COMMUNITY
BROKER
NETWORK

CBN Market Update – August 2020

Agreement Dashboard

New Agreements	Under Review
• **Mitti Insurance** – a QBE Agency with a Risk Management focus (in pilot).	• **RedSky** – Marine Underwriting Agency • **Pacific Indemnity** – Exploring access agreement via Steadfast Placements. • **Celsius Pro** – Weather Derivative Product • **Open Insurance** – You may have received an EDM from this business. We are currently reviewing their business and agreement and will determine whether they become an approved partner.

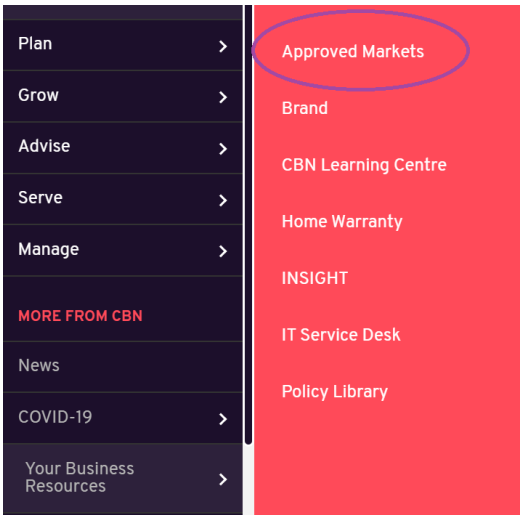
Approved Market Listing – Now available in the CBN Hub!

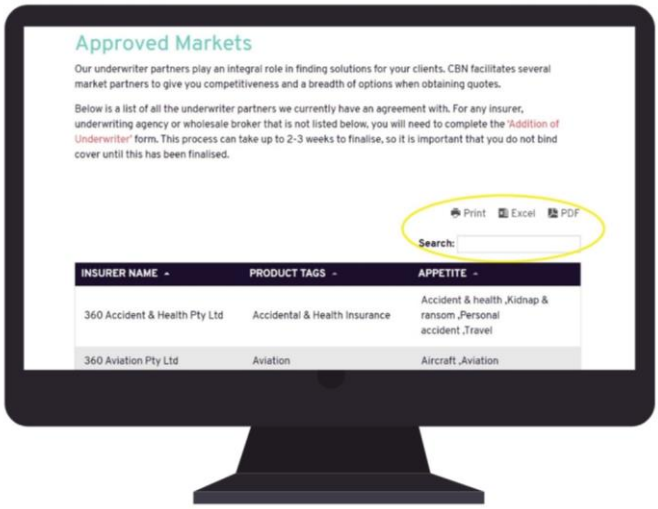
Have you ever wondered who CBN have underwriting agreements with? We have created a tool in the CBN Broker Hub where you will be able to search for who we have trading agreements with. This includes product and appetite tags to provide you with some guidance around possible markets.

For any underwriters who are not listed on the listing, the ***'New Insurer Qualification Form'*** must be completed with as much information as possible so that our team can qualify the opportunity.

This is an important step for us as a network to create a wholistic library of market information available at your fingertips. The appetite information in the tool has been brought across from the UAC directory and mapped across the UAC underwriters we have access to. This tool will evolve and improve as we continue to add more information for each underwriter every week. We will have a change request form implemented shortly to allow you to share feedback on our markets/appetites so we can continually build this out for the network.

To find this resource on the Hub, you will find it under the ***'Business Resources Tab'***. This tool has search functionality and allows you to export this to PDF or excel if you wish.





Initiatives in Flight

- Personal Cyber Cross-Sell Pilot with **Emergence Insurance** with Domestic Renewals.
- Exploring an AirBnB / Short Term Rental / Bed & Breakfast Facility for CBN. Do you have clients in this space? Please reach out to Kathryn McClunie.
- **SPS** Exploring a Commercial Property Owners Facility for Tattoo Parlours. CBN are supporting SPS with information to pitch this to the market.
- **Risk Survey Program** for CBN Brokers (Property Risks).
- **Brooklyn** will soon be offering Cyber Quotes on all CBN Renewals.
- Re-Tender of the **HBCF iCare** Distribution.

LOA – Reminder

One practice in our industry that creates a lot of angst is Letters of Appointments (LOA's). Whilst they are a great opportunity to bring on new clients, there are several pitfalls often overlooked. Here are some scenarios to consider:

Steadfast recently published information in a newsletter where they were notified of a dispute by AFCA. In this scenario, the policy was taken over by an LOA but the current covers were not assessed against the client's current needs.

