Insurance Market Summary

MAY 2024

Your guide to the insurance market and how it affects your business.

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Overview of insurance market conditions

Your guide to the insurance market and how it affects your business.

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Evolving insurance market

In welcome news, the business insurance market continued to become more favourable for clients in the second half of 2023 and into 2024. Although the market remained challenging in specific areas, the moderation in pricing for several key commercial insurance lines that began in 2023 continued throughout, and into the new year.

Following several years of significant premium rises and challenging market conditions, confidence in the insurance market continued to grow. Premium increases slowed, as broader coverage options became available.

Since 2020, insurers had been exiting certain markets to avoid high losses, however, a reversal of this trend began last year. Capacity for businesses with quality risks returned and better pricing for hard-to-place risks improved as new competition entered the marketplace (in particular from London and Singapore).

Overall, there was increased stability and more competition, with premiums in most commercial lines levelling out. Clients have enjoyed greater choice as more options became available and renewed control over risk placement emerged. Clients also had greater control over how they structured risk, including the use of alternative risk transfer solutions.

However, the improving market conditions were influenced by the volatility of wider pressures including:

- **inflation (core and social)**
- **interest rate movements**
- **capital market volatility**
- **economic growth (slowing locally and internationally)**
- **supply chain bottlenecks**
- **labour shortages, including specialist skills in some areas**
- **extreme weather events (summer 2023-24 catastrophe losses exceeded $1.2 billion)**
- **reinsurance costs (in particular for property)**
- **challenging claims environment**
- **developing cyber threats (including generative AI)**
- **rising ESG activism and greater regulatory greenwashing scrutiny, and**
- **geopolitical conflicts.**

It is expected these factors will continue to impact the insurance market throughout the remainder of 2024. However, there is cause for tempered optimism that conditions will continue to improve for many clients, bringing welcome relief after several very challenging years.

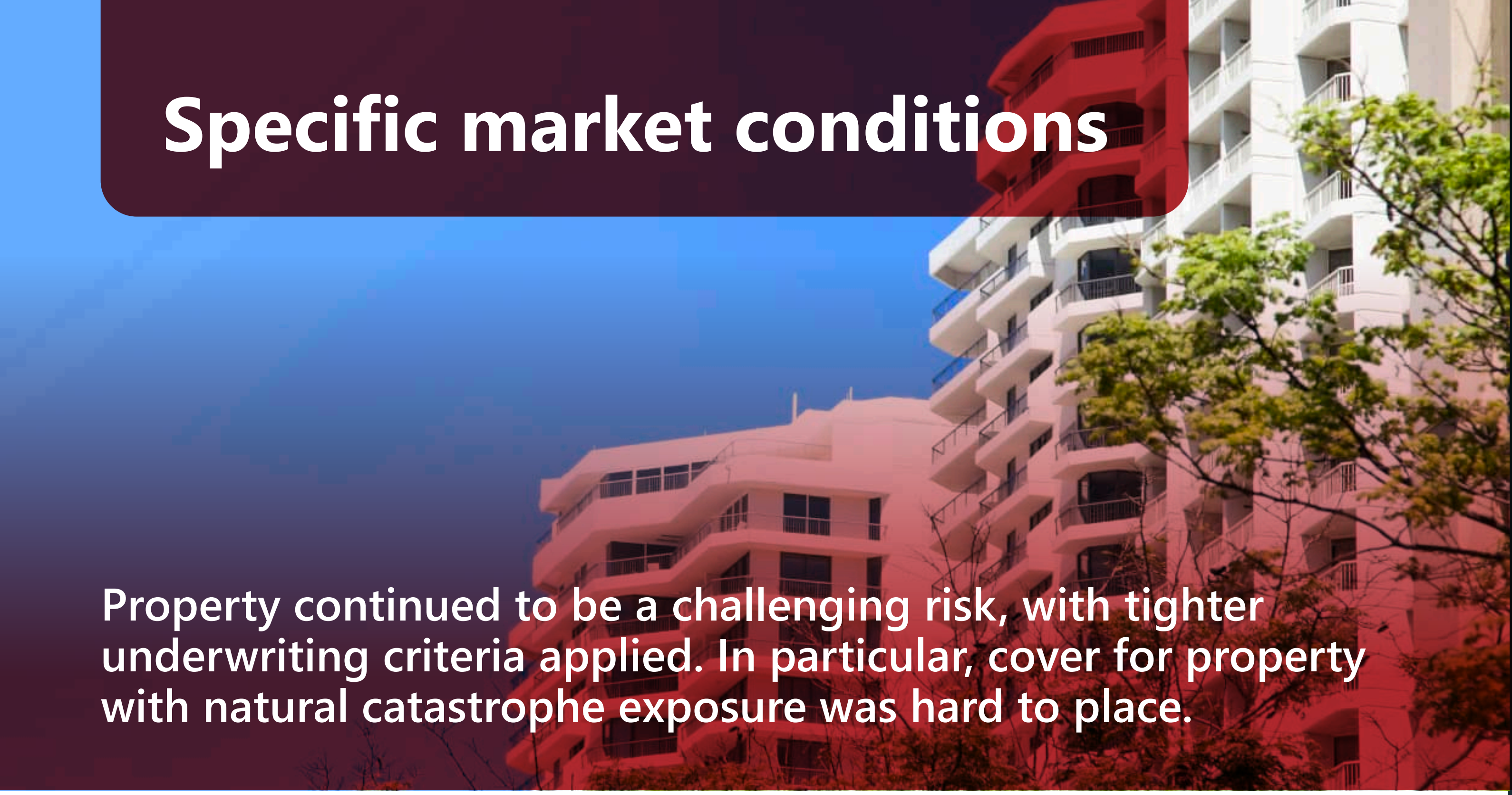
Impact on premiums

Across most insurance classes, prices continued to stabilise as insurers achieved premium rate adequacy and some competition returned, albeit cautiously, to the market. While commercial insurance rates have risen for 25 consecutive quarters, the rate of increase has slowed significantly.

Premium pricing rose moderately as capacity generally remained abundant. New capacity/market entrants provided competition in the mid-market space for lower-risk profiles, while larger and more challenging risk profiles were harder to place.

Prudent underwriting continued with clients needing to present a compelling risk management narrative, a clean loss record and benign exposures to achieve superior outcomes. Both limits and deductibles were generally flat, and expiring coverages were achieved on most placements.

Although premiums across most insurance classes rose in the second half of 2023 and into 2024, the rate of increase continued to moderate. Financial and professional rates, led by D&O, saw premiums decrease. In contrast, a challenging property underwriting environment prevailed, particularly for loss-impacted and catastrophe-exposed clients.



Specific market conditions

Property continued to be a challenging risk, with tighter underwriting criteria applied. In particular, cover for property with natural catastrophe exposure was hard to place.

Property insurance

Despite increased insurer competition and increased capacity to write more business, overall, the property market continued to be challenging throughout 2023 and into 2024.

Natural catastrophe (NatCat) and extreme weather events underpinned the challenging market, while ongoing inflationary pressures that increase material, labour and construction costs also had an impact.

Renewal premiums remained high and a greater number of property risks were declined than had been previously. Cover for loss-affected clients and those with property in NatCat-exposed areas was especially difficult and prices increased.

Premiums rose in the region of 10% for clients with well-managed accounts and no claims losses, with higher increases for loss-affected clients.

While competition remained strong for quality risks with favourable loss records, insurer appetite remained restricted overall. Higher deductibles, reduced terms and a narrower scope of coverage were offered.

