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WICA comes to Melbourne: Right time, right place

In choosing Melbourne as host city for The World Insurance Congress 2023, the conference organisers couldn't have chosen a more vibrant market at a more crucial time.

By Paul McNamara

The World Insurance Congress 2023 will give a fresh perspective to all delegates and will focus on some of the very big issues that have often been neglected – such as war risk – as well as others that are more frequently discussed – such as climate change.

All this at a time when the Australian market is being roiled with change of its own.

Legal changes

Recent headlines scream of change - such as Insurance Australia Group (IAG) disclosing that it is being hit with 20 legal claims in the Federal Court of Australia worth A$7bn ($4.5bn) over insurance written by a former commercial partner, most of which is represented by policies issued to Greensill Capital, which collapsed in 2021.

IAG's exposure is due to trade credit insurance provided by BCC Trade Credit, in which it previously held a stake. IAG sold its 50% interest in BCC in 2019 to Tokio Marine Management.

In March 2021, IAG said that it has no net insurance exposure to trade credit policies including those sold through BCC to Greensill entities. The legal cases could take a number of years to resolve.

Broking changes

Other recent significant developments saw Marsh reaching an agreement to acquire 100% of the outstanding share capital of Melbourne-headquartered Honan Insurance Group (Honan) in a deal that could value Honan at A$700m.

Honan describes itself as a leading specialist insurance broker in the areas of corporate risk, employee benefits and strata and real estate insurance.

The deal includes the 80% holding of majority private equity shareholder TA Associates. Terms of the acquisition, which could be completed later this year subject to regulatory approvals, were not disclosed.

Marsh CEO, Pacific Nick Harris said, "The addition of Honan's highly complementary capabilities, particularly in corporate risk and strata insurance, will enable Marsh to deepen the specialist expertise we provide to clients across Australia and New Zealand, and support them in managing the risks they now face."

Life changes

The life insurance sector in Australia has also seen substantial changes in recent months with a new Life Insurance Code of Practice starting on 1 July 2023 that is designed to deliver higher standards and stronger consumer protections across the sector.

The Council of Australian Life Insurers (CALI) CEO Christine Cupitt said the new code would help ensure the life insurance industry was accessible, understandable and trusted. "Australian life insurers have listened to the needs of their customers and the community by developing an updated life code that sets a higher bar for the industry," she said. "The new life code will deliver better outcomes for Australians, tougher penalties for conduct breaches and strong independent enforcement."

Each of CALI's 19 members are subscribed to the life code which has 50 additional consumer protections.

Ageing demographic

All of this comes at a time when the number of seniors in Australia aged over 85 is set to triple in 40 years while overall population growth slows, according to the government's latest intergenerational report.

The country's residents are also expected to live longer, with the number of people over the age of 85 predicted to triple over coming decades, while the over-65 population is set to double. As a result, the country's aged-care economy could almost double to as much as 15% of gross domestic product by the 2060s.

With Australia's demographic outlook worsening, the report said three of the five fastest-growing spending pressures in the decades ahead were expected to be health, aged care and the National Disability Insurance Scheme.

WICA delegates will get a first-hand view of a fast-developing market at a fascinating time.

Making property insurance in Australia resilient again


Dr Christopher Wallace

When the Australian government decided that it needed a reinsurance pool that provided insurance cover for cyclone and cyclone-related flood damage to houses, small businesses and strata, getting the **Australian Reinsurance Pool Corporation** (ARPC) to manage it seemed obvious. We spoke to ARPC's **Dr Christopher Wallace** about the pool today.

By Paul McNamara

The Australian Reinsurance Pool Corporation was established under the Terrorism and Cyclone Insurance Act 2003 to ensure continuing commercial property insurance to support stability of the commercial real estate market in Australia after the 9/11 terrorist attacks in the US.

ARPC operates a reinsurance pool that provides cover for eligible terrorism losses. "We have over 220 participating insurers and it's a mature, stable portfolio of risk that is well supported by the global reinsurance market who participate in the retrocession programme," said ARPC CEO Christopher Wallace.

The cyclone pool

When the Australian government identified the need for a reinsurance pool that provided cover for cyclone damage, ARPC was an obvious choice. The Cyclone Reinsurance Pool commenced operations on 1 July 2022.

"Major insurers have until the 31 December 2023 to join," said Dr Wallace. "We've got nine insurers already signed up and by the start of the cyclone season on 1 November, we estimate we will have 95% of risks covered in the pool.