By not completing a full review, the newly appointed broker is relying on the ceding intermediary having completed a full and accurate analysis of the client's needs and more importantly provided cover accordingly. This poses a significant risk, because if they had done such a good job, the insured would be less likely to move to the new broker.

Often a LOA is secured because the insured has not seen the holding Broker for some time, therefore the chances of the cover being appropriate is very limited. Therefore, it is important to complete a full review with the insured immediately to avoid potential PI and complaint or dispute exposures. At CBN, we think it's important to think of an LOA as a ***Letter of Accountability*** as this carries the notion that once appointed, you are the accountable broker.

The other cause of angst is when you complete all the work arranging cover, only to receive an LOA. You might feel that you are entitled to the commission for the work you have put in, however, the general rule is unless you have instructions in writing from the insured to arrange or bind the cover, it is difficult to support your claim for the commission.

Steadfast believes LOA's should be a last resort, not the first line of attack used by some.

Here are some links which you might find useful:

- https://www.niba.com.au/html/letters-of-appointment.cfm
- https://www.niba.com.au/html/niba-rules.cfm

Notable Market Updates

CGU

Island Risks

CGU will no longer provide personal lines insurance to customers that live on islands. (This change applies to policies purchased through a broker or directly with CGU.)

There are **two exceptions** to this change:

- This change does not impact mainland Tasmania, however, islands around Tasmania will be affected by this change.
- Existing customers living on **Flinders Island, Kangaroo Island and King Island** can continue to renew their **residential home, private motor or niche insurance policies** with us, however, they must be living in the property on the island and these vehicles or niche products (such as boats/caravans) must be garaged at the same residential location on the island. Other policy types including **landlords insurance** and **standalone motor vehicle or standalone niche product policies** will be declined at their next renewal (i.e. if the customer does not have a domestic residential home policy on the island with CGU, they will be unable to get standalone cover for a motor vehicle garaged on the island). Just to put further clarity around this decision, **landlords insurance** will be declined irrespective of supporting business.

This change will come into effect when a policy is due for renewal and new business with effect from:

- **New Business:** 19/09/2020
- **Renewals:** 24/10/2020

Bushfire Fact Sheets

Earlier this week, IAG released two new bushfire factsheets aimed at educating Australians of the risks they face and how they can prepare for future bushfire seasons – as trends indicate, Australia will experience more extreme bushfire seasons.

Vero

Vero recognise the importance of efficient claims turnaround times for customers and are continuing to strengthen their claims handling ability by investing in their dedicated case management process and digital lodgement platforms including OneTouch, allowing brokers to lodge and settle a claim in as little as 15 minutes.

For full details of this service, please visit:
https://www.vero.com.au/broker/claims.html

Mitti Insurance

Mitti is close to being fully launched to the market! We are excited about this impending launch as they invited our CBN brokers exclusively to help shape the product wording.

Mitti is an insurance agency with a difference as they have a technology and data focus to ensure Australian businesses gain visibility on what's happening in their day to day operations to identify and mitigate potential risks. This product offering is truly one of a kind and we are positive about the value it will add to CBN clients.

Make sure you visit the Mitti team at the CBN Virtual Conference to find out more!

Emergence

Emergence launched the very first personal cyber product in the Australian Market. The Product is available via the Emergence Portal. Only three questions to get a quotation. This is a great opportunity to cross-sell to your Domestic Clients.

SURA

Recently SURA lost two underwriters (Dean Fiddes and Janelle Cox) within their hospitality team. Lloyds of London has since invoked their Key Man clause meaning their binder is no longer accepting new business for Liability or Property. In September, the renewals will also be dropping off so please review any upcoming accounts you have with SURA in this month as you will need to find a new home for it.

SURA are currently working closely with London to renew the binder but they are unlikely to have anything until October at the earliest. All other lines are operating normally.

London Market Update

CBN has several strong relationships into the London market and we stay in touch with these markets so that we can relay important information back into the network.

According to a recent update published by Carroll Hollman Insurance Brokers (UK), "COVID-19 has hardened the market somewhat over the last few months, not just where some insurers are on watch for claims as a result of the pandemic, but Syndicates and Companies are now less likely to be sharing peers' wordings". This is causing problematic trading conditions when follow lines are required, ultimately pushing pricing further north.

Another London broker stated, "carriers who have taken a big hit from COVID will be looking to redress their balance sheet by a rate uplift across most classes and allied with reinsures who will be applying significant increases to their reinsurance programmes. These increases are rumoured to be near 100% which will only put further pressure on rates in the last calendar quarter and into 2021".