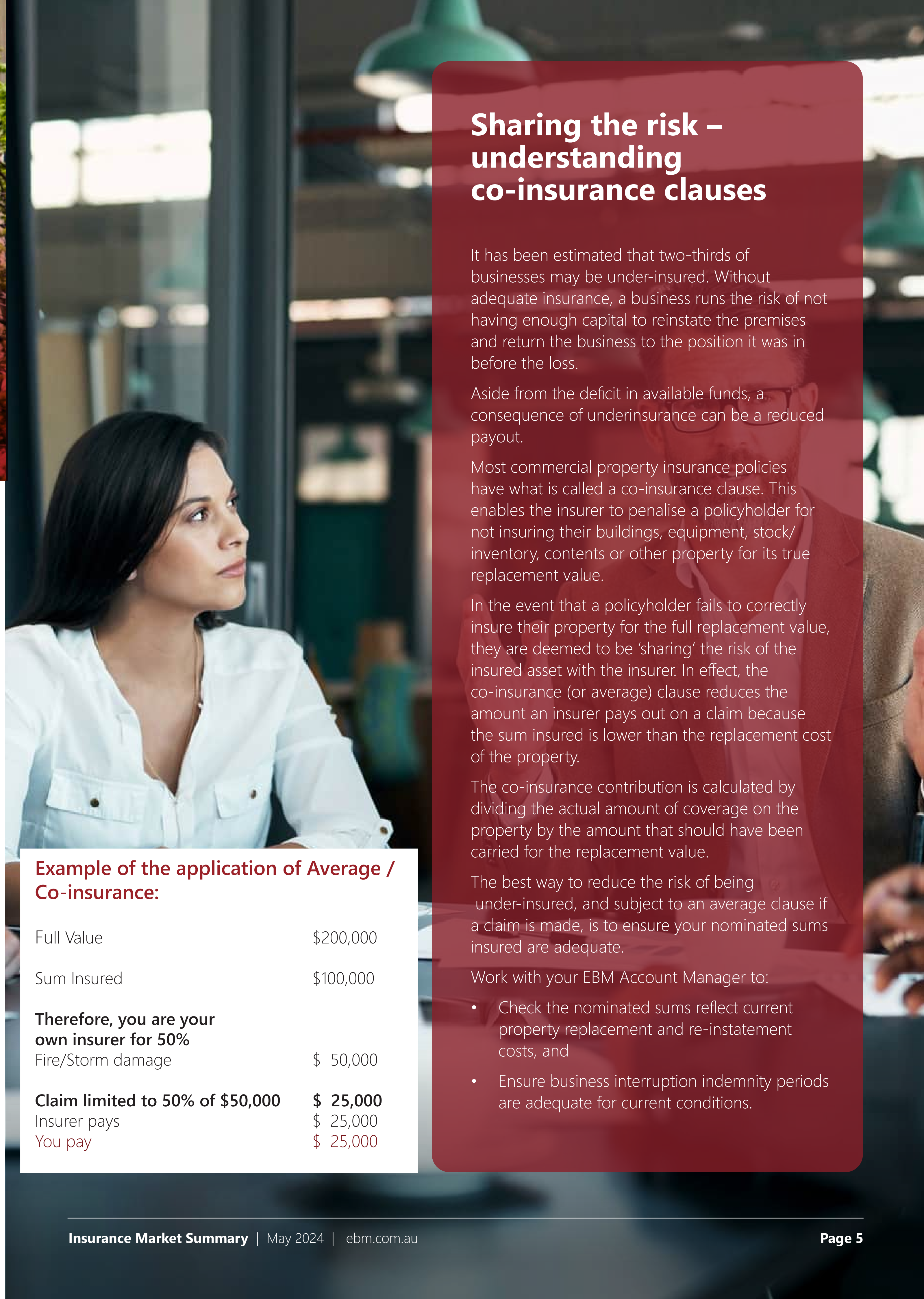
Insurers were focussed on scrutinising occupancy, in particular on how the premises and neighbouring premises were used in respect to higher risk occupations (e.g. flammable materials, waste recycling). Declines were common where the use was outside of commercial appetite.

Underwriters continued to scrutinise property valuations in light of ongoing inflation. Ensuring valuations were aligned with the current market and factoring in inflationary impact on building material and construction costs were key considerations. For business interruption (BI) values, insurers sought validation through independent forensic accounting or BI specialists to review the adequacy of the declaration and indemnity periods.

The adequacy of material damage and BI values declared at renewal were heavily scrutinised. There was increased importance placed on clients providing up-to-date surveys and valuations, with some insurers limiting cover via co-insurance clauses, deductibles or indemnities.

For NatCat coverage, insurers scrutinised limits and imposed annual aggregates. Storm limits and deductibles were applied and/or flood definitions were expanded to include both pluvial and fluvial flood events. When it came to contingent BI coverage, prevention of access and isolation by flood continued to be scrutinised by insurers in respect to limits and aggregation of limits.

It is expected that the hard market will continue for the foreseeable future, with clients with NatCat-exposed property to be particularly challenged.



Example of the application of Average / Co-insurance:

Full Value	$200,000
Sum Insured	$100,000
Therefore, you are your own insurer for 50% Fire/Storm damage	$ 50,000
Claim limited to 50% of $50,000	**$ 25,000**
Insurer pays	$ 25,000
You pay	$ 25,000

Sharing the risk – understanding co-insurance clauses

It has been estimated that two-thirds of businesses may be under-insured. Without adequate insurance, a business runs the risk of not having enough capital to reinstate the premises and return the business to the position it was in before the loss.

Aside from the deficit in available funds, a consequence of underinsurance can be a reduced payout.

Most commercial property insurance policies have what is called a co-insurance clause. This enables the insurer to penalise a policyholder for not insuring their buildings, equipment, stock/ inventory, contents or other property for its true replacement value.

In the event that a policyholder fails to correctly insure their property for the full replacement value, they are deemed to be 'sharing' the risk of the insured asset with the insurer. In effect, the co-insurance (or average) clause reduces the amount an insurer pays out on a claim because the sum insured is lower than the replacement cost of the property.

The co-insurance contribution is calculated by dividing the actual amount of coverage on the property by the amount that should have been carried for the replacement value.

The best way to reduce the risk of being under-insured, and subject to an average clause if a claim is made, is to ensure your nominated sums insured are adequate.

Work with your EBM Account Manager to:

- Check the nominated sums reflect current property replacement and re-instatement costs, and
- Ensure business interruption indemnity periods are adequate for current conditions.

Professional and financial lines

Market conditions continued to improve, especially for clients in a sound financial position.

The much-welcomed reprieve in the Australian market that began in 2022 following years of substantial pricing increases, coverage restrictions and curtailment of insurer appetite, continued throughout 2023 and into 2024.

Market conditions continued to improve for clients with a clear pathway through the inflationary environment and those that held a sound financial position.

The introduction of new local insurers and competition from the London market saw more confidence in the lines. This, in turn, led to greater premium stability, with rates stabilising or decreasing (between 5% - 10%).

The decrease in premiums was led by falls in D&O liability prices, with many clients experiencing decreases, some of which have been between 10-15%.

Premiums for professional indemnity (PI) covers rose up to 10%. Increased competition among insurers, particularly for excess layers, resulted in improved pricing. Competition in primary layers also emerged. Industries or professions with a higher PI risk exposure such as design and construct, engineering, and financial planning continued to be scrutinised by insurers at renewal and experienced challenging market conditions.

Macroeconomic impacts such as inflation and interest rate pressures were important underwriting factors. Insurers also continued to monitor the use of artificial intelligence (AI), particularly generative AI applications, across various professions for possible emerging claims trends.

