Commercial Market Overview

A backdrop of shifting interest rates, a hard market, the aftermath of a pandemic, and an expectation by insurers for clients to manage risk effectively have all contributed to an increase in premiums and a difficulty in placing risk. We therefore thought it prudent to outline some of the factors currently in the insurance market to **ensure that your risk is managed and mitigated appropriately**.

Hard Market

We are currently in a **"hard" insurance market** which is the consequence of an unsustainable period of overly competitive pricing. A "hard" market refers in essence to a sellers' market and with that demand exceeds supply. The simple economics of this means that in general buyers do not receive such favourable deals as previously. The combination of low investment returns, economic uncertainty, a global pandemic and Brexit means the world has become a riskier place. Insurers are consequently taking a firmer stance on risk and how this is mitigated. We have found that some insurers have completely withdrawn from certain types of insurance, trades or products because of this.

Insurers need to improve their profitability across their portfolios, and the current reduction in insurance market capacity and risk appetite is giving insurers the opportunity to "correct" their rates in what has, for several years, been unsustainable for them.

How to combat this?

It is not all doom and gloom. We have seen competition slowly returning to insure risks in some of the more attractive sectors and lines of business. However, the more 'vanilla' your risk the easier it is to transfer. Implementing robust risk management systems including performance metrics, business continuity processes and health and safety measures all go someway to reducing the risk that you need to insure. We can of course help with this because sometimes insurance is not the only answer. We continue to provide insurers with in-depth market presentations which differentiate our clients to underwriters. Outlining a comprehensive knowledge of the risk exposures you face and providing detailed information on how these are mitigated by positive risk management.

Underinsurance

We have seen an unprecedented rise in inflation in recent months. One forgotten implication of this is the increased risk of underinsurance - when the level of insurance taken out is not enough to cover the cost of rebuilding, repairing, or replacing insured items following a claim.

Clearly, a high rate of inflation tells us that prices are rising fast, so even insurance that may have been appropriate six months ago, may now be insufficient - for instance rising material costs may mean the cost of re-instating a property may now exceed the cost declared in a property insurance policy. Similarly, if an insured asset has risen beyond the value declared in an insurance policy, this can also create an underinsurance risk.

Consequences of underinsurance become apparent when the time comes to make a claim. Insurers commonly apply a 'Condition of Average' in cases of underinsurance. In essence, this enables an insurer to reduce claim settlements by a percentage corresponding to the amount of underinsurance - if a property is underinsured by x% then the claim is reduced by x%.

By way of example, a property owner insures their property for £100,000. Their property is impacted by fire, so they lodge a claim. During the claims process, the property is found to have a replacement cost of £150,000 - thereby underinsured by 33%. There is fire damage to 75% of the property and it is going to cost around £112,500 to cover the repair. However, the insurer will most likely apply the 'Condition of Average', and the property owner could receive just £75,000 towards that £112,500 repair cost due to underinsurance of the property.

In significant cases of underinsurance, an insurer could even declare a policy as void - arguing that the client failed in their duty of fair presentation under the Insurance Act - and remember, it is the responsibility of the person taking out insurance to check that valuations provided for insurance purposes are accurate.

The risk is not just restricted to assets. For instance, if high rates of inflation, coupled with supply chain issues, means it now takes longer to re-instate a business premises after a serious incident, then business interruption insurance indemnity periods - the period of time when a policy will help to cover lost earnings- may not be sufficient.

Bearing this in mind we would ask that you carefully review the current sums insured and contact your Account Manager if you have any queries or concerns.

The effects of the post-pandemic and natural disasters

The world has changed, and this means that we have seen an increase in claims due to natural disasters and systems and processes implemented to counteract the effects of the pandemic; leading back to how you manage your risk. Implementing risk management strategies goes some way to reducing the number of claims that you make and how much your business is affected if the unthinkable happens. The less claims you make, the more favourable you are to an insurer and the lower your premiums.

If you would like to speak about any of the matters above, please email our Corporate Director Richard Grainger on rcg@centor.co.uk

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