Below are some key points around how the Property and Professional Lines are being experienced by our London brokers:

Property

- More and more syndicates are opening their doors to Australian business in the open market (usually this would ease the capacity issues and steady the

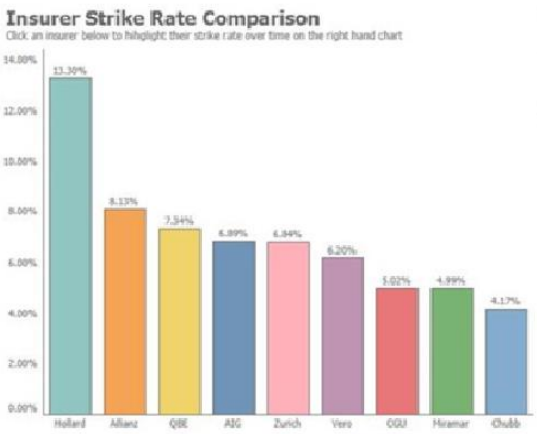
rates but with markets not looking to give out more than $1-$2m lines, more syndicates are needed to fill orders).
- Appetites widening as we see more and more come out of Australia.
- Rates still on the up with clean renewals seeing a minimum 10% increase.
- More than ever, Underwriters are now requiring surveys prior to consideration of risk and are expecting back to base alarms on most risks.
- Syndicates reviewing their exposure following COVID, the 1908 Quarantine Act caused a little ripple and concern through the market.

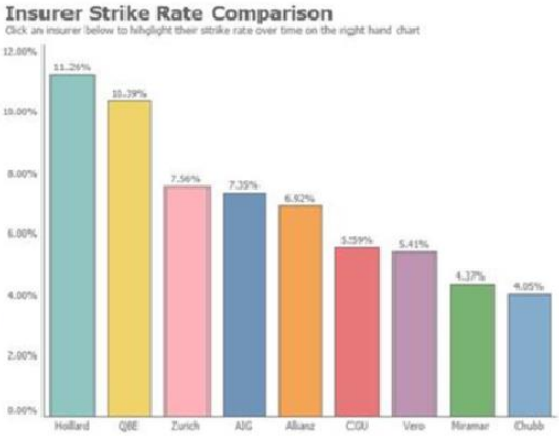
Professional Indemnity

- Capacity is starting to become an issue with underwriters now being limited on the amount of new business they can write with a few syndicates closing the door for a month or two to any new business.
- Pricing is increasing due to this capacity shortage.
- Insurers are looking to support and fill gaps on placements as opposed to competing on price.
- High risk areas are becoming more and more difficult to get alternative terms on such as Structural/Civil Engineering – Heavy D&C.
- Insurers are reducing line sizes in order to free up capacity, so we are seeing placements previously written on a 100% basis being reduced to 50%.
- Cover for Insurance brokers is becoming difficult especially in getting quotes for new business due to COVID and the possible fall out of claim disputes.
- D&O market is hardening very quickly, and we are seeing cover being reduced as well as premiums increasing.
- Insurers are looking to add COVID exclusions to risks.
- On a bright note……. Most insurers are offering renewal terms but if written on a 100% basis for a sizeable limit, we are seeing their line size being reduced

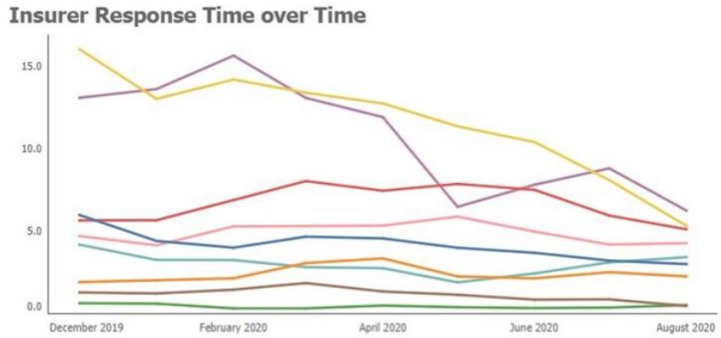
SCTP Performance

There are several benefits to using the Steadfast Client Trading Platform e.g. time efficiencies and enhanced wordings. Recently we identified that there is a large portion of Business Pack policies that are still sitting outside of the SCTP channel. Therefore, we are going to start sharing some reporting on response times and strike rates for the CBN Network and more broadly the Steadfast Network. Please note, the below information is across all SCTP products.