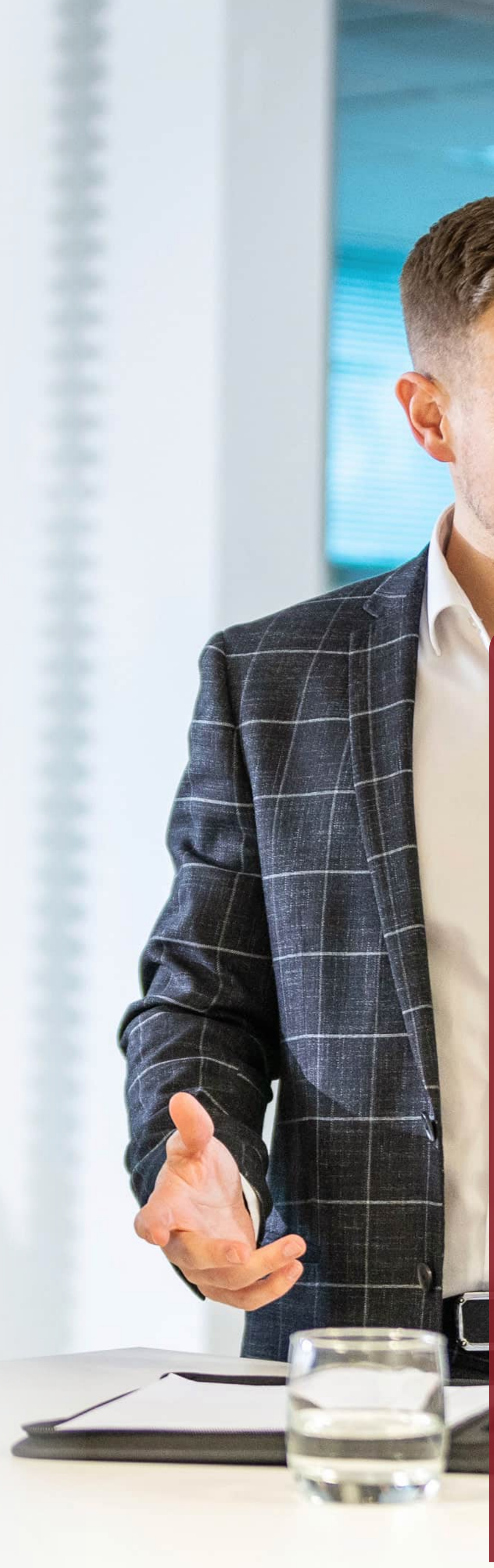
The crime insurance market remained relatively stable. Pricing continued to rise, albeit at a slower pace, with increases of up to 15%.

In light of the increasing number of insolvencies and claims, trade credit placement was particularly challenging.

In some cases, and for certain lines, insurers were willing to consider coverage enhancements, including some that had been removed in the hard market.

With regulatory risks continuing to pose challenges for companies and their directors, particularly in the ESG space, insurers applied greater scrutiny to risk management.

It is expected that premium rates will continue to decline, however, upward pressure on claims looks likely with rising insolvencies, elevated interest rates, inflation pressures and a continuation of class action activity which could influence future premium rates.



Emerging threat: Deepfakes and fraud

Artificial intelligence (AI) and a bounty of new digital technologies are not only opening up opportunities for business but also for cybercrime. By harnessing the power of AI, cybercriminals are deploying increasingly sophisticated attacks.

Cybercriminals have long used social engineering, such as business identity compromise, to exploit trust in business relationships and commit fraud. The key to the fraud is impersonating a business, or specific individuals within the business (such as CEOs or CFOs), in order to obtain sensitive information or funds.

With the advent of more sophisticated AI and the increasing use of deepfakes, especially voice deepfakes, cybercriminals are initiating more elaborate – and believable – impersonation frauds.

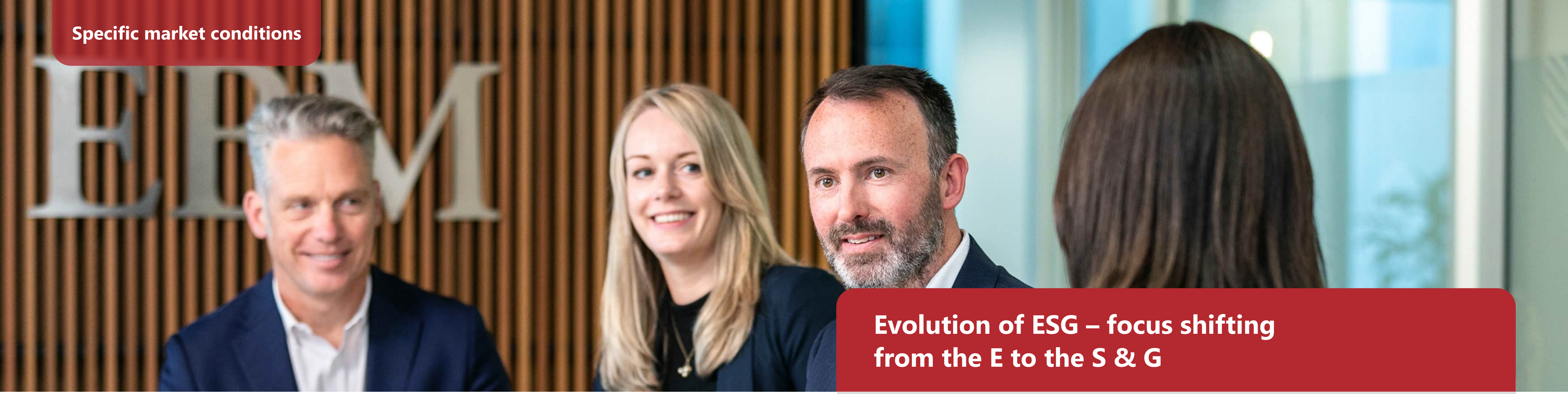
Deepfake technology uses deep learning (a form of AI) to create a fake image, video or audio fragment. By using big datasets of images, audio and video, it imitates someone's voice and/or facial expression. This way, the criminals can make people – such as CEOs or CFOs – appear to say or do things they have not really said or done, such as ordering a money transfer.

The use of deepfakes to perpetuate fraud is on the rise and businesses need to be alert to the risk.

To avoid a deepfake-out:

- Exercise caution when responding to an incoming call where a request for a financial transaction or release of information is made – pick up the phone and call your contact on the number you already have on file for them.
- Use a verification measure in the discussion – have the person answer a series of questions or provide a password that only your contact would know.
- Use authenticating tools that can analyse photos and videos to see if they have been altered.
- Streamline manual processes by having strong payment controls which use sound technology.

Talk to your EBM Account Manager about appropriate insurance to protect against the financial fallout from falling victim to fraud.



Evolution of ESG – focus shifting from the E to the S & G

Directors & Officers (D&O)

The renewed market optimism which first emerged in early 2023 continued, softening the D&O market.

After a prolonged (3-5 years) trend of premium increases and tighter underwriting, the directors' and officers' (D&O) market continued to stabilise in the second half of 2023 and into 2024.

Premium rates were flat or decreased as insurer competition (including the introduction of new global insurers into the local market) ramped up for well-managed accounts. While rates have stabilised or reduced in many cases (by -10% to -25%), premiums remained at levels higher than five years ago.

Increasing competition, attracted by a more optimistic claims landscape, enabled premium negotiation and discussion centred on adequacy of premiums relative to risk.

Competition, from both legacy insurers and new entrants, remained strong for primary and excess layers.

In previous years, Side C coverage was either unavailable or uncompetitive. In contrast, insurers were willing to consider writing policies in 2023 and into 2024.

For certain clients, long-term agreements to lock in favourable pricing and coverage terms was considered.

Despite generally favourable buying conditions, stringent underwriting remained as insurers sought quality risks.

Regulatory risks continued to pose challenges for directors, particularly in ESG and greenwashing. The forthcoming introduction of mandatory climate-related financial reporting and a crackdown on greenwashing by the regulators saw insurers increase their focus on green credentials. Wages underpayment, carbon net zero plans and disclosure protocols were also scrutinised. As a result, insurers required details of the business' ESG commitments and governance strategy when assessing the risk.

Cyber risks were also in insurer sights, with claims relating to generative artificial intelligence being closely monitored. Cover was contingent on providing evidence that robust cybersecurity was in place.

Other risk areas under scrutiny included solvency, inflation, and supply chain disruption and resilience. Additional information on these matters were generally sought during renewal.

Competition within the local D&O space is expected to continue putting downward pressure on premiums and increase options for clients in the months ahead.

Environmental, social and governance (ESG) is being adopted by organisations of all shapes and sizes across the globe as a framework to assess business practices and performance on various sustainability and ethical issues.

As it also provides a way to measure business risks and opportunities in those areas, it is increasingly being factored into D&O insurer assessments of policyholder risk profiles.

Historically, environmental elements have dominated ESG considerations, especially in light of regulations and reporting laws requiring disclosures. ESG statements with a focus on environmental actions, such as emissions targets, are now required for D&O clients within various industries and sectors including mining, construction and transport.

Recently, there has been greater underwriting focus on social and governance elements.

As a result, insurers are requesting more information around a business' relationships with its workforce and communities, including the nature of outsourced labour forces in developing parts of the world.

