Helping you navigate a hard insurance market

ASTONLARK
A howden company

YOUR WORLD IS OUR FOCUS

www.astonlark.com

Introduction

Like all trading markets, the insurance market operates in cycles. These cycles vary from soft trading conditions, where supply is strong and prices are driven down, to hard trading conditions where supply is reduced driving prices high.

We have entered into very hard insurance market conditions, which create significant premium increases and cover options being limited. It is important that every buyer of insurance prepares correctly to ensure the best insurance terms can be secured.

HARD MARKET

Reduction in supply

Increase in premiums

Reduction of available cover

Reduced product availability

Insurers exit certain sectors

SOFT MARKET

Increase in supply

Reduction in premiums

Increased cover options

Increased product availability

Insurers exit certain sectors

LEGACY

SOFT MARKET
The market was soft prior to 2001.

2001

HARD MARKET
Following the tragic events resulting from the terrorist attack on the World Trade Centre, the insurance market hardened with prices increasing.

2004

SOFT MARKET
One of the softest trading cycles in the insurance market saw a reduction in prices and many businesses benefited from this.

2020

HARD MARKET
2020 started with a number of storms followed by the pandemic. This saw insurers pay out more in claims than any other period in history. The market has severely hardened with premium increases now common.

FUTURE

SOFT MARKET
The market will soften again in the future, though these trading conditions are likely to continue at least into 2022.

How this guide can help your business

It is important that you and your broker approach your renewal in this market differently.

Failure to take the right steps will likely result in a large increase to your insurance premium with the potential for a reduction in the coverage that protects your business.

Various factors should be considered when managing your renewal. Failure to address these will likely result in you paying more for your insurance. This guide will help you focus on areas which can have a positive impact on your renewal quotations

AREAS OF FOCUS

Addressing risk

The premium you pay will be commensurate to the level of risk within your business. Premiums can be reduced based on how well risk is managed. If you operate in a trade where risk is high, it is particularly important that your broker can demonstrate how you manage risk. Doing this well will help drive premiums down.

Access & placement

You should assess your broker's ability to access all parts of the market including the traditional insurers, specialist schemes, Lloyd's of London and the London Market, and underwriting agencies. If your broker does not have unrestricted access to all parts of the market, you may not be receiving the best solutions.

Leveraging scale

A major benefit of working with a broker is the access to that broker's buying power. You should assess the broker's ability to leverage scale within the market.

Expert broking

High-impact broking techniques will generate different results. Assessing your broker's own strategy to overcome challenges is important.

How technology can deliver efficiencies

Social distancing limitations may create friction in the underwriting process. For example, an insurer may have a preference to visit your premises. Assessing your broker's ability to utilise technology to overcome these challenges is important.

Timing

Given the trading conditions of a hard market, more and more brokers will be taking their clients' policies to market. This creates a queue for quotations and therefore it is important that you and your broker start the exercise earlier than normal.

Insurance consequences of economic recession

From an insurance perspective, insurance companies typically expect four trends to occur as a consequence of economic recession:

- AN INCREASE IN THE FREQUENCY OF INJURY CLAIMS
- A REDUCTION IN LABOUR SUPPLY
- INCREASE IN GENERAL CRIME
- WORKFORCE SHRINKAGE

INJURY CLAIMS

There is a direct correlation between recessions and an increase in the number of personal injury claims from employees against employers and members of the public. This could be for a number of speculative reasons, but the presence of this trend results in increased liability premiums from insurance companies.

LABOUR SUPPLY

The presence of a recession can result in the failure of businesses. This in turn can limit the availability of labour to undertake repairs for insurers on behalf of their clients. These delays can result in additional costs to insurers who are financially supporting their clients following loss or damage, and again insurers respond by factoring this into their pricing.

CRIME LEVELS

Recession or economically challenged times can result in crime increasing and so insurers may have additional concerns regarding security and the risk of theft of attractive items on premises.

WORKFORCE SHRINKAGE

The shrinkage caused by loss of staff through recession can result in work responsibilities being lost. An example would be the loss of a facilities manager, with responsibility for site clearance, through redundancy and this role no longer being performed. Insurers see this as increasing the risk for loss or damage and so would factor this into their premium rating.

Addressing risk

The presence of risk exists in all businesses. Businesses buy insurance to transfer this risk away from their business to an insurance company.

Insurance companies therefore assess the likelihood that risk will turn into a claim, and the price they charge and the coverage they give will be impacted by the severity of risk.

