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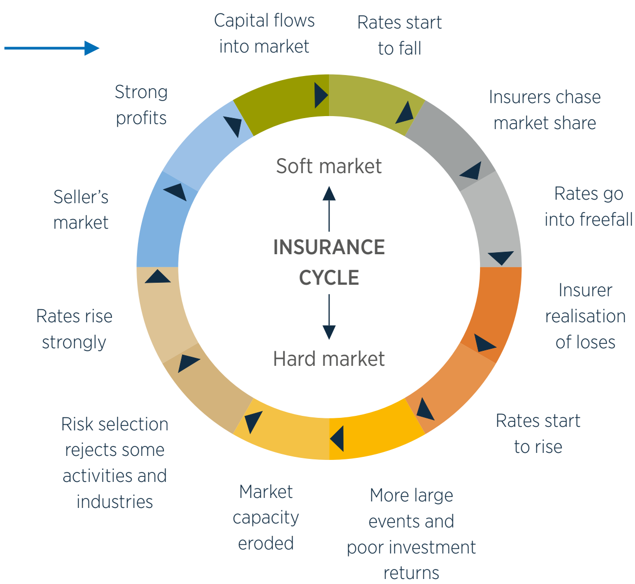
THE PUBLIC SECTOR INSURANCE MARKET 2023 UPDATE

Rate increases, loss of insurer capacity, foreign wars and re-insurance costs are all factors that have all contributed to a difficult year in the Public Sector Insurance market.

Our view of the current market

The market is reverberating from the unprecedented volatility of the past three years. COVID-19, the war in Ukraine, energy prices, natural disasters exacerbated by climate change, and the cost-of-living crisis have all contributed to reshaping current market conditions.

Inflation is a global dilemma and one that will stretch into 2023 and beyond. Anyone undergoing building work on their house, car repairs or buying a car must have faced significant cost increases in materials and labour. Inflationary pressures fall into four different types: social, claims, economic and asset inflation. While inflation will act as the primary influencing factor on rates, insurers are still striving to predict its impact on future capacity.



Insurer reaction

Insurers are increasing premiums, to offset claims inflation and economic uncertainty, but also in response to rising asset values and claims costs due to social inflation. However, the backdrop of the cost-of-living crisis prevents them from pushing the premium rate through all at once. Therefore, we are experiencing a balancing act: insurers are calculating where they can allocate the various cost pressures into premium.

The UK public sector and education insurance market from a risk profile is a broad church and so not all constituent parts are treated and underwritten the same, a town and parish council is treated differently to that of a Country Council clearly. It is these higher risk areas of County Council/Unitary Authority and Police Forces that are still finding market conditions challenging, some of the lower risk profile clients (Districts and Boroughs for example) are seeing some limited benefits of softer trading—but its embryonic at best.

> The reinsurance market has hardened and insurers are flagging significant reinsurance costs emerging on their treaty while they are also trying to increase capacity to balance volatility.

Within the broader cost-of-living crisis, there is also anticipation that fraud will rise—this has led to the stricter application of policy terms and conditions. It is a timely reminder to clients to ensure their own in-house handling (IHH) arrangements or those contracted to a third party administrator (TPA) or insurer are confident robust anti-fraud measures are in place.

Overlaying this picture of doom and gloom is the market's constant supply and demand, and competition. No insurer is immune to ambitious growth targets, and this is good news for clients. Nevertheless, competition for business is diversified, and there is less appetite for high-risk clients across all lines. Insurers are also still de-risking business—reducing their line size and limits on property and casualty.

We have a number of contemporary examples of this within the UK public sector and education market. Changes in reinsurance markets have exacerbated this approach. To combat these challenges, Gallagher has been actively engaging insurers that have not traditionally been heavily involved in public sector and education insurance with a view to creating more choice for our clients and also to create further competition in this sector.

Motor

Insurers are adopting a harder stance on their renewal book. This approach was triggered by performance in early 2022, claims inflation, the continuing evolution of the vehicle profile and the cost of repairs, parts and labour. For credit hire, providing clients with a like-for-like vehicle is a challenge due to continuing shortages of vehicles in the car hire market.

Consequently, insurers have been more proactive in writing off vehicles due to the cost of repair, and this stance has caused friction with clients who want to maintain their vehicles. While electric vehicles are undoubtedly the future for motor, the market's stance is currently cautious, with higher rates, excesses and greater driver restrictions for these vehicle types.

Property

Inflation and index linking has been a hot topic in the property market. Insurers are adopting a firm position on the adequacy of property sums insured and inflation proofing. If clients haven't index linked their sums insured or completed a building valuation, it can be a real sticking point at renewal. Currently a two-tier marketplace exists – there is plenty of competition for the 'vanilla' risks, but the market is shying away (or seeking more rate) from high hazard trades with poor protections or non-standard construction. Leasehold property in particular has come under scrutiny with key insurers reviewing their stance on pricing and other insurers losing capacity altogether putting pressure on the remaining markets capacity. This has resulted in a premium increases of over 100% and this will now become the new normal from a leasehold property point of view. The pricing change has been due for a number of years and now it's arrived and will remain at this level.

As mentioned above valuations are key and insurers will proactively ask what work has been done in this regard and by whom. Where they feel increases are not high enough some insurers have increased their rates to compensate the difference.

Gallagher has always had external links to valuers but now employs a small team in house. You can engage with your account team for further details on this service.