D&Os should work with their EBM Account Manager to create a compelling ESG narrative that details strategies and plans across all three pillars. Your narrative should:

- **Detail the material risk factors that are relevant to your company, industry and size.**
- **Report on the risk factors relevant to investors and other priority stakeholders.**
- **Ensure risk factors being reported align with your company's ESG strategy, corporate initiatives and what others in your industry are reporting.**
- **Highlight board oversight of the ESG strategy.**
- **Demonstrate your company's ESG management efficiency, detailing standardised policies, procedures, controls and governance.**
- **Set achievable goals to satisfy multiple stakeholders.**
- **Use reporting architecture and tools that ensure accuracy and effectiveness.**
- **Detail actual, measurable, outcomes.**
- **Highlight achievements, challenges, and future goals.**

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Cyber

The maturing cyber market saw more competition and better terms for clients with robust cyber risk management.

Sustainable loss ratios, improved profitability, selective underwriting and new entrants generated a more competitive cyber market with less restrictive coverage, higher limits and moderating premium increases.

Insurers were more likely to consider broadening policies to incorporate niche coverages, such as business interruption-linked reputational harm cover.

More insurers entered the Australian market in response to the maturing cyber risk market with data and technology risks being better understood and policyholders improving cybersecurity. As a result, rates moderated and capacity increased.

Throughout 2023 and into 2024, premium rates stabilised and even reduced in some cases where robust cyber risk management was practiced and demonstrated. Premiums increased 10-15%, on average, which was much lower than increases observed in previous years. Rollover of rates at renewal was common, with some clients seeing an overall premium reduction to their insurance program. Increased competition opened up additional options for clients.

Where there were premium increases, they were largely driven by risk-specific factors such as increased personally identifiable information (PII) storage.

Insurers provided flexibility, but there were clear expectations for businesses to demonstrate cybersecurity controls were in place.

While cyber resilience and security improvements will assist lower risk clients, higher risk industries and companies with turnovers of over $50m are expected to have robust systems and controls in line with Essential 8 and/or other international standards.

Insurers remained cautious about high-risk industries and organisations that did not meet expected risk management standards.

Underwriting was disciplined and rigorous, particularly in respect to cybersecurity and risk management practices. Clients were required to demonstrate cyberattack preparedness including response protocols and proactive defence and recovery tactics, as well as mitigation controls such as multifactor authentication and privileged access management. Clients also needed to demonstrate how they resolve data and supply chain vulnerabilities including managing third-party vendor risks.

Catastrophic risk, dynamic privacy regulations, geopolitical tensions, and ransomware were areas of focus. Underwriters typically sought detailed risk information, particularly regarding the ability of clients to mitigate ransomware threats.

Businesses with enhanced IT security and resilience frameworks actively in place saw favourable outcomes, with a range of insurance options and improved terms.

Stabilisation of the market is expected to continue throughout 2024 as insurer competition and appetite continues to strengthen. Clients with superior cybersecurity will benefit from the improving conditions. It is expected that pricing will continue to stabilise and trend downwards as terms become more favourable, allowing clients to obtain solutions tailored to their specific needs.

Let's chat about the risks in using ChatGPT

When AI-based chatbot ChatGPT was launched in November 2022, it caused a sensation – opening up possibilities across industries and businesses. And businesses were quick to want to hitch their wagons to the large language model (LLM) train and integrate the technology into their products and services.

However, in their haste to embrace ChatGPT (and the other bots that soon followed), businesses may not have prioritised some key aspects of risk management.

The use of these technologies presents risks to the business. These include:

- **Cyberthreats – including data breaches and cybercriminals using the technology to deploy more effective social engineering attacks.**
- **Technology limitations – the bots lack essential skills like critical thinking, strategic decision-making and creativity. Errors – out-of-date and inaccurate information can be presented (the bots have been known to 'hallucinate' or make up content).**
- **Legal matters – such as privacy and copyright violations.**

To reduce ChatGPT liabilities, your business should implement robust security and compliance controls. Businesses using, or thinking about using, the technology are encouraged to:

- **Define clear objectives – determine what the business wants to achieve by using a chatbot.**
- **Define ChatGPT's role – determine exactly what it will be used for e.g. answering customer queries, or generating ideas for new products.**
- **Set generative AI use policies – to avoid confidential and private data from going public, and to protect the business' intellectual property.**

Understand ChatGPT's weaknesses – the information may not be correct or could be biased.

- **Safeguard data privacy – ensure the business' use of LLMs complies with data protection regulations.**
- **Input quality data – identify high-quality, diverse and extensive datasets to train the LLM on, and carefully vet that information.**
- **Continuously monitor – regularly evaluate the performance of the chatbot.**
- **Provide human oversight – human oversight is vital to manage complex queries and provide a safety net for any inaccuracies.**

It is important for businesses exploring new technologies to ensure that their insurance broker is aware of any use or planned use to prevent surprises during policy renewals. Discuss your plans with your EBM Account Manager and explore the range of policies that may be suitable to protect your business.

Marine & Cargo

While conditions moderated, geopolitical concerns weighed on the market.

In contrast to previous years when rates rose, premium pricing flattened in late 2023 and into 2024.

Premium prices stabilised, though did not soften, as insurers displayed a higher risk appetite.

Premiums for marine cargo ranged from flat to single digit increases for clients with good loss experience. Rate rises in excess of 10% were applied to clients with marginal to poor loss experience.

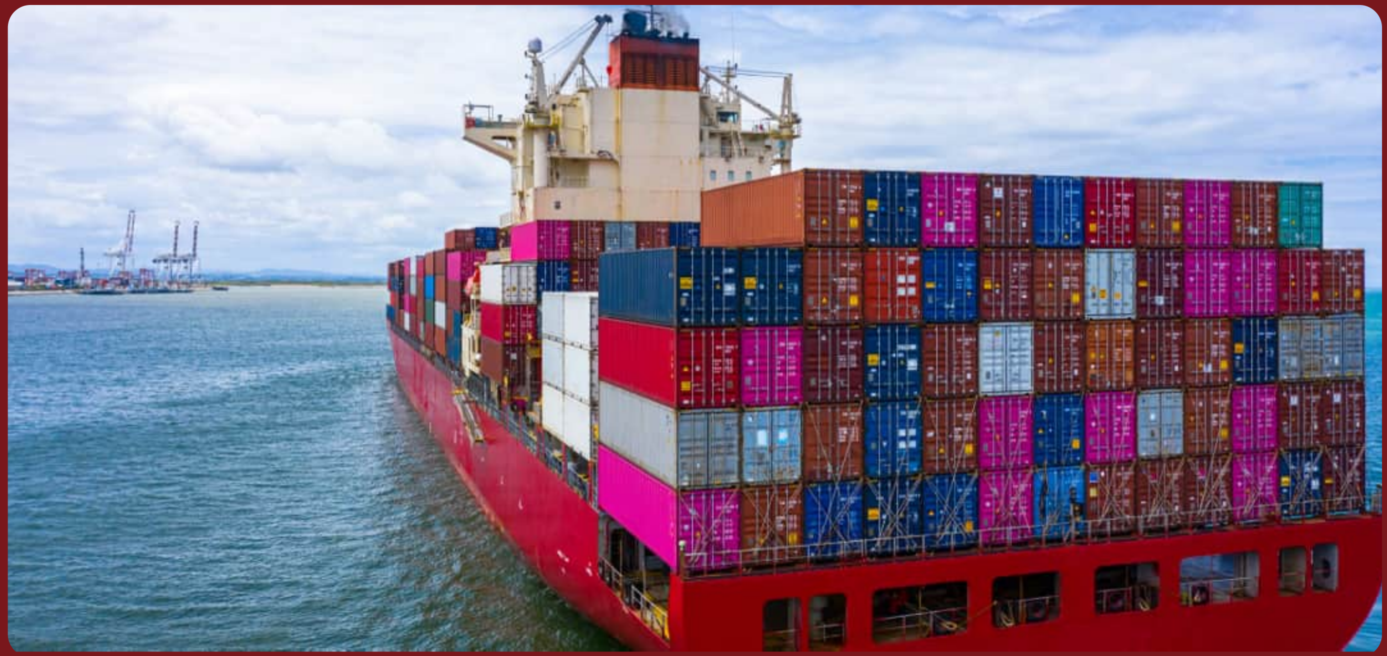
The hard market for all lines of property insurance that prevailed impacted the cost of Warehouse/Storage Endorsements and 'Stock Throughput' policies.