In a hard market, insurance companies will look to avoid providing cover to companies that have a higher risk. As brokers, our role is to present your business to insurers in a way that compels them to want to provide you with a competitive quotation. Understanding your risk is important. Prepare for your renewal by considering risk in your business:

IDENTIFY RISKS WITHIN YOUR BUSINESS, SPECIFICALLY:

- Risk of fire inception and subsequent fire spread
- Risk of ingress of water from weather, burst pipes and external water sources
- Risk of criminal access to your property. What are the security weaknesses?
- Risk of arson. Do you have materials outside your premises that could be considered fuel for an arsonist's fire?
- What is the risk of interruption to your business in the event of damage at your premises?
- What is the risk of injury to your staff from undertaking their employment duties?
- How do you ensure your staff are adequately trained and protected for their duties?
- What is the risk of injury to members of the public, either from accessing your premises or from using your products?

CONSIDER:

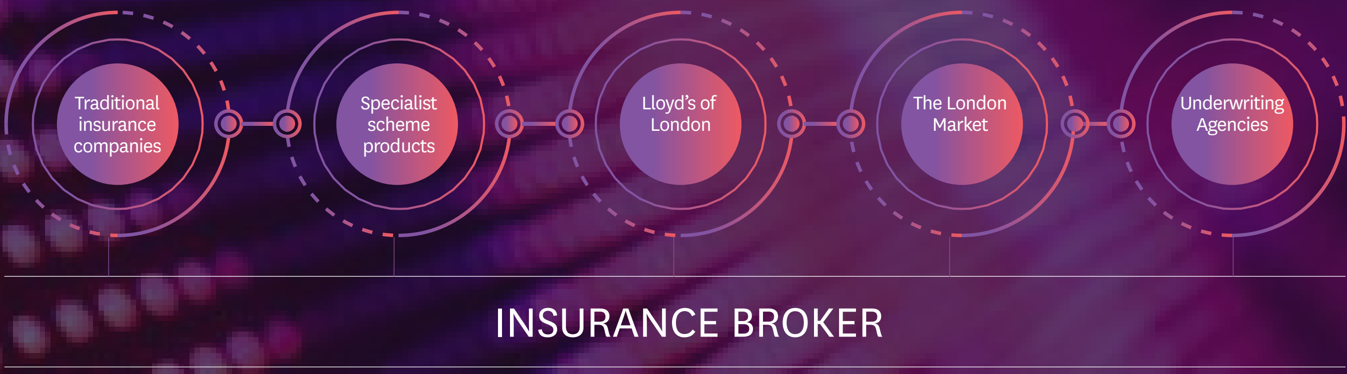
- How is fire detected at your premises?
- How do you reduce the risk of fire inception (e.g. wiring, processes that involve heat, and arson) across common areas?
- What mitigating factors exist to reduce, limit or delay fire spread?
- How do you limit the impact of water damage?
- What maintenance processes exist to monitor and manage degradation of roofs?
- What physical security measures reduce the risk of theft?
- What active security systems operate to deter theft or record criminal activity?
- What are your business continuity plans in the event of a loss?
- Are you able to demonstrate that you have a plan to continue trading in the event of a loss?
- Do you keep detailed training records with employee acknowledgement on file?
- Do you mandate the use of, and provide, PPE for staff?
- How frequent are your risk assessments for the safety of visitors?

If these types of questions are not being asked by your broker, how are they convincing underwriters that the risk of a claim is reduced? Aston Lark will undertake a thorough analysis of risk on your behalf to ensure you don't pay more than necessary.

Access

The insurance market has evolved over the years and insurers distribute their products through various channels.

Your insurance broker should discuss with you which aspects of the insurance market they will be accessing to obtain a quotation on your behalf. When appropriate, these can include:



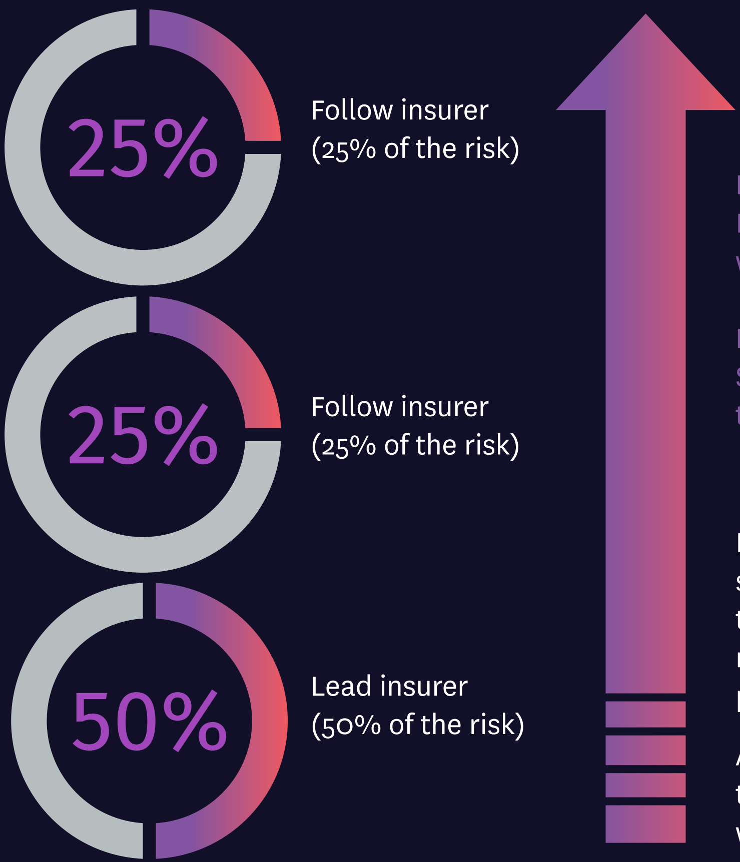
Ask your insurance broker which elements of the insurance market they will be approaching. If they have no plans to access all five elements, satisfy yourself as to their rationale.

