



airmic

The Harsh Market

**With a focus
on claims**

February 2021

Airmic is conducting a series of Pulse Surveys among its members, focused on insurance market conditions. The latest survey conducted in January 2021 focused on renewals and claims, and found an increasing challenge to claims – but where claims had been settled, members have generally had a satisfactory experience. Premium rates, and the scope of cover and capacity, have continued to deteriorate across a number of covers and sectors. The trend towards the increasing use of existing captives, and the creation of new captives, has continued.

This report is set in the context of the UK Supreme Court's judgment in the case brought under the Financial Markets Test Case scheme by the Financial Conduct Authority (FCA) against eight insurers, which considered the extent to which business interruption (BI) coverage was available under a selection of 'non-damage' BI extensions provided in a sample of policy wordings. The Supreme Court found in favour of policyholders, essentially upholding the findings of the High Court and, in some cases, broadening the coverage available for Covid-19 BI losses. The handing down of the judgment took place after most of the survey responses had been received.

The January 2021 Pulse Survey canvassed members of the Airmic Leadership Group of risk professionals and insurance buyers. The survey ran over two weeks between 7 and 22 January and asked 17 questions.

Each Pulse Survey comprises a combination of questions designed to track market conditions, supplemented by a focus on specific subjects. In the latest survey, the questions focused on the claims experience of Airmic members. Four headline findings included:

- Almost half of respondents have seen an increase in challenges to their claims throughout 2020.
- Where claims were paid out by insurers though, the claims service experience, the speed and amount of the payout had generally met the expectations of Airmic members.
- More respondents report that they are seeing reduced cover capacity, increases in cover exclusions, and poor and late communication from insurance partners.
- Since the UK and the EU reached a post-Brexit deal in December 2020, Airmic members are most concerned that there will be additional costs to their organisations, in terms of buying insurance.

Have you seen an increase in challenges to your claims from your Insurers in the past 12 months?



53.2% ● No increase

27.7% ● Yes, a slight increase

10.6% ● Yes, a moderate increase

8.5% ● Yes, a large increase

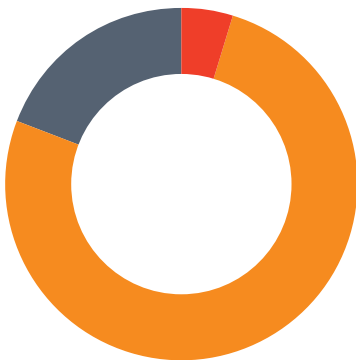
1. Claims

Almost half of respondents saw an increase in challenges to their claims throughout 2020. Reasons for the rejection of their claims included the use of basis clauses or conditions precedent by insurers, the late notification of the claim, the level of insurance purchased was inadequate, breach of warranty or other policy conditions, and the inability on the part of the policyholder to provide information requested by the insurer.

Where claims were paid out by insurers though, the claims service experience, the speed and amount of the payout had generally met the expectations of Airmic members.

There was no reported increase in intent to litigate claims, although members are more likely to instruct their broker and lawyers to support their claims in future.

Where claims were paid out by your Insurers, did the claims service experience meet your expectations?



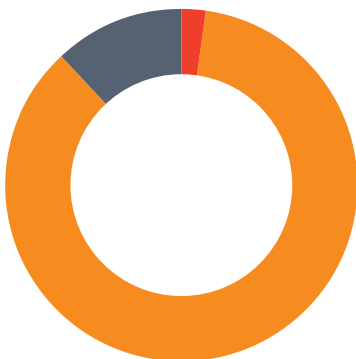
- 4.8% ● It exceeded my expectations
- 76.2% ● It matched my expectations
- 19.0% ● It failed to match my expectations

Where claims were paid out by your Insurers, how quickly was it done?