Insurers continued to monitor claims trends, along with vessel activity, value accumulation, NatCat impact, the use of new technology, inflationary impacts on repair costs, and fires. In respect to cargo, underwriters continued to be concerned with persistent challenges including mis-declared cargoes, vessel fires, accumulation of risk in single locations, climate change, and political tensions. Fires remained a key area of concern for marine hull underwriting.

Cyber risks remained a focus for insurers as demand for specialised cover (opposed to a policy extension) increased. To secure cover, clients needed to demonstrate robust cybersecurity was in place.

Geopolitical and natural catastrophe concerns continued to drive increased risk management awareness among clients and was reflected in underwriting assessments. Insurers were especially focussed on war risks, dark fleets (vessels engaged in activity which is in breach of sanctions) and the resurgence of piracy. As a result, key policy clauses concerning cover for vessels visiting political hot spots and perils such as war, piracy and terrorism were implemented.

It is expected that the renewed activity within the market, with opportunities for growth, will continue for the next six months.



Trouble at sea – geopolitical uncertainty impacting marine insurance

As the war in the Ukraine enters its third year and the Israel–Hamas war rages, shipping is being impacted. Transiting through the Black Sea or the Red Sea poses significant risks for cargo ships, and insurers in the marine sector are exercising caution concerning war risk cover.

The Russian Federation's war of aggression against Ukraine has had a significant impact on the shipping industry with substantial disruptions in maritime trade routes. The precariousness in the region has elevated the risk profile of vessels operating in, or passing through, the Black Sea. The increased risks and operational disruptions in the region have resulted in an escalation in insurance claims, impacting the loss ratios of marine underwriters. Consequently, the insurance costs of shipping across the Black Sea have significantly increased and war risk premiums have increased by more than 20%.

Recent attacks on ships in the Red Sea by Yemen's Houthis have upended trade in Asia – the route accounts for approximately 15% of global seaborne trade. Container trade in the region has declined by nearly 85% since the start of the attacks. Heightened risks in the area have led to increased war risk insurance premiums.

It also led to the Joint War Committee implementing changes to the Areas of Perceived Enhanced Risk. This is used as the foundation for trading exclusions in war risks insurance policies. As a result, the majority of marine insurance companies issued Notice of Cancellation for all war and strikes risks in the impacted areas.

The cancellation only affects war and strikes cover for goods whilst in the designated area. Clients who do not have any goods transiting the area are not impacted. Clients who do have goods in the vicinity are not covered for war and strikes while the goods are in the designated area, but remain covered for all other claimable events under the policy.

In light of attacks on container ships in the Red Sea, most shipping companies are diverting vessels away from the region and sailing around Africa (Cape of Good Hope) instead. While this is adding time (around 10-15 days and 1,900 nautical miles to a typical Asia–North Europe voyage) and cost to journeys, clients diverting vessels around the Cape maintain full war and strikes cover.

However, this rerouting exposes vessels to other threats. Attacks by Somali pirates have risen more in the past three months than at any other time during the past six years. The pirates are said to be taking advantage of the distraction provided by Houthi strikes resulting in redeployment of naval forces from the coast of Somalia as well as the increase in vessels in the area due to the rerouting of vessels around the Horn of Africa.

Transport & Logistics

Hard market conditions prevailed for operators in the transport and logistics industry.

Several factors have caused significant challenges in the transport and logistics industry. Demand levels were high, staff shortages continued, and supply chains were problematic.

High claims costs as a result of supply chain and labour shortages, high vehicle and machinery replacement costs (new and used) and increased hire-car costs, put upward pressure on premiums.

Cover for goods in transit remained challenging due to a lack of capacity and limited market competition. As a result, poorly performing risks, and segments of the industry, continued to face higher premiums.

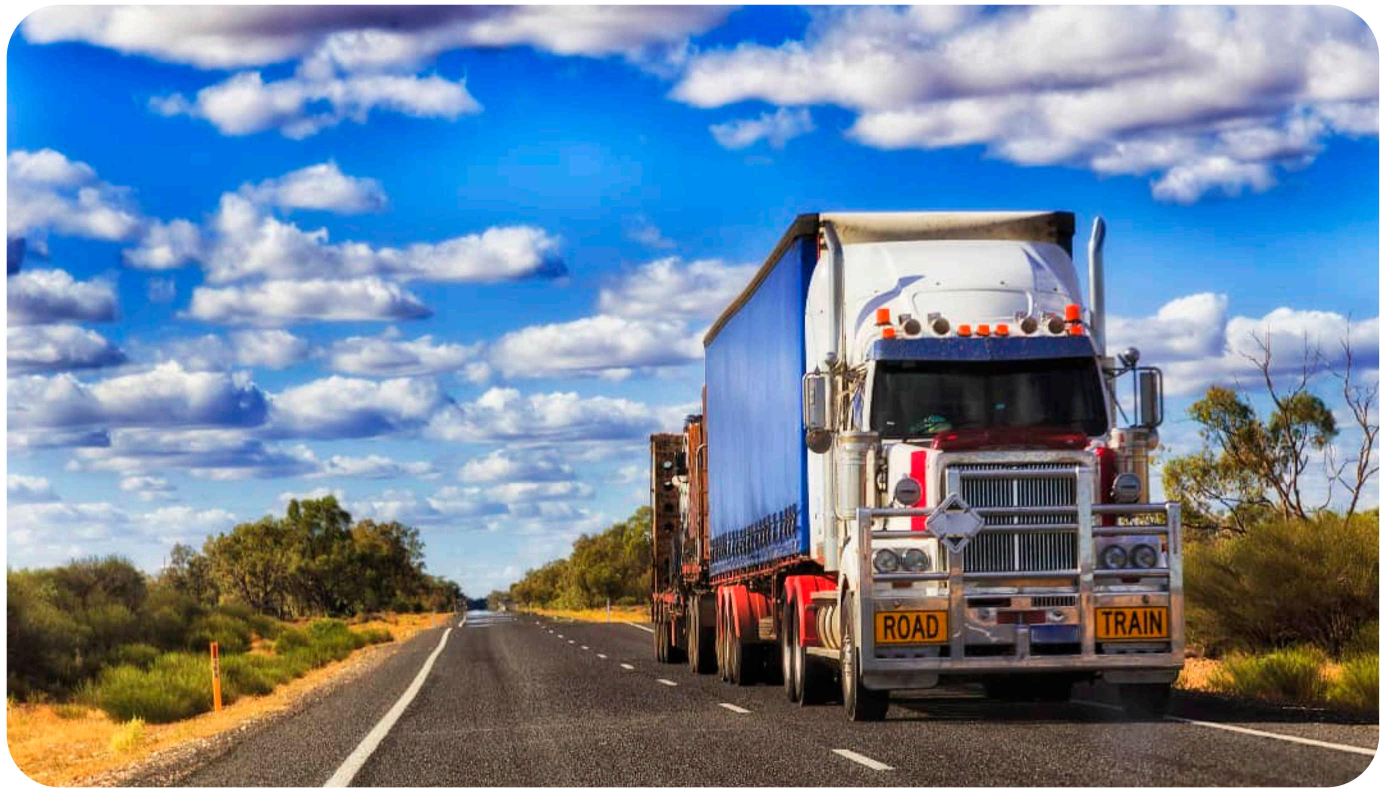
Insurers were increasingly selective in the risks they were willing to underwrite. Small operators with multiple claims were difficult to place, as were distressed (high claims) accounts as insurer appetite and capacity waned. In contrast, competition among insurers for large claims-free fleet accounts saw clients achieve favourable outcomes.

While prices for the second-hand vehicle market remained competitive, insurers were increasingly concerned about underinsurance with inflated market values.

Also of concern to insurers was the increase in driver risk predominantly due to skilled labour shortages and the ageing workforce.

