricing, deductibles, capacity and coverage terms and conditions. It is therefore critical for clients that as insurers continue to remediate their portfolios focus remains on maintaining suitable coverage. Ultimately this is more pronounced as clients' will want to be assured their cover remains in tact by virtue that they are paying more premium.

Allegiant IRS, through its demonstrated experience and collaborative approach with McCullough Robertson Lawyers, excels at ensuring the right cover is implemented for our clients with the right insurer. Each and every insurance program is reviewed both before and after placement by the Insurance Practice at McCullough Robertson providing clients with an additional level of assurance. Furthermore, through our detailed, A-Class submissions to the market we ensure that our clients' insurers thoroughly understand our clients risks and therefore achieve competitive premiums with no surprises at claims time.

As the insurance market continues in its hardening cycle for those particularly challenged industry sectors, we also have demonstrated capabilities at developing non-traditional insurance models, with a view of providing clients with a future-proofed solution, immune to the traditional insurance market ebbs and flows.

An unfortunate by-product of the hardening insurance market is the inflated remuneration received by traditional broking houses through commissions, overrides and other hidden kick-backs which are intrinsically linked and loaded onto premiums. Allegiant IRS proudly, do not accept any remuneration from any insurer whatsoever, whereby our remuneration is set by a transparent fee for service, commensurate with the level of work involved, agreed with clients in advance.

We welcome to you speak with one of Allegiant IRS's trusted advisors about your insurance needs and how we may be able to assist you.



www.allegiantirs.com.au
info@allegiantirs.com.au

Level 11, 66 Eagle Street,
Brisbane QLD 4000
GPO Box 1855, Brisbane QLD 4000
T +61 7 3102 5666
AFSL 454566

Allegiant IRS |

A McCullough Robertson Company