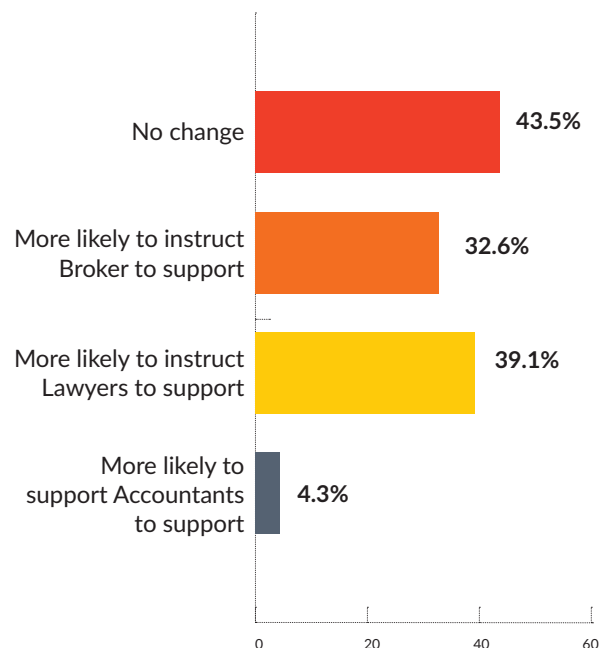
- 52.4% ● Promptly
- 28.6% ● Slower than usual
- 19.0% ● Much slower than usual, even after accounting for the Covid-19 situation

Where claims were paid out by your Insurers, did the claim payment match your expectations?



- 2.4% ● It exceeded my expectations
- 85.7% ● It matched my expectations
- 11.9% ● It failed to match expectation

How will your approach to expert claims support change in future? (Tick all that apply)



2. Renewals and the harsh market

More Airmic members than in the previous two Pulse Surveys in 2020 say that they are seeing reduced capacity, increases in cover exclusions, and poor and late communication from insurance partners. Higher rates continue to be a characteristic. Some insurers have withdrawn from certain lines of insurance altogether.

In terms of overall performance, however, marginally more respondents than in our previous Pulse Surveys say that they are satisfied with their insurer's performance – 84.0%, compared to 81.7% in the third quarter of 2020. For brokers, 98% say they satisfied with their performance, up from 90% in the third quarter of 2020.

Among respondents whose organisations do not already have a captive, 23.4% are now considering forming one in response to the hard market, up from 20.3% in our previous Pulse Survey. Marginally fewer respondents are exploring alternative risk transfer solutions – which include parametric triggers and capital markets, for example – than in our last survey.

