



**This publication provides Finity's half yearly view of the Australian General Insurance market for Steadfast brokers.**

In this edition we:

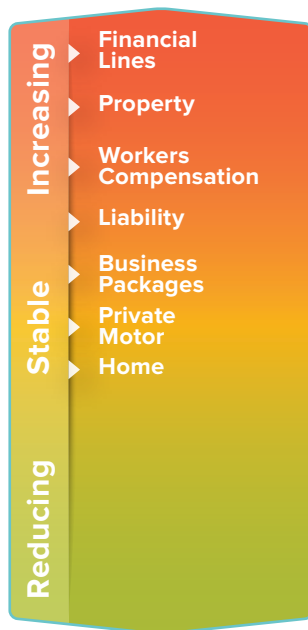
- Provide our view of rate changes, capacity and profitability across various classes of business.
- Analyse the recent experience and provide a Finity forecast for the next 6-12 months.
- Provide a snapshot of the activity of market players, and topical issues in the market such as the Financial Services Royal Commission.

## Finity's Key Messages:

- The hardening market has continued for most commercial lines off the back of a number of years of poor profitability for insurers. While material rate increases have been achieved to date, insurers require more to get back to the target profitability they are aiming for. Further pressure on profit has been created for insurers as a result of the reduction in interest rates. For long tail classes premium rates will need to increase by another 5% to account for the lower yield.
- We forecast a continuation of premium rate increases and tightening of capacity across most classes for medium and large businesses – expect more difficulty placing risks without material rate increases. Foreign insurers have started to provide more capacity to cover the shortfall from local insurers – we think this will continue. The SME space is an area which players are favouring and this competition means that we expect rates to be fairly flat and capacity to be readily available. Home and private motor have been the only classes that have met insurers profitability in recent years, therefore we do not forecast material rate or capacity changes for these classes.
- The economic and regulatory outlook is challenging for businesses as a result of the sluggish economy and significant increase in regulatory scrutiny ahead. The Royal Commission aftermath is slowly unfolding, but it is clear that significant changes will be required from insurers and this is likely to be at a material cost to the industry.

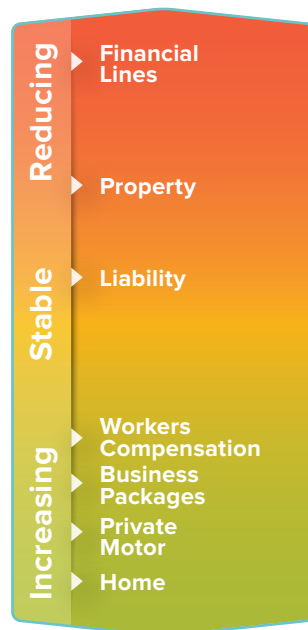
## Finity Forecast

### Rate change



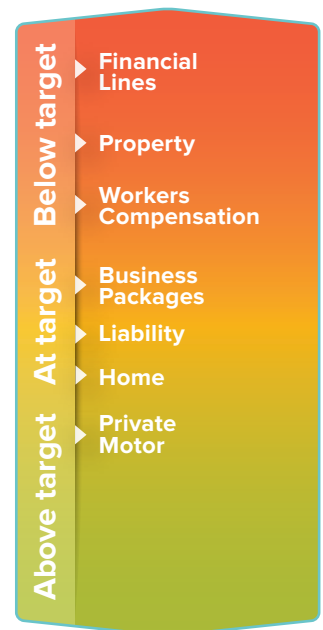
Rate increases forecasted for most commercial lines classes for the next renewal – on top of the significant rate already achieved.

### Capacity



Capacity is going to be harder to come by, but will generally be available at a price or with exclusions.

### Profitability



Profitability is forecasted to improve for most classes. However, the low yield environment has made it harder for long tail classes.