There was a continued focus among insurers on risks facing the industry, such as supply chain disruptions, labour shortages, insolvencies, ESG requirements, and cyber threats. Clients were required to document their strategies in addressing these risks as part of their submission to insurers including driver training as part of their risk management strategy.

The hard market conditions are expected to continue throughout 2024.



Held to ransom – the rising risk of cyberattack in the transport sector

On 10 November 2023, a cyberattack crippled the operations of DP World. For three days the movement of goods into and out of the country were halted as Australia's second largest port operator battled the cyber security incident.

DP World, which operates ports in Sydney, Melbourne, Brisbane and Fremantle, is responsible for around 40% of the nation's maritime freight. Shutting down the port operations meant freight couldn't be unloaded or leave the port site. Billions of dollars' worth of imports and exports sat idle, including medical supplies, video games, air-conditioners, furniture and pharmaceuticals. A range of perishable goods were also stuck in containers.

The cyber incident had flow on effects across the transport and logistics industry as 30,000 cargo containers were stacked up at the four depots. The national supply chain was adversely affected with impacts to the land-based logistics industry, trucking industry, retail sector, health sector and many others that rely on the importation of goods.

The DP World cyberattack was the latest in a number of high-profile attacks on the transport industry in recent years, including the Port of Nagoya in Japan in early 2023 and on global transport company Maersk in 2017 – at the time the attack was dubbed "the most devastating cyberattack in history" by WIRED.

These attacks serve as a stark reminder to transport and logistics operators of the growing cyber threat. In fact, according to the Global Risk Management Survey, cyberattack or data breach is the most critical risk facing the industry.

While the transport and logistics sector has traditionally focussed on safeguarding cargo and passengers from physical dangers such as accidents, there is an increasing threat of cyberattack as the industry becomes more dependent on interconnected digital systems.

Cyberattacks can take numerous forms including ransomware attacks, data breaches and denial-of-service attacks. These attacks can disrupt transportation systems, cause delays and even lead to physical harm if critical systems such as traffic control are compromised.

To combat this risk, the industry needs to take a proactive approach to cybersecurity, which includes developing robust security protocols, training staff and investing in cybersecurity technologies.

Another important tool is having cyber insurance.

Talk to your EBM Account Manager about the right cover for your transport business.

Construction

Capacity remained constrained and placement challenges persisted.

As the construction industry continued to face challenges throughout 2023 and into 2024, the insurance market remained hard.

Already limited capacity (a number of insurers exited the market in the first half of 2023) diminished further, and premiums rose across property and liability classes, particularly for clients working in NatCat-prone areas.

Inflation, rising costs for raw and finished materials, rising labour costs and shortages, supply chain disruptions, and a spate of natural disasters added pressure on property loss costs and saw recovery timeframes expand. This inevitably impacted premiums. The highly publicised collapse of a number of construction companies over the past 18 months has placed an increased focus on the viability of construction firms remaining liquid, with an increasing insurer focus on financial information, particularly for professional indemnity.

Despite this, for companies able to demonstrate sound risk management, evidenced by its claims record and internal processes, rates have moderated somewhat, with premium increases averaging 10% for contract works and between 10% and 15% for liability. Professional indemnity premium increases are averaging at 10% however are increasingly influenced by the state of companies' financial position as well as the availability of coverage in some cases.

Insurers continue to review coverage with a view to restrict their own exposures, particularly on contract works offerings, which have been consistently reviewed in past years. The driving factor for this is claims activity arising from the various natural disasters. Capacity is continuing to reduce, particularly for risks that have a large NatCat exposure, who are seeing additional coverage restrictions and reduced sub-limits.

Insurers continued to pursue growth through careful pricing, targeted appetite and disciplined underwriting. As a result, moderate price increases for contract works and liability policies were applied for most risks, coupled with increased excesses and restrictions in coverage.

Construction liability insurers have seen an increased frequency in long-tail worker to worker injury claims, with head contractors increasingly facing involvement in cases where the legal costs are often substantial. As a result, the excesses for claims arising out of sub-contractor/labour hire injuries have increased in past years and continue to increase. Thorough processes on sub-contractor selection and induction programs can assist in comforting insurers in this regard however the primary construction liability market remains under pressure with limited capacity, noting only a handful of markets provide primary liability.

Overall capacity for contract works reduced, although access to markets in London remained available with a noticeable increase in appetite for Australian construction due to the shifting market meeting London expectations in terms of rating and conditions.

Conditions within the design and construct (D&C) professional indemnity (PI) insurance space remain, noting rates have yet to reduce and insurers are continuing to take a firm stance on pricing even when facing competition. London markets continue to show interest in Australian D&C PI and as this trend gains momentum, there is potential for premiums to plateau or in best case scenarios, see some relief in the future. Challenging market conditions continue, particularly on the primary layer placements where limited capacity is available, resulting in few options, restrictive terms, and sustained premiums. Due to its higher attachment point, excess layer capacity is more readily available and it is expected this will remain.

Current market conditions are expected to persist throughout 2024.

Mining

While a hard market persisted, conditions moderated for a number of mining insurance lines.

An increase in capacity on best quality existing business and new capacity for some risks was evidenced in the second half of 2023 and into 2024. Clients with clean loss records and quality risk information achieved more favourable outcomes than risks with loss activity.

Premium prices continued to stabilise, with the rate of increase typically in single digits. The exception being coal mining operations, where rate increases averaged 20%.

Deductibles remained stable for well-established risks with good loss records. In contrast, poor performing accounts where claims continued to occur, or with below-average risk management, were challenged.

Capacity and ratings for liability, cyber, D&O, crime, and professional indemnity (PI) covers remained volatile.

Mineral exploration clients experienced challenges in securing cover, particularly in respect to property (especially for projects considered to be high-risk or in NatCat zones) and PI covers.

Coverage enhancements came at an additional cost as insurers continued to apply greater scrutiny to policy wordings. Prudent underwriting coverages were evidenced as focus remained on key areas of risk such as NatCat exposure, geopolitical risks, and commodity price caps and valuations.

Underwriters honed-in on property valuation, business continuity planning, and structural integrity of ageing assets.

Hard lines on certain risks were taken which resulted in reduced competition and higher premiums. Coverage also became more challenging. Coal miners, in particular, found placement increasingly difficult.

Insurers were cognisant of the significant exposures that mining clients face including commodity pricing, revenue from fossil fuels, climate change and NatCat, ESG, energy security, cyber threats, global inflationary pressures, reputation, climate transition, and global rare earth competition. This resulted in greater scrutiny of client risk profiles and contributed to the widely varying outcomes that clients achieved.

Prevailing conditions are expected to persist during the June/June renewals and into 2025. Renewal outcomes are likely to depend on factors such as the quality of renewal information including responses to risk recommendations, extent of policy coverage including policy limit, sub-limits and basis of business interruption, claims experience, exposure to NatCat perils and the client's ESG ratings and initiatives.

Much to lose - preventing equipment loss

Mining is one of the industries most exposed to equipment failure losses. In fact, equipment breakdown and fire incidents are the two primary loss drivers for mine sites. Around a quarter of all losses are fire-related. Historically, electrical ignition sources are responsible for about 30% of mining sector losses. And hot works, historically, have contributed to about 15% of losses.

Mechanical or electrical equipment breakdowns are responsible for more than 30% of industry losses – and this figure climbs to more than 60% when collapse, impact and overturning are included.

The majority of equipment losses (around 70%) are for conveyors, motors and heavy-duty mobile equipment (HDME). A significant percentage of conveyor and HDME losses are fire-related.

A large proportion of losses can be directly traced to equipment failures. Factors often contributing to equipment failures include:

- **inadequate maintenance**
- **harsh operating conditions**
- **location specifics e.g. high-risk of flooding or earthquakes**
- **poor operator training, and**
- **age and history of the equipment.**

Electrical and mechanical breakdown – particularly on high-value specialist equipment – can expose mine operators to shutdowns lasting weeks, or even months.

Losses can be exacerbated by the fact that critical single-line pieces of equipment often take a long time to replace.

Equipment asset maintenance costs are generally accepted as being, notionally, 30% of total operating costs and significant capital disbursement is employed by miners for upgrades, shutdowns, and new replacement.

Given the Capex and Opex outlay by miners, and the losses incurred by insurers, protecting equipment needs to be a priority.