Buying insurance after the-Brexit deal

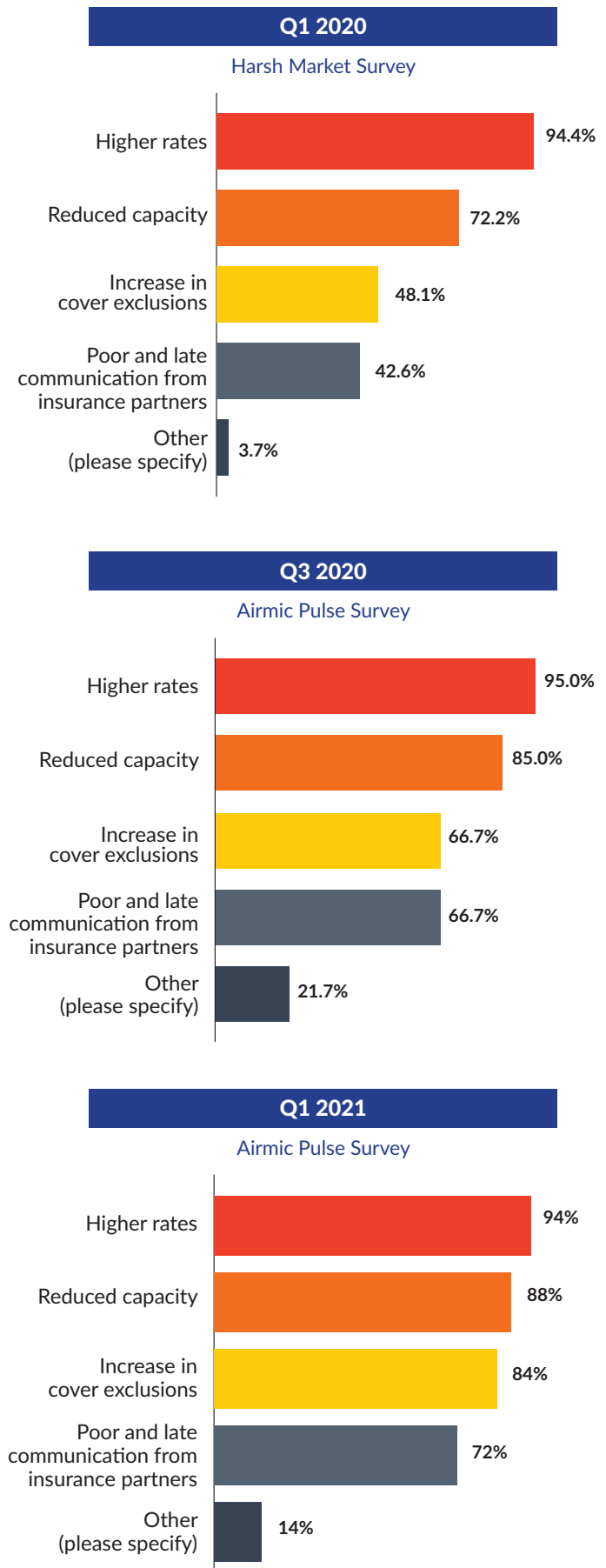
Since the UK and the EU reached a post-Brexit deal in December 2020, 63.5% of our respondents are concerned are concerned that there will be additional costs to their organisations, such as the cost of issuing additional local policies and fronting costs.

Other concerns include:

- The UK government's review of the post-Brexit regulatory framework for insurance, and whether Solvency II – the EU's insurance capital regime – will stay as it is.
- Whether EU captives will retain or regain passporting rights into the UK.
- Whether their organisation's current policies will still provide cover in the EU and pay claims arising from EU territories.
- Whether their organisation's UK-domiciled insurers can still issue a single policy covering both the UK and the EU.