# Class Breakdown

## Property

	History	Forecast	
Rate	↑ 12%	↑ 10%	<ul style="list-style-type: none"> <li>The hard market continues as insurers focus on improving profitability, even at the cost of market share.</li> <li>Expect solid rate increases at next renewals across all risks. Double-digit rate increases for corporate and high hazard risks.</li> </ul>
Capacity	☾	☾	<ul style="list-style-type: none"> <li>Large corporates and high hazard risks have had difficulty finding cover.</li> <li>There are signs of further reducing capacity in these segments and risks which are not performing well.</li> </ul>
Profit	●	●	<ul style="list-style-type: none"> <li>Profitable before reinsurance costs. However, after the significant cost of catastrophe and excess of loss reinsurance, insurers are still making losses.</li> <li>Profitability is on the horizon. However, insurers are still shy of their targets.</li> </ul>

## Liability

	History	Forecast	
Rate	↑ 3%	↑ 5%	<ul style="list-style-type: none"> <li>Rate increases have generally been focused on construction or specific portfolios with poor experience.</li> <li>Expect rate increases across all risks to account for the reduction in the yield curve.</li> <li>Material rate increases expected for construction and utilities.</li> </ul>
Capacity	☾	☾	<ul style="list-style-type: none"> <li>Reducing capacity at the larger corporate end, mainly focused around poor performing portfolios.</li> <li>Withdrawal of capacity for construction, utilities and labour hire exposures – expect this to get worse at next renewal.</li> </ul>
Profit	●	●	<ul style="list-style-type: none"> <li>Profitability over the recent year has been impacted by the low yield environment.</li> <li>Underlying result is expected to be profitable next year, but more rate is needed to get back to target given the lower interest rates.</li> </ul>

## Financial Lines

	History	Forecast	
Rate	↑ 20%	↑ 15%	<ul style="list-style-type: none"> <li>Market has continued to harden significantly, with financial institutions, D&amp;O and construction professionals reporting the strongest increases.</li> <li>Expect similar increases again at the next renewal.</li> </ul>
Capacity	☾	☾	<ul style="list-style-type: none"> <li>Local and Lloyd's players have materially reduced their capacity and overseas insurers (particularly Singapore), have started to step in.</li> <li>Expect more difficulty getting cover for finance, listed entities and construction professionals. Do not expect cover to be available for cladding, Royal Commission or remediation.</li> </ul>
Profit	●	●	<ul style="list-style-type: none"> <li>Despite 2 years of strong rate increases this class is still in loss-making territory, with prior year deterioration becoming a common theme across the market. The reduction in the yield curve have made things even worse.</li> <li>There is some signs of profit in the horizon, although below insurers target levels.</li> </ul>

## Business Packages

	History	Forecast	
Rate	↑ 4%	↑ 3%	<ul style="list-style-type: none"> <li>Small rate increases achieved across both property and liability covers.</li> <li>Expect modest increases given the competition looming in this class.</li> </ul>
Capacity	●	●	<ul style="list-style-type: none"> <li>Large number of new entrants has increased competition and capacity, taking market share off the larger insurers.</li> <li>We expect an influx of capital over the coming 12 months with new entrants offering fresh approaches in a low expense environment, aided by technology.</li> </ul>
Profit	●	●	<ul style="list-style-type: none"> <li>One of the better performing commercial lines classes, with liability performance subsidising property.</li> </ul>

## Workers Compensation (Private)

	History	Forecast	
Rate	↑ 9%	↑ 7.5%	<ul style="list-style-type: none"> <li>Most underwritten states had premium increases, with WA having the highest. One insurer was more aggressive than the rest of the market over the past year.</li> <li>Current rates are still below the rates recommended by scheme regulators and experience is still poor, so expect more rate increases.</li> </ul>
Capacity	●	●	<ul style="list-style-type: none"> <li>Adequate capacity in the market and is expected to continue, despite rates being lower than required.</li> </ul>
Profit	●	●	<ul style="list-style-type: none"> <li>Losses have been made by insurers in recent years, compounded by the yield curve impacts.</li> <li>Profit will be achieved in the next year, although not to target levels.</li> </ul>