Mine operators should adopt a comprehensive risk management strategy that includes:

- **undertaking a detailed risk assessment**
- **incorporating regular equipment maintenance into operational schedules**
- **ensuring employees operating heavy equipment are well-trained, have adequate qualifications and are re-trained as necessary**
- **updating safety processes to reflect updated equipment**
- **ensuring process hazard analysis is conducted**
- **assessing combustible materials**
- **having well-trained fire-fighting personnel and appropriate equipment**
- **installing appropriate sprinkler systems, and**
- **carefully managing hot work.**

Your EBM Account Manager can also discuss the most appropriate insurances to protect your equipment.

Agriculture and farming

Farmers, growers and producers faced rising premiums as capacity constricted across the ag industry.

The market for almost all lines of insurance for agriculture, horticulture, viticulture and aquaculture clients remained hard throughout 2023 and into 2024. Challenges remained even for clients with good loss history, proven management, robust risk controls in place, and strong balance sheets.

Overall, premiums for rural insurance rose 20-40%. Even clients who had not lodged claims faced broad 20-30% premium increases.

Increases were attributed to natural disasters, supply chain disruptions, a shrinking farm insurance market, and insurers looking to remediate losses.

Claims inflation also played a key role in the premium increases, with the cost of raw materials, labour, equipment, machinery, fuel and transport all contributing to premium rates and pricing.

Property lines saw the highest premium increases, with clients in NatCat-prone areas particularly hard hit. Flood cover was especially challenging.

Premiums for liability lines rose significantly, as did farm machinery insurance. Bulk freight and other transport and logistics risks also saw premiums rise amidst a tight market.

Hard-to-place risks in the rural sector were even harder to place and clients with complex risks required multiple covers to fully insure the risk. Premiums for these complex risks also increased.

NatCat risk, in particular hail-, flood- and bushfire-prone areas, influenced availability and cover. Overall, capacity remained constrained (as more insurers exited the market), limiting insurer ability to underwrite new business, and premiums continued to rise.

Options for property cover were limited, especially for clients with operations in bushfire-prone and other NatCat areas. In areas where frequent losses were occurring, both property and liability insurance capacity diminished. As a consequence, there was an influx of business into last resort insurers, such as the excess and surplus lines (E&S) market, and the need to purchase multiple policies from different insurers.

Throughout the industry, in addition to sharp premium increases, deductibles rose, capacity reduced, and stricter underwriting standards were applied. Underwriters insisted upon accurate declared values, business income worksheets and response to risk improvement recommendations.

Challenges in placing cover for clients across the agriculture spectrum are expected to continue. Placement for clients in NatCat zones is not expected to ease in the foreseeable future. Overall, the farm insurance market will remain hard.

Getting techy - how tapping the tech can improve insurance outcomes

There has been a proliferation of new technology and innovative applications hitting the market in recent years, and the rates of adoption are growing exponentially.

Big data, the Internet of Things (IoT), gen-AI and machine learning are underpinning technological advancements and powering everything from apps and smart devices, to drones, robotics and autonomous vehicles.

And farmers, growers and producers are tapping the tech to inform decision-making, streamline operations, drive efficiency, address labour shortages, and improve management of their ag businesses in a multitude of other ways.

Drones, for example, are being used for all manner of applications. Uses include surveying property, monitoring crops, checking fire breaks, optimising field management, assessing assets (e.g. structural integrity of building roofs or water towers), checking and maintaining water levels in dams, pest control, and tracking livestock.

Weather apps are also playing crucial roles for operators across the agricultural sector. Growers, for example, are using the apps to help determine the most appropriate times to sow, irrigate and harvest crops. Farmers are identifying the best conditions for spraying. Livestock producers can use the weather information to decide how much stock to purchase or breed, based on knowing how much their grass is likely to grow, or it could show they should buy supplementary hay or sell off stock if pasture availability will be reducing. Fishery operators also benefit from monitoring the weather as changes can impact species lifecycles and major events, like cyclones, can impair production.

Then there are a myriad of apps specifically designed for ag businesses – apps to help with fertilising (timing, nutrient formula, volume etc.), with livestock performance, feedstock, soil moisture and nutrients, and future pasture production information, among others.

Importantly, in addition to boosting farm productivity, the use of technologies like these is helping primary producers to efficiently mitigate and effectively manage risk. And insurance is all about risk. So if an ag business can demonstrate it is managing its risks, then its insurance outcomes are likely to be more favourable (in respect to coverage, premiums and terms).

Liability insurance

A brighter outlook for the general liability insurance market was tempered by inflation concerns.

Conditions within the liability markets continued to ease in the second half of 2023 and into 2024 for the majority of industries, although certain sectors were more challenging (e.g. plumbing). However, the rising cost of managing claims above and beyond the overall inflation rate remained a key concern for insurers.

Premium increases slowed to around 5-15% as competition in the market helped to moderate pricing increases. Insurers deployed new capacity and restructured programs, increasing options for clients. Insurers generally displayed broad appetite and a willingness to compete for new business, with the exception of US-exposed risks.

Overall, market conditions were challenging. Well-performing, well-managed and lower-risk accounts achieved favourable outcomes, while those with challenging risk profiles faced greater scrutiny, more stringent underwriting, and rate increases.

Industries and risks that continued to be challenged included:

- Worker-to-worker exposed accounts
- Construction and trades, manufacturing and retail spaces
- Coal-exposed accounts
- Power and utilities (in particular bushfire and dam exposures)
- US-exposed risks (both domiciled and export exposure)
- Religious and educational institutions, and
- Rail.

There was increased cost pressure on this class of insurance where bodily injury and worker-to-worker claims involving labour hire or contracting/sub-contracting arrangements. Industries that drove up premium cost increases and had the highest representation of impact, falls and worker claims were mining, construction, agriculture, hospitality, retail trade, manufacturing and transport.

Insurers remained cautious as profitability concerns and claims inflation continued to drive market uncertainty. As a consequence, policy retentions and premium rates continued to be scrutinised by insurers. Even clients with longstanding relationships with insurers faced claims-driven pricing adjustments and reductions of capacity.

Underwriting scrutiny continued, particularly in areas such as contractor injury, PFAS (per- and polyfluoroalkyl substances) risk, and ESG.

Clients with well-performing loss experiences were also viewed favourably. For those with challenging risks, demonstrating a proactive approach to identifying and managing those risks helped to achieve better outcomes.

Insurers are likely to continue seeking premium increases as they protect profitability from claims inflation. Despite this, new capacity and appetite for growth is expected to continue to generate competition with the market.

Heads up for WA employers: Workers' Compensation law changes

On 1 July 2024, Western Australia's modernised *Workers Compensation and Injury Management Act 2023* comes into effect.

The Act is a complete re-write of the workers' compensation legislation, replacing the 1981 Act with a modernised statute that provides clarity and certainty for stakeholders.

Key changes include:

- Doubling of the medical and health expenses cap (from $73,197 to $146,395) and extending the point at which weekly compensation payments step down (from 13 weeks to 26 weeks).
- Where further investigation is required to determine liability, an insurer must issue a deferred liability notice within 14 days of receiving the claim. Should they still be unable to determine liability by day 28, provisional payments of income compensation and medical expenses are to commence from the date of first incapacity. Should a decision to decline not be possible by day 120, the claim will be deemed accepted.
- Covering catastrophic injuries in the workplace so that workers are under the Catastrophic Injuries Support Scheme and on the same footing as a person catastrophically injured as a result of a motor vehicle accident (lifetime tailored care and support).
- Amending the Limitation Act 2005 so that workers suffering silicosis are on the same footing as workers with asbestosis.
- Weekly rate of income calculated for one year ending on the day before the day on which the worker's injury occurred (previously 13 weeks); or the period beginning on the day on which the worker commenced to be employed in that position and ending on the day before the day on which the worker's injury occurred (if less than one year).
- Exclusion of stress-related claims which result from various reasonable administrative actions (mostly disciplinary) undertaken by a worker's employer to now include those arising out of a formal appraisal of a worker's performance.
- Increasing the time required for an employer to give the worker's claim to their insurer from five days to within seven calendar days of receiving the claim from the worker.