Construction risk (especially) refurbishments are still a challenge in the market place with high profile losses still ringing in insurers ears. Hot work and water risk management is absolutely key, trying to work with your incumbent property insurer to continue coverage on buildings being worked upon is absolutely key as obtaining standalone existing structure and works cover is still rather problematic. Additional key risks in construction are contract due diligence; very often, the contract particular has been agreed and signed before we are brought into the conversation—Gallagher public sector and education now has in-house due diligence contractual review team. For relevant contracts we advise clients to engage with their service team to understand how contractual due diligence can proactively reduce risk for them.

Following the recent announcement from the Department for Education[2], hundreds of schools containing RAAC face urgent remedial works and potential closure of affected buildings.

However, this is not just an issue for the education sector as the NHS, social housing and government are all affected to a degree.

Given recent experience with combustible panels, insurers are almost certainly going to start asking more question about the presence of RAAC when underwriting a risk.

That is unlikely to be confined to tenders only and we would advise clients to gain a good understanding of the issue within their portfolio, collate the data and prepare a remediation/management strategy to share if asked.

Gallagher is keeping a close eye on developments and will update clients as and when additional information becomes available.

Casualty

The market is active and there is substantial movement, which has generated more competition. Where carriers prefer to reduce limits, it is generally still possible to secure an alternative excess layer solution. Composite markets are regaining strength and they will likely look to leverage casualty and motor to accommodate the difficulties in property.

The presence of RAAC in a property, whilst not in itself an issue, may be on a Casualty underwriters mind when considering property owners' liability and coverage for third party injury. Comments made in the property section of this document regarding RAAC apply equally to the casualty risk also.

[1]https://www.loc.gov/item/global-legal-monitor/2023-01-26/united-kingdom-government-proposes-protect-duty-bill/?loclr=ealln#:~:text=On%20December%2019%2C%202022%2C%20the,deaths%20and%20injury%20since%202017.

[2]https://www.gov.uk/government/news/list-of-education-settings-with-confirmed-raac-published

Insurers are also seeing increases in wages for the first time in a few years and this contributes to higher premiums generally across this class of business.

Management Liability/D&O

On a more positive note, the management liability/D&O market is starting to soften from conditions we have seen in recent years, more insurers have come back into play and capacity has increased therefore creating a competitive marketplace. Insurers are keen to grow their books and this has been evident recently in both education and housing so would imagine this should play through across the wider public sector.

Cyber

It's evident that capacity has improved in this hugely volatile part of the market, but the recipients of some softer underwriting and risk management are tending to be at the smaller end of our client base, so small educational institutions or district Councils. The Cyber markets remain a real challenge for larger organisations like Unitary Authorities or Police Force. The recent news where "human error" was attributed to a number of data losses won't do any good for insurers to return to this sector quickly. Gallagher does have a suite of proactive risk management support services available via our innovative in-house cyber risk management practice, reach out to your account team should you wish to understand their proposition.

Legislation Changes

In May 2023, the government published the draft legislation for The Protect Bill—known as Martyn's Law.

This is detailed as follows:

PROTECT DUTY is an obligation for those with responsibility for publicly accessible locations to consider, and where required, implement security measures in order to protect the public.

Why do we need it?

The terrorist threat we face is multifaceted, diverse, and continually evolving, and there have been 14 terror attacks in the UK since 2017. Dozens more have been foiled before being enacted. The higher frequency of attacks means it's increasingly difficult for security services to spot and intercept plots before an attack is executed, so there is a need to improve and extend the current counter Terrorism security network through the implementation of proportionate security measures at publicly accessible locations.[1]

Procurement Legislation

Following the UK's withdrawal from the European Union under the process colloquially dubbed 'Brexit' the future of how publically-funded bodies are to procure the goods and services they need is subject to new government legislation. The requirement to publish tenders in the Official Journal of the European Union (OJEU) via Tenders Electronic Daily (TED) has been replaced by a UK system called Find a Tender Service (FTS).

Gallagher will look to provide a further specific update to the new legal framework later in the year, in the meantime please use this link to take you to the new legislation.

To view a recent update from Gallagher, please click here.

Conclusion

Conditions in the market are difficult — but it's important to remember there is still good appetite for well-managed risks with a coherent claims experience.

Having claims isn't the problem in most cases (they are expected) but having good data and narrative on the large claims on the circumstances and actions taken to reduce reoccurrence is paramount.

We would highlight claims data as most significant. Ensuring this data — yours and insurers — is correct is hugely important. Highlighting claims relating to services no longer delivered (including academies or schools transferred to the RPA) will help, as will providing information on larger claims — what happened, what have you done to prevent recurrence — can help an insurer choose whether to include a claim to full value or reduce it when reviewing their actuarial analysis. One insurer has recently advised us that all claims over £50,000 attract actuarial review.

Would you like to talk?

For more information, please contact:

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Gallagher are one of the leading providers of public sector actuarial reviews and have decades of experience in providing recommendations on internal fund size but also programme optimisation too.

In summary to keep as far ahead of the game as you can, we would recommend:

- Plan early, prepare often, be ready for a discussion.
- Know your claims experience and be prepared to share it.
- Consider when and how to tender.
- Engage with potential bidders. Do this regularly, not just when you are tendering.
- Ensure you have considered the most effective programme structure.
- Alternative Risk Transfer (ART) considerations.
- Risk management.
- Utilising the knowledge and expertise of Gallagher's Public Sector and Education insurance broking specialists — to ensure the right information in the right format is put in front of 'warmed up' underwriters.