"Smaller insurers, representing the remaining 5% of risks, have until 31 December 2024 to join. The scheme will cover 3.3m households, 220,000 small business and 140,000 strata.

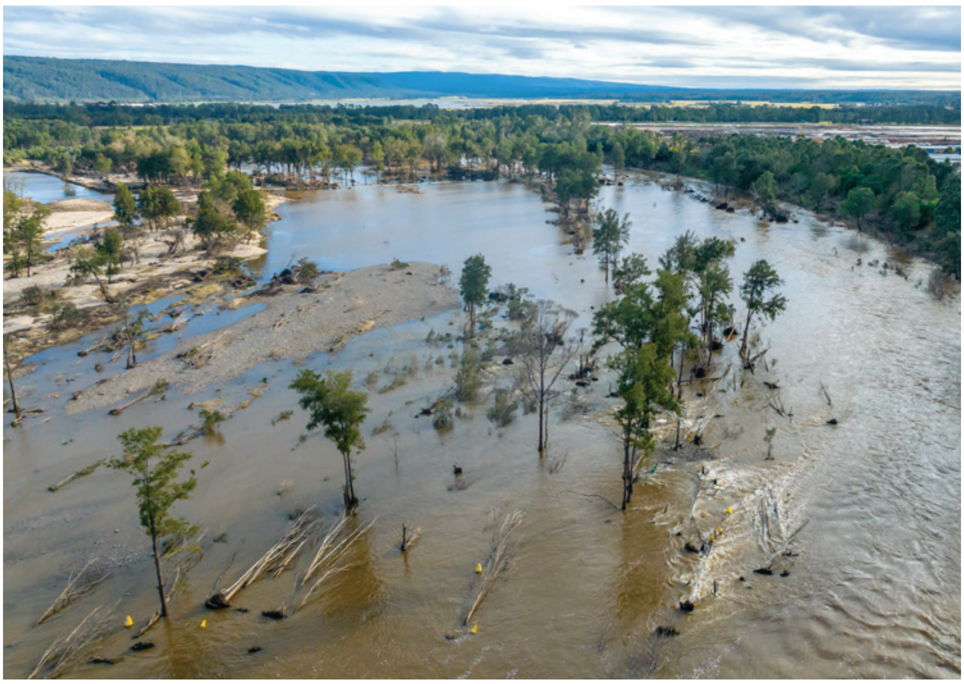
"Insurers transfer 100% of their cyclone exposure to the pool and ARPC will be paying all the claims," said Dr Wallace. "We've got a full team and systems in place. We've already paid our first claims from the last cyclone season."

To be effective, the pool has to be mandatory for property insurers.

"The cyclone pool is mandatory if you insure property and have more than A$10m ($6.45m) in premium for home insurance," said Dr Wallace. "The exception is for Lloyd's syndicates - it's optional for Lloyd's to join the pool."

The objective of the pool is to reduce premiums and ARPC has already seen some individual examples of strong premium reductions.

"The ACCC has been tasked by the government to monitor the premium savings and the pass-through of those savings to consumers," said Dr Wallace. "They'll be publishing a report later this year and for the next three years."



Community buy-in

"While there's not a high level of awareness of what we're doing yet, when we do talk to communities about the pool and what we've achieved, we've had some really positive feedback," said Dr Wallace.

"We had several rounds of consultation with insurers on the premium formula and on the reinsurance agreement. We talked with insurers bilaterally, and we took on board their feedback and then we shared that back to the industry."

The cyclone pool was built in such a way that insurers could build it into their systems and processes.

"There's a lot of work for insurers because it's legislative and it's important they get it right," said Dr Wallace. "So, insurers have focused on the legislative compliance obligation imposed by the law. But we're trying to make it as efficient and automated as possible."

Pricing premium

To set premium levels, ARPC used catastrophe models to estimate the probability and severity of different types of events.

"We simulate tens of thousands of different types of cyclones and we model the likely outcome. We apply that to the risk exposure that we have for the low-, medium- and high-risk areas in Australia," said Dr Wallace.

It is a sizeable scheme.

"Our annual premium for the cyclone pool will be A$776m based on our modelling of the annual average loss of cyclones, as well as the expenses of insurers to manage the claims and our administration costs.

"Each year will be different. Some years there'll be few cyclones and some years there'll be many. But over the long term that will break even. That's the objective. Our goal is to break-even in the long term" he said.

Rules of court to expedite litigation

Ms Carmel Green

Singapore is fast emerging as the primary (re)insurance hub for APAC. As a result, it is very important that the legal infrastructure supports the increasingly complex area of insurance law. We spoke to RPC's Ms Carmel Green to get the latest update to Singapore's Rules of Court, which is intended to expedite the litigation process.