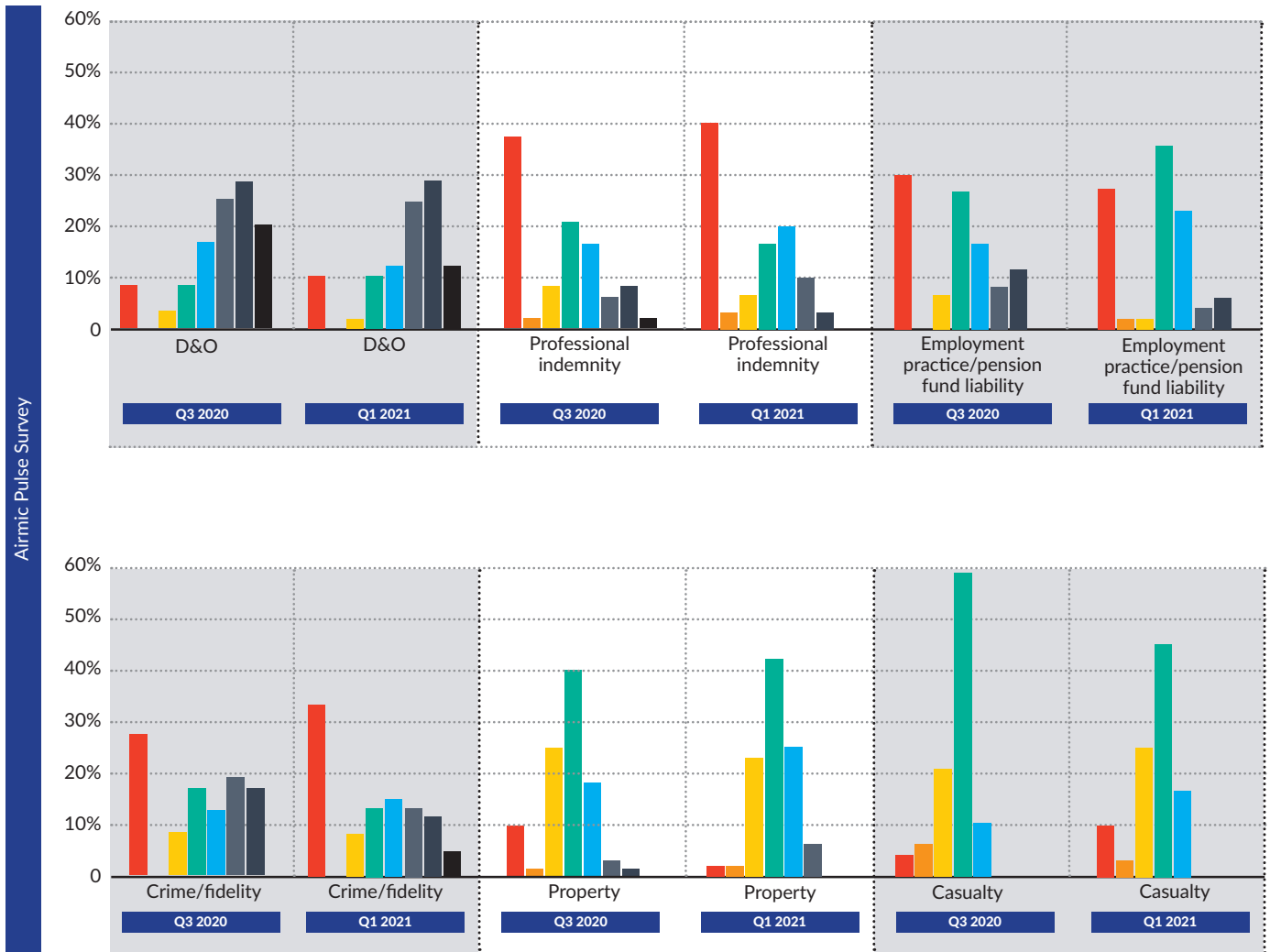
A number of respondents are concerned about the longer-term impact of Brexit on market capacity, increased paperwork and delays, and more generally, whether the UK insurance sector is losing its position and relevance.

What characteristics did you see in your renewals? (Tick all that apply)

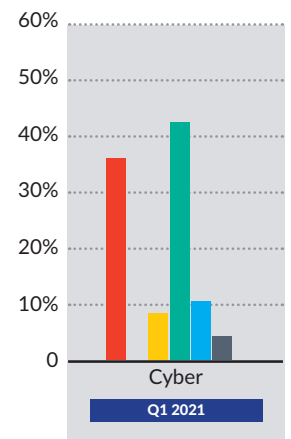


In the following lines, where purchased, what rate changes did you experience if any?

● Not applicable ● Decrease ● No increase ● Less than 20% ● 20% to 50% ● 50% to 100% ● More than 100% ● More than 400%