## Private Motor

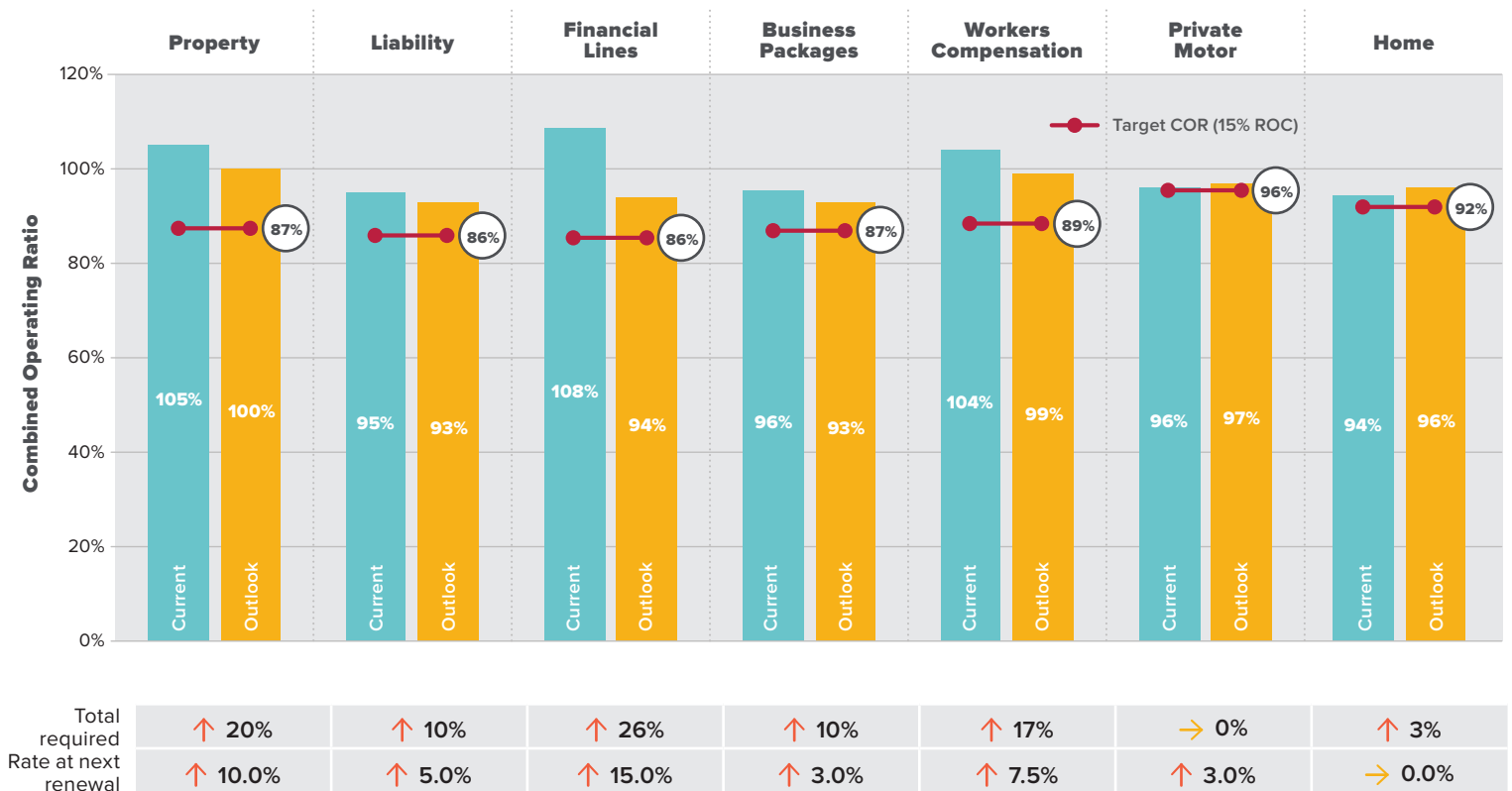
	History	Forecast	
Rate	↑ 4%	↑ 3%	<ul style="list-style-type: none"> <li>Insurers have been successful in achieving price increases to counter claims inflation, despite the competitive environment.</li> <li>Expect inflation level increases over the coming year.</li> </ul>
Capacity	●	●	<ul style="list-style-type: none"> <li>Abundance of capacity currently.</li> <li>We expect the landscape to continue to be competitive, with auto clubs increasing market share and traditional commercial players (via intermediated channels), and challenger brands moving more actively into the personal lines space.</li> </ul>
Profit	●	●	<ul style="list-style-type: none"> <li>This class returned its best result in 5 years. Whilst event costs were high, this did not impact the net result.</li> <li>Continuing claim inflation pressures mean profit will reduce, but still will meet insurers targets.</li> </ul>

