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MARSH

Marsh News

News for Marsh clients in Australia and the Pacific

This issue

Insurance Market Review

The outlook for our clients is positive. In 2005 the insurance market will continue to experience increased competition and opportunities for further premium reductions in most classes of insurance. This review, provided by specialists from the Australian, New Zealand and London offices of Marsh, highlights the expected key trends for the year ahead.

The continued improvement in the financial performance of most insurers over the last two years, particularly those based in Australia, will see insurance market conditions remain favourable in 2005. This is despite the increased frequency and severity of global catastrophes including the Asian Tsunami and the Florida, US, hurricanes of late 2004.

While this is promising news for those paying premiums, reductions are not expected to be dramatic. This is due to increased regulation and licensing requirements, both in Australia and in other key overseas markets, and a continued disciplined approach to underwriting by insurers and reinsurers.

One of the key differences in market dynamics in 2005 is that more insurers are focusing on increasing their market share. Given the level of premium reductions experienced in the first quarter of 2005, we can expect a more aggressive approach by a number of insurers for the remainder of 2005.

In addition, the financial performance of most insurers is improving following significant losses and the rationalisation of the market post-September 11 and the collapse of HIH Insurance.

Competition between insurers is expected to increase in Australia, principally on small/medium enterprise (SME) business. Overseas markets, particularly London insurers and Lloyd's of London, are expected to directly target opportunities in Australia.

The resulting environment is favourable for clients to review and improve their insurance programs, from policy wordings through to increased limits of liability, as well as greater flexibility in insurer selection.

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Is this favourable market likely to last?

As long as insurers continue to record profitable returns to shareholders, we can expect to see market conditions remain favourable for the foreseeable future. When loss ratios begin to deteriorate, the market will rapidly "self-correct" in order to avoid poor financial results. In today's global insurance market, shareholders will not tolerate poor performing operations from insurers.

As a consequence, it may be worthwhile considering some form of longer term fixed price agreement for your insurance programme, over the course of the next twelve to eighteen months.

Key Trends

Property

Property rates in 2005 have continued their downward trend, with reductions of 10-15%. This downward trend is expected to continue, driven partly by new entrants and particularly by the increased capacity of existing underwriters after favourable results in the last few years. Catastrophe perils are also seeing reductions in price. For example, in New Zealand, earthquake rates in particular are falling, due to improved modelling methodologies which are producing increased capacity and competition.

Property insurers, while competing to retain existing accounts, are also aggressively soliciting new business.

Insurers are now prepared to consider offering broader coverage and higher limits at lower cost. They are more reluctant to lower deductibles. This illustrates that the Property market is still very sensitive to claims and if an individual client's claims experience deteriorates, rate reductions will be marginal or an increase in rates will occur in some cases.

As profit margins come under pressure, international underwriters are beginning to withdraw from certain Territories where domestic markets are aggressively re-entering specific classes.

On this note, we can expect more Australian insurers to be prepared to underwrite national and multi-national accounts. Strong local insurer financial returns, adequate deductible levels and generally a more focused attitude by major clients to risk management have created a more optimistic Australian insurer market. From a global perspective, Australian and New Zealand risks have gained an enviable reputation, particularly in London, both for the quality of the risks and the clients' commitment to the International market. We believe this will be reflected by underwriters in their determination to keep those accounts they already have and offer competitive terms on new accounts.

Management pressure is demanding that underwriters justify improved terms and those with favourable claims experiences and clearly defined Risk Control programmes are achieving the best savings. A strong link between risk and price is therefore likely to continue. Property insurers, while competing to retain existing accounts, are also aggressively soliciting new business.

With increased capacity, expansive business plans and general rate reductions, the environment to favourably restructure programs or create viable alternatives is particularly encouraging and good news for our clients.

Public and Products Liability

For the first time since 2000, we are now seeing the Public and Products Liability market becoming more competitive. Early signs of a softening in attitude by insurers began in the second half of 2004 and this has continued into the first quarter of 2005. We can expect more insurers to become focused and prepared to compete for Public and Products Liability insurance.

We are seeing increases limited to certain industry classes by account-specific exposure changes and loss development. The first quarter of 2005 saw increased pricing flexibility in an effort to retain the incumbent position or gain new business opportunities. The underlying reason for the improvement in this class, which has traditionally been conservatively rated post the HIH collapse, has been positive financial returns by insurers.