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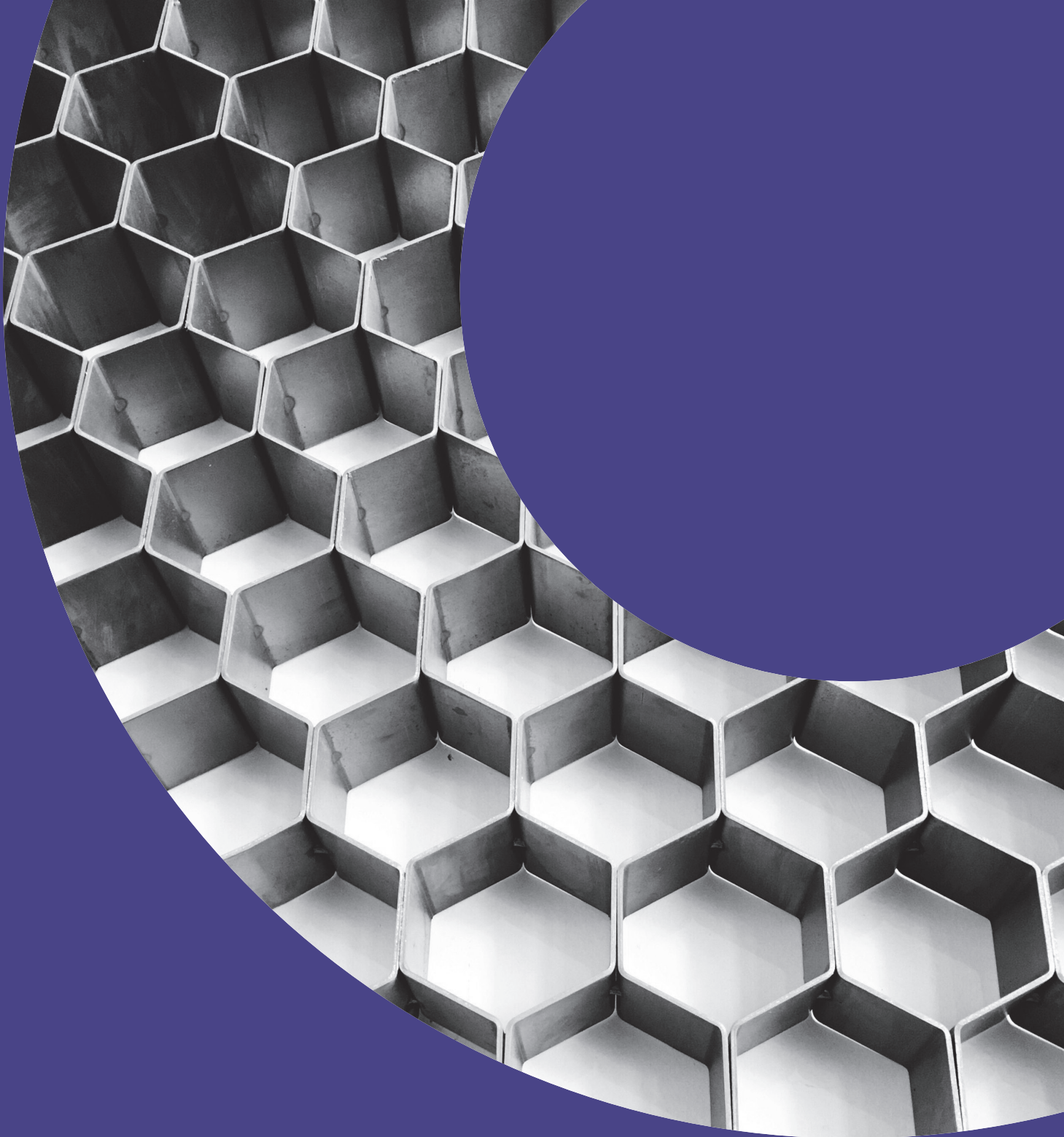


Conclusions

One major change we would like to see is a shift away from the tripartite relationship between insurer, broker and buyer, towards a 'roundtable relationship' which draws in a broader range of perspectives," says Julia Graham, Deputy CEO and Technical Director at Airmic.

To pre-empt some of the issues insurance buyers have frequently raised, such as the need for stronger and more timely communication from their insurance partners, insurers and brokers should build up a stronger culture of rapport with their customers. Renewal teams should have greater diversity in terms of background and skills, rather than just being the team that strikes the deal with the client.

"We urge underwriters and brokers to include colleagues from claims and loss adjusters more actively in the renewal and account management processes," Ms Graham adds.



One major change we would like to see is a shift away from the tripartite relationship between insurer, broker and buyer, towards a 'roundtable relationship' which draws in a broader range of perspectives.

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