By Ahmad Zaki

Just because a plaintiff or defendant is encouraged by the court to reach a settlement offer at the earliest possible stage, this does not mean that they are necessarily going to do so, and an insurer cannot force the issue.

"In these situations, you can't guarantee that the process will work as the court intended. While the opportunity has been created, its effectiveness can vary," said RPC partner Carmel Green.

Ms Green is a specialist in insurance-related dispute resolution and advisory work, with a particular focus on professional indemnity and financial lines.

Because of the expedited procedural timeframe, insurers stand to be hardest hit if the initial negotiation fails, in which case they can expect to face a significant jump in immediate expenditure, in terms of supporting their insured to defend the claim moving forward. This is compounded by the fact that the plaintiff's expectations around settlement are likely to increase as the case progresses. This is because the plaintiff will be incurring costs in bringing the action, which it will want to recover as part of any future settlement.

"Insurers need to take stock of next steps. Even if that initial offer is a bit higher than an insurer would ideally like, it needs to be viewed in the context of what lies ahead over the coming weeks and months, in terms of costs to be incurred," said Ms Green.

The new rules in Singapore means that the litigation process is now being frontloaded like never before, and there is a real danger that insurers could lose control of costs because, once proceedings have kicked off, it will move at pace, which means they have less time to strategise.

Working with defence counsel

"I also think it's important for defence lawyers to become cognizant of the impact of these changes for insurers, so that they are supporting both their clients and their client's insurers in this process," she said. "Ultimately the insured has free choice over their legal advisors and the majority of legal advisors are not familiar with insurers' needs and objectives.

"An insured might feel aggrieved by certain allegations; litigation can be very personal for them. They often need a lot of handholding, and that can be quite expensive. The insurer is very much there to support that process. however, one of the reasons insurers have panel defence lawyers is because they need law firms who they can trust to take care of their insureds, but who also understand the commercial drivers which play an important role in litigation strategy," she said.

She also said that some insureds have a 'deep pockets' mindset, which is essentially a case of treating insurers akin to a bank, expecting them to pay costs incurred in defending a claim, regardless of whether those costs have been reasonably incurred. While defence counsel's duty is to act in their client's best interests, in many respects, their client's best interests are often best served by defending the claim in a way that works for their insurance.

Insurers are also in the practice of assessing the reasonableness of defence costs incurred, and most have defence counsel guidelines, which stipulate how defence counsel is to conduct a defence, and how defence counsel is expected to operate when it comes to staffing, billing and reporting, and what insurers broadly consider to be reasonable in this regard.

"And I think this can come as quite a shock to a lot of defence counsel, who are not used to being told how to defend a claim by someone who isn't their direct client," she said. "Insurers rely on defence counsel to be efficient, effective and – given the new Rules – mindful of the fact that, if they don't capitalize on an early settlement opportunity, costs are about to skyrocket. This means that, even if the insured has a strong defence, that offer could look really good in a few months' time and all involved are going to regret not taking it."

Which of the following factors will be most important to (re)insurance CEOs for the next 12 months?

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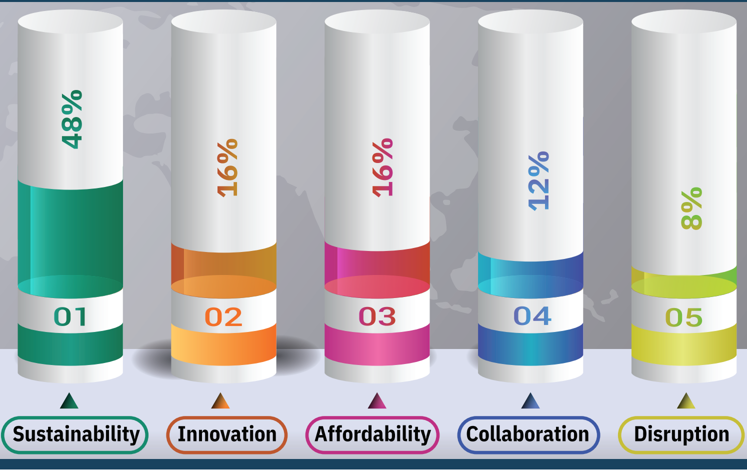
Survey of *Asia Insurance Review* web visitors for WICA2023

Total Vote: 100%



WICA 2023 welcome reception

The WICA 2023 welcome reception was a great chance to renew old acquaintances and make new ones.















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