

Casualty (Liability) Insurance

2021 Australian Insurance Market
Recap Series



At a glance



15%

After a challenging 2021, casualty pricing stabilised at +15% in the third & fourth quarters, down from +18% in the second quarter.



Reinsurance

January 1 treaty renewal outcomes were largely in line with expectations. Continued emphasis on COVID-19, cyber and tightening of non-traditional general liability coverage i.e. PI/construction extensions.



Lloyds of London

London remains an invaluable long-term trading partner for many domestic clients. Lloyds continues to provide a significant amount of capacity across all casualty lines.



ESG

Insurers continue to increase their scrutiny of insureds' active commitments to environmental, social, and governance factors.



Outlook

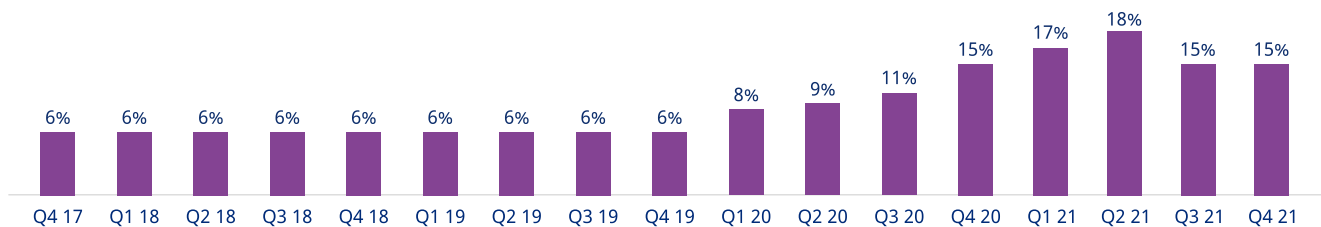
Indications of market improvement provide optimism for the casualty sector for the remainder of 2022.



Casualty (Liability) Insurance Market Update

2021 was a dynamic year for the casualty insurance market, both globally and locally. Pricing stabilised at +15% in the fourth quarter, down from +18% in the second quarter (the largest year-over-year increase since 2012, see Figure 1.1). Whilst there are no specific 'new market' entrants to point toward, pleasingly there are signs of increased appetite in early 2022 within the domestic market.

Figure 1.1 Pacific Casualty insurance pricing change



Source: Marsh Specialty and Global Placement

Underwriting concerns remain however for exposure driven insureds; specifically those that are those that are either catastrophe/frequency claims exposed, US-domiciled or continue to preserve challenged coverage areas of focus i.e. PI/Construction extensions.

We continue to see excess layer pricing scrutiny - especially from domestic insurers. Australia's historically low benchmarking of rate on excess lines accentuates those percentage increases. Markets are moving to provide minimum technical pricing guidelines for deployed capacity.

Finally, it is important to recognise that the 1 January reinsurance treaty renewal outcomes were largely in line with expectations, with a continued emphasis on the following key coverage trends:

- COVID-19:** Another year on from the emergence of the pandemic, there is some concern for the domestic carriers (who were largely ring-fenced from the wider global experience of 2020/early-mid 2021) as they endured the effects of more restrictive lockdowns and the Omicron wave.
- Cyber:** A distressed cyber liability market may restrict some aggregates which were available for cyber related liability. Pleasingly however, discrepancies are easing with standardised general liability cyber clauses having been introduced such as Agreed Marsh Data Breach Endorsement and LMA clauses
- Climate change endorsements:** 2021 saw the emergence of various climate change endorsements for particular classes of business (predominately out of Lloyds). Such exclusions/endorsements further reiterate the ongoing importance for clients to not only understand, but also effectively communicate their ESG stance into the market.
 - Marsh's Climate and Sustainability team recently launched the ESG Risk Rating, an assessment tool that measures ESG performance. Clients can use the results to identify their most critical sustainability and climate-related risks and opportunities and work with Marsh to continue to develop their ESG strategies.
- SMC/Abuse coverage:** Remains a very challenging area, especially following the outcomes of the Royal Commission into Institutional Responses to Child Sexual Abuse. Even traditionally community domiciled insurers like Ansvar have pulled out of certain out-of-home care activities, citing unviable pricing and escalating awards. The introduction of state-based indemnity schemes further demonstrates the scarcity of capacity available.

Liability industries in focus

Figure 1.2 Liability Industries in focus

Specific areas of focus	
Leisure/Hospitality	Covid-19/Pandemic Exclusions
Chemical & Pharmaceuticals	Opioids, class actions, recent catastrophe explosion risk (e.g. Beirut and Tianjin)
Transmission & Distribution (Utility)	Bushfire exclusions/aggregates, considerable retentions to ensure insurer appetite
Manufacturing	Worker to worker/labour hire claims
Rail	Sustained industry losses driving diminished Insurer appetite
Mining	Coal: Appetite/insurer go forward positions Tailings Dam exclusions following catastrophe events 2021: Introduction of climate change exclusions
Construction	Construction liability/personal injury (PI) extensions actively being removed from historical general liability (GL) programs
Community	Sexual Misconduct Claims (SMC) /Abuse coverage for out of home care activities



London Market Update 2022

The London casualty market is an invaluable trading partner for many domestic clients. Lloyds continues to provide a significant amount of capacity across all avenues of the liability portfolio, including solutions on high hazard/significantly distressed business.

Over the course of the hardening market, syndicates have adjusted their risk appetites and pricing thresholds resulting in the noticeable stabilisation of rate increases towards the back end of 2021.

There are however, still a number of macro factors still creating future uncertainty including climate change and catastrophe events, social and economic inflation and the ongoing emergence of cyber threats.

As insurers have become increasingly confident in their own underwriting performance, they are looking to retain more of what they view as profitable income i.e. not sourcing reinsurance solutions. This manifests itself predominately in primary layers.

Interestingly, we have also seen increases in retained risk become more common for clients as they weighed up the cost of transferring the risk vs. retention. These decisions create a delicate balance for 2022 as both strategies interplay.

The Lloyd's market continues to monitor and cap authority for written premium on casualty lines. We have however seen some signs that those restrictions are relaxing for syndicates able to demonstrate they have achieved rate on their book. The Council of Lloyd's is also still focused on pandemic and cyber liability as well as exposure to climate change. At the same time as they are pursuing increased digitalisation and placement efficiency.



Where to from here?

Throughout 2022 and beyond it will be imperative for clients to remain focussed on the quality of submission information and differentiation of risk to achieve the best renewal outcomes.

Wherever possible we would encourage the following:

- Presentations and submissions – continued use of different mediums and subject matter experts in communicating risk will offer innovative ways for clients to distinguish themselves from their peers
- Renewal strategies should assess all available options around risk reduction including limit, retention, coverage and alternative risk strategies.
- Analytics should be encouraged to inform decision-making and total cost of risk discussions.
- Lead-time and relationships with carriers remain core factors, so suitable travel and face to face meetings have merit as restrictions ease.

Indications of market improvement provide optimism for the casualty sector for the remainder of 2022. Whilst the underwriting concerns will remain for those aforementioned areas of focus, we anticipate a broadening appetite and stabilising market atmosphere to permeate the majority of risks. This combined with the hopeful introduction of new markets and continued incumbent capacity, will help contribute to a more positive outlook overall than in recent years.



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