Access: Scheduled placements

In a hard insurance market, insurance companies may not want to provide cover for the entirety of your risk.

Scheduling occurs where more than one insurance company participates in your insurance on a shared basis. This ensures you have all the cover you need, but insurers reduce their exposure to large claims. The lead insurer will provide the terms of cover and other insurers will follow the cover, while providing capacity on the risk.

Example



FOLLOW INSURER(S)
Provide insurance capacity while following the lead.

LEAD INSURER
Sets the terms and conditions and typically the price.

For larger risks, this may be the most suitable option for obtaining competitive terms. Failure to explore this approach may result in missing out on competitive pricing.

Ask your broker if they are experienced in this type of placement and whether they will be seeking quotations on this basis.

CLAIMS
Claims are handled and led by the lead insurer, with follow insurers following the lead.

Access: Package policies vs Split policies

In a soft market, many insurers offer a packaged option whereby they will provide a package policy to cover the material damage, business interruption and liabilities in one product.

However in a hard market, where underwriting appetite is restricted, underwriters may only accept part of the risk. If your broker does not explore split placements and packaged options, an insurer may simply decline to quote, resulting in reduced options for you.

It is important that you discuss placement options with your broker and ensure they will be seeking quotations on this basis.

PACKAGED POLICY

Material Damage Business Interruption Liability Covers	Public and Product Liability	Employers Liability

A SPLIT PLACEMENT CAN DELIVER A COST-EFFECTIVE OPTION.

Access: Conventional vs non-conventional options

The conventional way of organising insurance is for one (or more) insurance company to cover your entire risk from the ground up.

However, in a hard market this may not be practical or economic. Your broker should advise you on different options to risk transfer. This can include an option for a non-conventional basis. There are various options but two examples are noted below:

INCREASED SELF-INSURED RETENTION LIMIT

In a hard market, insurers may be encouraged to offer more competitive terms when the client increases their own self-insured retention. This is typically achieved via a policy excess. Increasing the policy excess to a higher level, such as £25,000 or £50,000, may result in more insurance companies offering quotations.

FIRST LOSS LIMIT

A First Loss Limit is where you organise insurance for a specific limit, rather than the full value at risk. This can only be done in certain circumstances, which can be discussed with your broker. But it can result in significant savings on the insurance premium.

Market leverage

It is important to work with a broker that has sufficient scale to leverage competitive terms from insurers.

The insurance market is regulated, and insurers and brokers adhere to trading principles. Unlike other markets, when an insurance company has provided a quotation to a broker, they typically will not provide a varied quotation to another broker.

That is important because brokers enjoy different relationships with different insurers. These relationships are strengthened by scale. Insurers sometimes offer quotations for risks they aren't keen to quote, on the strength of the trading relationship with the broker. If an insurance company has declined to quote to a broker that they do not enjoy a strong trading relationship with, they are likely bound to follow suit with any other broker.

You should discuss this scale with your broker to ensure you are comfortable with their ability to negotiate quotations.

ASTON LARK PLACES OVER £700M OF GROSS WRITTEN PREMIUMS ON BEHALF OF SOME 200,000 CLIENTS INTO THE MARKET ANNUALLY AND ENJOYS PREMIER STATUS WITH MANY INSURANCE COMPANIES.

CASE STUDY

Aston Lark was approached by a property owner, responsible for a business park with a variety of tenants. Due to the hardening market, their insurance premium had increased by 300% and the client was told by their existing broker that there was no alternative to the current insurer. The broker had undertaken a comprehensive market exercise and was not able to provide a quotation from any other insurance company.

Aston Lark was then appointed prior to the 2021 broking exercise. As a result of our access, leverage and high impact broking strategies, we have been able to obtain quotations from insurers that had in previous years declined to quote. We delivered an option that saved the client money.