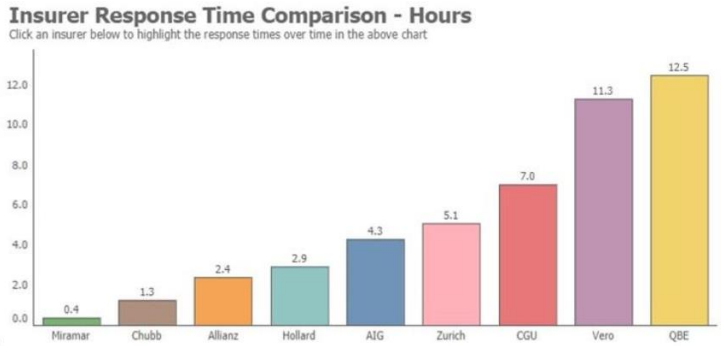




To the left we have the strike rate experience for the CBN Network across the different underwriters and then to the right is the strike rate experience for the whole Steadfast Network. As you can see, there are consistencies with HCi having the highest strike rate across the two channels. The only anomalies between the two channels is the different strike rate experience for Allianz and Zurich which seem to have a much higher strike rate for the broader Steadfast Network Vs CBN.



A common piece of feedback that was being received regarding the SCTP was the slow turnaround time. The graphs to the left highlight that this has been trending down in the past 6 months.



Below this you will see the average response time (per hour) for each underwriter. More interestingly is that this doesn't directly correlate with the strike rate performance above. The underwriters with the shortest response time have the lowest strike rate. We meet regularly with these insurers and challenge them about how they are planning on improving these results, and where they are successful, the winners will be you and your clients.

Rate Trends and Cycles

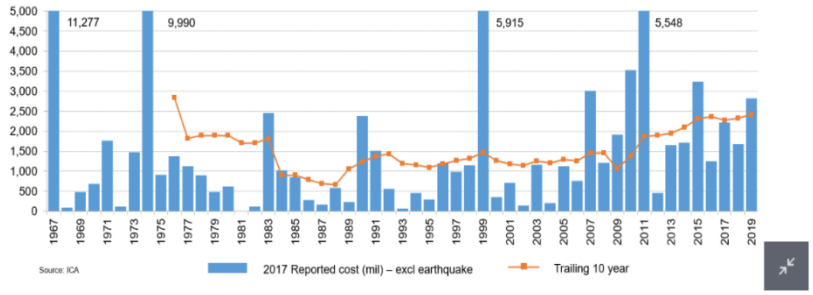
In late July, Ted Gu from CBN attended the ANZIIF Webinar titled, ***'Rate Trends and Cycles: The Outlook for Insurers and Reinsurers'***, presented by Kevin Gomes. We are pleased to share with you some of the key insights that was captured by Ted during this presentation. As they say, knowledge shared is knowledge gained.

Forces, that are deeply affecting the rates right now:

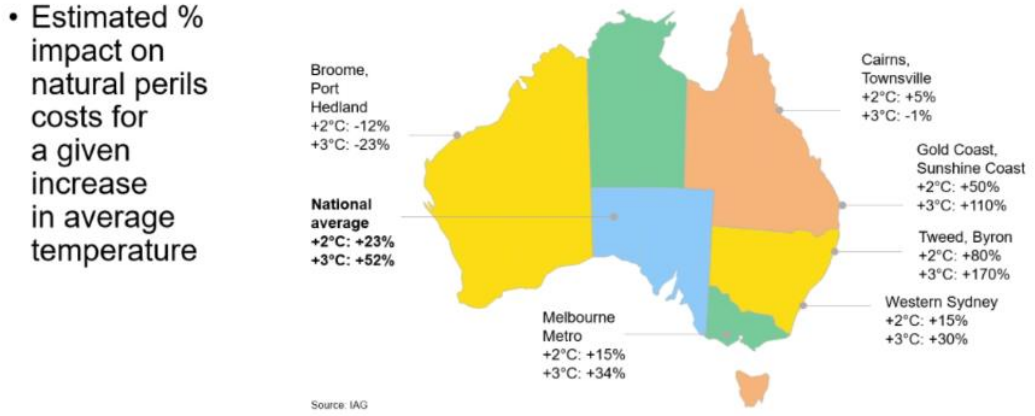
1. Climate Change/ Catastrophic Weather
2. Poor State of Economy
3. Effects of COVID-19

Climate Change/Catastrophic Weather:

Data on global mean surface temperatures suggest that our climate is warming. There is a clear aggregation of this trend over the past 20 years. Statistically, there is a higher correlation between catastrophic claims and temperature increases.