EBM Insurance & Risk has a dedicated Workers' Compensation and Injury Management team to assist clients with their employee obligations.

Looking ahead

'Green shoots' within the commercial insurance market sprung up during 2023 and have continued to grow in the first half of 2024, albeit modestly. It is expected that the increase in capacity and reduction in premium prices that were evident across several lines during the June/July 2023 and January 2024 renewals will carry on into the latter months of 2024.

Although stabilisation is predicted and cautious optimism is warranted, numerous variables remain in play.

The local insurance market is expected to continue to be influenced by a number of key risks including:

- **volatile capital markets**
- **shifting reinsurance capacity**
- **changing risk appetite among global reinsurers**
- **higher claims costs**
- **slowing economic growth, both locally and with major trading partners such as China**
- **inflation**
- **ESG challenges**
- **global conflicts**
- **increasing regulatory compliance and reporting frameworks**
- **climate change, and**
- **cybercrime.**

The emerging upside in the current market is expected to be tempered by premium increases (albeit at a lower growth rate than in previous years) and extended timelines to resolve more complex claims.

Inflation will continue to impact commercial insurance rates. Most coverage lines are expected to experience price increases, primarily in the single digits.

While the property market will remain relatively hard, market stability within the professional and financial lines space is expected to continue. It is likely that clients will face uncertainty across both property and liability product lines throughout the remainder of 2024.

Our Advice - mid year renewals

Outcomes are proving more favourable for clients who can demonstrate improved risk management practices and provide comprehensive insights into their business. Underwriters and insurers are becoming more comfortable (and competition is growing amongst insurers) in covering risk management-focussed clients and rewarding them with better premium pricing and product coverage on renewal.

We encourage clients to:

Understand your risk profile

Be sure to fully understand your risk profile – physical, financial, contractual and regulatory risks – when preparing for renewal.

Respond to risk recommendations

Follow risk recommendations from your broker and the insurer. Underwriters will generally view the implementation of risk recommendations as a big positive in the current market.

Demonstrate robust risk management

Supply shortages and significant weather events are driving up claims inflation. As a result, underwriters are taking a more risk-averse approach. Businesses need to be vigilant when it comes to risk management and clearly demonstrate their mitigation strategies.

Have up-to-date valuations

Businesses need to ensure assets are correctly valued to avoid underinsurance and under-declaring of property and asset values. It will also help avoid claim settlement issues.

Review sums insured

Persistent inflation, slow supply chain recovery and rising labour costs are increasing the risk of underinsurance. Property sums insured should be reviewed and updated to reflect current re-instatement costs.

Review indemnity periods

As claim resolution periods have lengthened, it is important that policyholders monitor and manage business interruption (BI) indemnity periods. BI insurance needs to reflect extended periods of coverage required for events involving building repairs, maintenance or reconstruction.

Detail ESG commitments

As mandatory climate-related financial risk reporting is on the horizon, insurers are asking for demonstrable commitment to ESG as part of the insurance submission.

Document claims history

Ensuring that the business' claims history is well-documented is especially important in harder markets.

Address underinsurance risk

Underinsurance has been, and will continue to be, a concern for insurers. Work with your broker to ensure premiums and the scope of coverage values are appropriate in the current and emerging market.

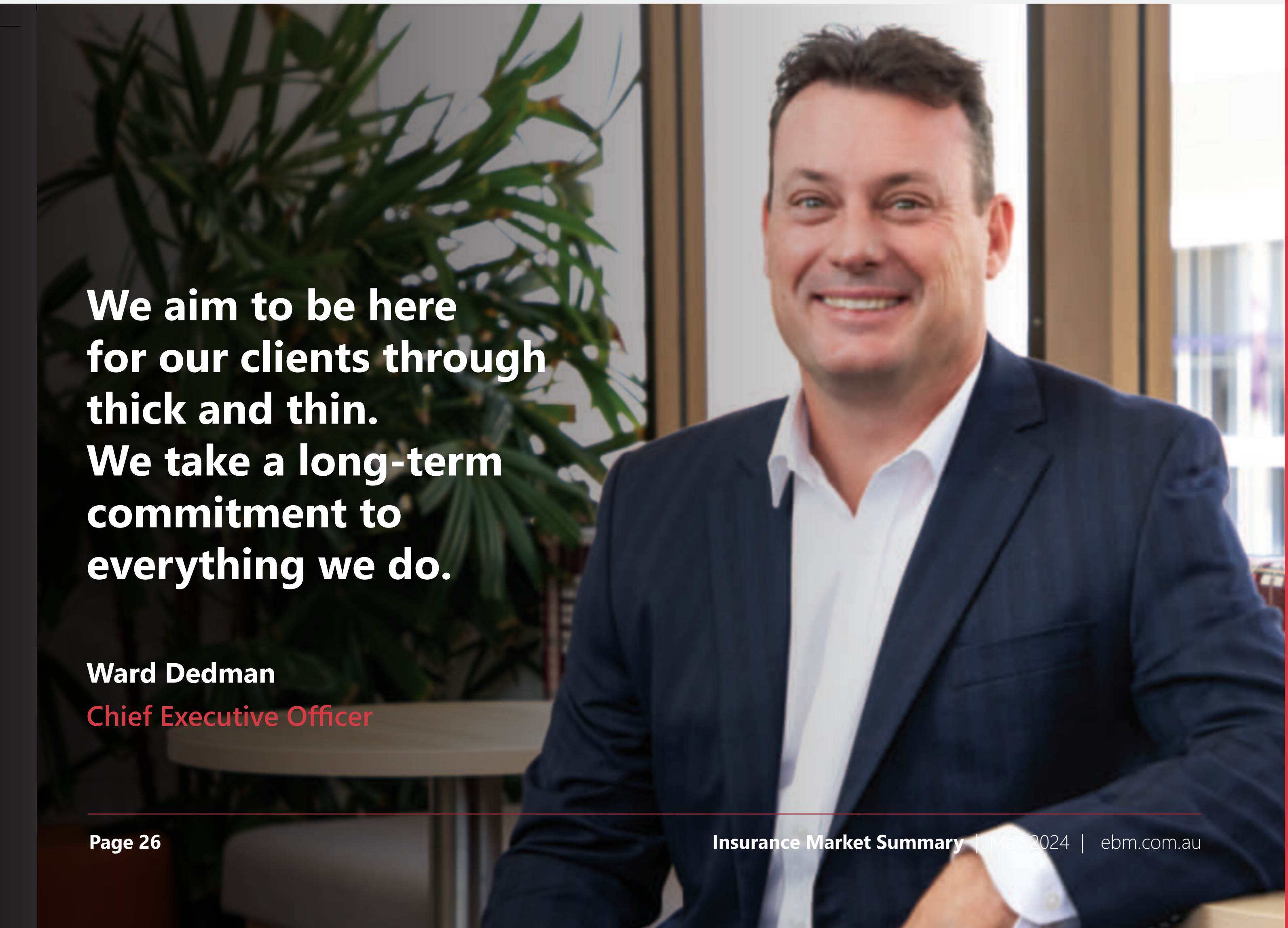
Work with your EBM Account Manager to develop your renewal strategy with a focus on demonstrating risk management. Being able to present a compelling narrative when going out to market helps us to achieve the best possible outcomes for your business.

About us

EBM Insurance & Risk was established in 1975 on the simple premise that insurance is complex and requires honest and concise interpretation, delivered professionally and personally.

Our team provides insurance and risk expertise across a range of industry sectors including construction, agribusiness, manufacturing, mining and mining contracting, not-for-profit, marine, transport, trades and all other small, medium and corporate business operations, together with private households and landlords.

Today, over 5,000 businesses and individuals entrust EBM to deliver innovative insurance broking solutions.



We aim to be here for our clients through thick and thin. We take a long-term commitment to everything we do.

Ward Dedman
Chief Executive Officer

100% Australian owned and operated

Founded in Western Australia in 1975, EBM Insurance & Risk is proud to be locally owned and operated. With a network of eight offices nationally and a team of over 150, we have grown to become one of Australia's leading privately-owned insurance brokers, entrusted by more than 5,000 businesses to deliver innovative insurance solutions.

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