High-impact broking

Not all brokers are equal. Insurance companies will offer quotations based upon the strength of the brokers' submission.

If a broker is not providing sufficient detail and is not highlighting positive risk features in a way that compels underwriters to quote, you may be missing out. Furthermore, your insurance broker should be creative and innovative to overcome challenges. We call this 'high-impact broking'. Using strategies to achieve success where other brokers have failed.

Our CASE STUDY provides insight into areas where we succeeded in delivering a solution for businesses where other brokers had failed. Please follow the link: www.astonlark.com/highimpactbroking.

This VIDEO CASE STUDY demonstrates how we solved a long-term challenge for a client. Please follow the link: www.astonlark.com/highimpactbroking.

Your broker should be happy to provide you with a copy of their market presentation. You can review this prior to their market exercise, to ensure you're happy with the calibre of content being submitted and to assess their ability to present your risk in a compelling way to the market.

Using technology

The pandemic presented trading challenges to many industries. Most businesses have had to adapt to find a new normal.

This has presented numerous challenges to the insurance industry. Insurance companies are often required to survey larger businesses or new cases they are being asked to quote for. If access is not available or permissible, insurers may decline to offer terms. We have utilised technology to overcome this.

Examples include:

3D image rendering – Our technology partner utilises 4K camera technology to create detailed interactive 3D images, allowing underwriters to survey a site remotely.

Drone technology – Using drone technology to provide detailed visual and thermal imaging.

Video conferencing – We are advocates for creating a tripartite relationship and enable our clients and prospective clients to meet insurers. This often helps provide comfort to insurers that our client's senior management team takes risk management seriously.

More businesses chose to work with Aston Lark in 2020 than in any previous year. While many other brokers reported contractions in their financial performance, our business grew due to the results we were able to deliver for existing and new clients.

Timing

It is vital that you start your renewal exercise earlier than normal.

The hard market trading conditions mean more businesses are seeking alternative quotations. From a logistical point of view, this is requiring more time from insurers and therefore insurers are declining to provide a quotation if they don't have sufficient time. For medium to large businesses, we recommend starting your renewal exercise no later than 16 weeks prior to renewal.

R minus 16 weeks
Begin discussions with current and new broker.

R minus 14-12 weeks
Engage with brokers for risk gathering due diligence exercise.

R minus 12-8 weeks
Brokers access insurance market. Pre-inception insurer surveys take place if required.

R minus 4-2 weeks
Broking presentations to client with options and solutions.

Renewal

R = Renewal

Timing for higher risk businesses

The timing shown is a best practice guide for businesses with a relatively generic risk profile in obtaining quotations.

However, those businesses with higher risk profiles will need to start their renewal exercise much earlier in a hard market. If your business includes any of the factors below, starting your renewal exercise earlier will be required.

Does your risk profile include any of the following features?

- Composite panels
- Storage of combustible materials
- High flood risk
- High-risk manufacturing / engineering processes
- Individual properties with a declared value of over £50m
- EU-based operations
- Legacy claims equalling 100% or more of your annual insurance spend

IF 'YES', YOU SHOULD BEGIN YOUR RENEWAL DISCUSSION 20–24 WEEKS PRIOR TO RENEWAL.

CASE STUDY

We have worked with a large food producer for many years. Their site features infrastructure common within the industry, including materials which provide good thermal properties but which represent an increased risk of combustion.

We advised our client to start their renewal exercise some six months prior to renewal and this entire time was required to procure a suitable placement option.

Renewal checklist

DO

- Begin your renewal exercise early. Be prepared to start 3–4 months prior to renewal.
- Ask your broker how they will assess your risk and present it to insurers highlighting your positive risk profile.
- Ask your broker which parts of the market they will access.
- Ask your broker on which basis they will be seeking quotations. Will they be looking at non-conventional options? Will they be looking at split placements, packaged options or scheduled options to provide you with alternatives?
- Help the broker by highlighting how you manage risk within your business. No one knows your business like you do!
- Review a copy of your broker's market presentation to ensure it is high-quality and is sufficiently compelling.
- Take advantage of meeting insurers. Insurers will take comfort from competent senior management.

DON'T

- Delay your exercise.
- Rely on a broker that does not have sufficient market access or leverage.
- Allow your broker to present renewal terms at the 11th hour, when you have no option to review the quotation.
- Allow social distancing restrictions to hinder your renewal exercise.

About Aston Lark

If you would like Aston Lark to review your insurance and provide you with an alternative, we would be delighted to help.

Chartered Broker

Placement of more than **£700m** of premium into the market

Works with over **200,000** clients

Has more than **1,500** staff across **50+** locations in the UK and Ireland

Enjoys premier partner status with major insurers

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Notes

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