The practice of reserving outstanding claims is also increasing and becoming more accurate. The frequency of small – medium claims has been reduced as a result of recent tort reforms across Australia. This, combined with higher deductibles and retentions, has contributed to a more favourable

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Analysing where the opportunities are and how best to take advantage of them will give clients the edge in achieving a better and more successful renewal outcome.

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market environment. More Australian insurers are now prepared to quote for this sector of business. The SME sector is showing a greater number of insurers prepared to quote competitively, although not to the same level as the Excess Public & Products Liability market.

The Excess Public and Liability market has seen new entrants and this, coupled with a relatively benign claims environment, has resulted in improved competition and increased availability for larger limits of liability. The Public and Products Liability market will always be sensitive to claims, both frequency and severity, and will always be aware of the potential for new tort liability. With these issues in mind, this class of insurance will remain conservatively rated and maintain a disciplined approach to underwriting, particularly on the high risk long-tail risk profile accounts.

The London and European International Liability market still remains very buoyant. There are general, modest rate reductions across all classes of business with the exception of pharmaceuticals, which still remains very difficult to place. Increased competition for the large multinational insurers has been seen from local domestic carriers; however rates are generally not falling dramatically.

Crime and Fidelity

As reported in previous editions of Marsh News, this class of insurance continues to be difficult for insurers and insureds and 2005 is not proving to be any different.

For the year ahead, premiums will continue to vary depending on specific account characteristics. Limits of Liability will be restricted, with clients obtaining higher limits and acceptable terms based on the quality of their internal systems and adequate corporate governance procedures. Few new insurers are willing to enter the market, despite the significant changes to cover, form and pricing. The leading three insurers in Australia control over 70% of the corporate market share. In recent years, this class of insurance has not generated a premium pool significant enough to cover industry losses. For this reason, crime and fidelity cover will remain difficult to place, with few alternative options available.

For those whose crime programmes are placed through the London Market, rates continue to reduce. This trend has continued into the first quarter of 2005 and on average reductions are in the region of 10 - 15%.

In recent years London has mainly been used for excess market capacity for major Australian financial institutions; however appetite and capacity to underwrite risks across the board has increased as many London underwriters seek to reduce their US Liability exposure and increase their international portfolios. The principle lead markets (SVB, Odyssey Re, Limit and Ace) are now providing competitive Primary and Excess layer terms for both major institutions and SMEs alike.

Other Classes of Cover

Marine, Motor and Personal Accident classes of insurance cover continue to be competitive. Reductions in premiums cannot be expected to be significant, given that these short-tail classes of insurance have not had the same large increases that the Property class has experienced in the last three years.

In Summary

Comprehensive and accurate underwriting information, combined with early preparation, will continue to be the big differentiator for successful clients. As the market cycle moves from hard to soft, it is imperative that early and thorough preparation for renewal is maintained. In a hard market, this approach controls the impact of market restrictions. In a soft market, it greatly assists in maximising improvements in terms and conditions. Analysing where the opportunities are and how best to take advantage of them will give clients the edge in achieving a better and more successful renewal outcome.

Developing secure relationships with your insurers and delivering the underwriting information in a concise and clear presentation will further add to the negotiating phase and assist our clients in taking full advantage of the changing market environment.

MARSH

Showing Directors and Officers the ropes

A new course offered by Marsh will give directors and officers an insight into the principles of risk management. The course, which will be run on the last Wednesday of every month at the Marsh offices in Bridge Street, Sydney, aims to improve standards of risk management "across the board".

Says Tanya Jackson of the Marsh Risk Services team, "Our workshop is aimed at directors and officers of companies who want to be able to identify the key risks to their business success and be able to develop strategies to counter those risks." The course is directed at those with a limited knowledge of the field.

The three hour session has been developed in association with Chartered Secretaries Australia and takes a true "hands-on" approach. It focuses on a case study of a snack food distributor, losing market share and suffering low staff morale. Participants are asked to identify the key risks to the business, then form strategies on how to manage them.

"At the end of the session, we hope that our participants will have not only learned the basics of risk management and its application to a real life scenario but also have enough knowledge and confidence to apply this knowledge to their own business," says Tanya.

Participants will be able to:

- define risk
- identify risks in the context of their own organisation
- assess the different types of controls available
- analyse the likelihood of the risk
- evaluate risk-management strategies
- identify risk-avoidance opportunities
- develop strategies for risk reduction in their organisations
- identify risks that can be managed through risk transfer, eg, insurance
- identify acceptable risks for their organisations.

To register your interest for this high-impact workshop, simply contact Tanya Jackson at Marsh by email or phone:
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More detailed information is available on www.marsh.com.au

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