## Home

	History	Forecast	
Rate	→ 0%	→ 0%	<ul style="list-style-type: none"> <li>While average premiums increased by around 3-4%, this reflects increased sum insured rather than rate. Buildings rates have been flat, with contents rates slightly reducing.</li> <li>Very little upward movement in premium rates expected in the coming year.</li> </ul>
Capacity	●	●	<ul style="list-style-type: none"> <li>Abundance of capacity currently, however affordability remains a key challenge with no real progress made in the last 12 months on key issues including ESL and Northern Queensland.</li> <li>We expect the landscape to continue to be competitive (like Private Motor).</li> </ul>
Profit	●	●	<ul style="list-style-type: none"> <li>Recent profitability delivered required returns, however was worse than the previous year due to event losses (Sydney hailstorm, Townsville monsoon).</li> <li>It will be difficult to maintain current profitability levels given buildings claims inflation, limited rate growth and heightened competition.</li> </ul>

\* History = year to June 2019, Forecast = next renewal

## Combined Operating Ratio



Source Finity estimates.

Note The COR and includes an estimate of unallocated expense relating to each class.

## Market Players

<b>Domestic</b>	Focus on profitability continues to drive portfolio remediation. SME and mid-market are now the favoured areas. Streamlining and system enhancements are aimed at achieving efficiencies and reduce expenses. Expect more of the same for at least another year.
<b>Internationals</b>	Generally providing capacity for most mid-market and corporate risks at the “right” price. SME has been identified as a growth area to balance the portfolios.
<b>Lloyd’s</b>	Premium has increased by over 20% in the last year, despite the reduction in capacity offered (-5%). Property, Financial Lines and Liability were the main classes with premium rate increases. The 2019 business plan approval process is focused on delivering a strong, more sustainable and more profitable market.
<b>UFIs</b>	An increase in capacity has arisen from foreign insurers, mainly from Singapore. Premiums have increased 30% over the same period last year, mainly for Property and Financial Lines classes.
<b>UW Agencies</b>	Capacity has reduced for underwriting agencies operating in poor performing areas such as Financial Lines, Casualty and Property. New agencies emerging are in the SME and insurtech space.

## Topical Issues

### ▶ Climate change

- Actuaries Institute Climate Index shows extreme heat and dryness is a continuing trend. The current bushfires are linked to unseasonably warm weather.

### ▶ Affordability

- Industry is still at odds on the best way to deal with Northern Queensland affordability crisis.
- Flood cover take-up is still low for SME’s given affordability issues.

### ▶ Defective buildings

- Inconsistent building standards have caused problems around combustible cladding and other defects. States have recently agreed to take a nationally consistent approach, though this will take some time to work through.

### Financial Services Royal Commission

Insurers will have a lot to do. Recent developments include:

- ▶ APRA and ASIC are taking a tougher stance, with a number of fines and capital loadings recently issued.
- ▶ Hawking crackdown – ASIC has set out a proposal in July for no hawking of retail products.
- ▶ Add-on sale reforms – Treasury put out a proposal in September proposing a 4-day deferred sale model. It is not yet clear what will be included in the add-on definition.
- ▶ New product design and distribution obligations will apply from 5 April 2021, requiring insurers to develop and document a target market determination for each retail client product.
- ▶ General Insurance Code of Practice – is likely to be made mandatory and enforceable, with sanctions for code breaches. A revamp of the code is on track for a January 2020 introduction with an 18-month transition.

To learn more:

Visit our Royal Commission Response on our website for regular updates and insights on these Royal Commission recommendations and how they may impact our industry:

[www.finity.com.au/consulting/strategy-operations/royal-commission-response/updates](http://www.finity.com.au/consulting/strategy-operations/royal-commission-response/updates)

## About Finity

Finity Consulting is a leading independent actuarial and analytics firm. Market leading analysis is a core part of everything we do, underpinning our track record navigating industry trends. Finity was awarded the Insurance Industry’s Professional Services Firm of the Year in 2018.



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