According to the Trailing 10 year moving average, the cost of catastrophic claims is steadily increasing over the past 20 years. On top of that, the Research paper titled as "Severe Weather in a changing Climate" by IAG, which investigated the link between weather claims and warming temperature, has concluded an eye-opening result.



Did you know that, the expected increase in Weather claims for insurers, resulting from a 3-degree warming temperature is by more than 50 percent?

What is more fascinating about this finding, is that a warming climate will have a very different impact depending on the geographic region. For instance, the Warming climate will push the tropical cyclone activity further to the south, which benefits the current cyclone area such as Broome and Port Hedland.

Although the loading for catastrophic weather claims is just 1 component of the Insurance, it is a pretty crucial component. Therefore, areas such as Tweed, Bryon and Gold Coast may face hefty increase in premium rates.

Lastly, the industry loss estimates for the unprecedented Bushfire damages is totaling a whopping $5.19 Billion. This has caused the Insurer to recalibrate their models, which can float through to the rates now.

Poor State of Economy:

The combination of high un-employment rate and weakening economic activities has constraint the Insurer's ability to grow their customer and premium base.

What made the matter worse is that, the Insurer can hardly rely on their investment return to offset the rising claim cost due to the deteriorating interest rate & credit risk.

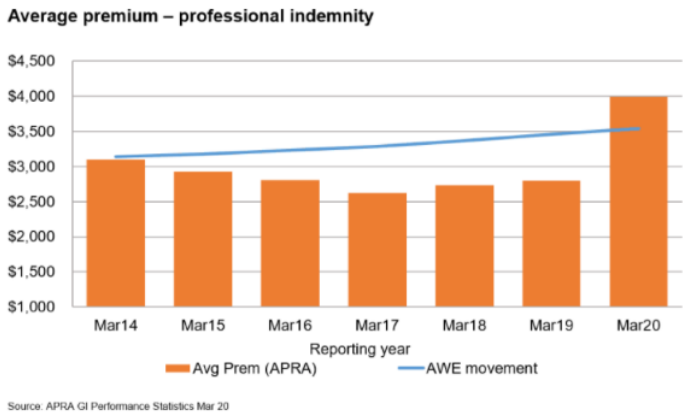
Another factor to consider is that, the falling interest rate increases the value of Insurer's long tail claims reserves; this further impacts the Insurer's profitability from investment return. Insurer's investment returns dropped from 4.9% last year to -0.5% this year.

In summary, the overall impact of our economy has an adverse effect on key factors (Capital, Investments & Profit) that used to determine the premium rates; the Insurer is running out of options but to increase the premium.

Effects of COVID-19:

As featured in the last monthly market report, we saw that there were varying impacts on product lines due to COVID-19. We are going to share the two key product lines that were shared in this presentation as having a medium to high impact.

Financial Lines: COVID Impact – Medium



- **D&O** – is currently under the most pressure due to class actions pushing up losses. A trend is occurring where shareholders are suing Directors and Officers of the company for the mismanagement or failure to adequately disclose risks. This often results in large pay-outs and therefore large insurance claims.

Estimation: The COVID-19 Recession has caused increasing insolvencies, which will put upward pressure on Premiums and claims; as people will look for someone to blame, and they may be tempted to seek legal actions against company Directors and officers that failed to appropriately manage their company. Likely to see a sharp Increase on premiums in 2020, especially the D&O subcategory.

In a joint white paper published in 2017, insurer XL Catlin and law firm Wotton + Kearney concluded that one of the principal drivers of the unprofitability of the D&O insurance market in Australia was the "chronic under-pricing of … D&O business by insurers since at least 2011".

The reality is that the primary reason for the increase in the cost of D&O liability insurance is the extent of corporate wrongdoing. This has led to successful actions being brought on behalf of aggrieved investors. The quantum of settlements in recent shareholder class actions – tens or hundreds of millions of dollars in many cases – points to meritorious actions for serious instances of misconduct not frivolous litigation against unfair targets.

This trend, with its clear implications for insurance premiums, has been coupled with the correction to years of underpricing noted by the insurance industry itself.

Trade Credit: COVID Impact - High

- A niche market, but crucial to the function of economy, as it prevents a domino like collapse, if there is a weakling in supply chain.
- The adverse impact of COVID are apparent on Trade Credit, high profile retailers such as Myer and David Jones are seeing as poor credit risk, and Insurers are reluctant to provide cover for suppliers who are doing business with them.

A further summary was published by ANZIIF and is available here.

Tell us what you would like to see more of!

The market update is a new initiative for us so we can keep you more informed with what we are working on.

Given this is a new focus for us, we would appreciate your feedback on what you would like to see more of in these reports. Click here to submit feedback.