Business Insurance & Risk Market Update

H1 2021

Expert insights & perspectives

Experts within the Gallagher network offer perspectives on critical trends and changes shaping the insurance and business landscape.

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Insurance | Risk Management | Consulting

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Mark Oatway
Managing Director – Placement

Adaptive risk management the foundation of protection

As Australia enters a new financial year with the economy in better shape than expected, risk factors have ramped up significantly in some areas affected by recent losses and contingent flow-on effects from a barrage of challenging events. In this climate the unusual has become usual, putting greater pressure on businesses to accurately anticipate and put demonstrable measures in place to manage their risks.

To assist senior decision makers in achieving this, in this edition of our bi-annual Business Insurance & Risk Market Update our experts examine key issues and pertinent talking points to discuss with your broker around some of the trends affecting businesses at present and into the future, including:

- **claims:** how an increasing number of extreme weather events is affecting the market, and what businesses can do to respond
- **mitigating premium increases:** the steps businesses can take to assist your broker in negotiating lower premiums on your cover
- **cyber:** why company boards urgently need to proactively address cyber security threats
- **regional growth:** the potential benefits to be gained from branching out
- **waste and recycling:** why communicating individual risks is critical to protecting your operation
- **marine:** how the *Ever Given* grounding has impacted and will continue to affect the marine insurance market
- **construction:** advice for meeting coverage challenges as market appetite continues to shrink
- **financial stress:** why businesses need to address this area of employee concern.

Documented defensive strategy supports business insurance

Whatever industry you operate in, there's a clear message underlying our experts' opinions in this issue of the Business Insurance & Risk Market Update: taking a strategic and forward looking approach to providing comprehensive business information is key to obtaining cover.

Insurers and underwriters need to see that businesses have recognised and anticipated current and potential risks, and have put measures in place to meet them.

Our industry specialists bring years of experience in their sectors and corresponding insurance markets to parsing out the information insurers need to consider in making a decision. Sometimes this can result in lower premiums. In other instances it can be the difference between obtaining coverage or not.

While all of the insurance sectors covered in this issue are subject to rapidly changing conditions, threats to cyber security are evolving rapidly and the insurance market is responding accordingly.

Insurers are becoming increasingly cautious about providing cyber cover as the losses involved are significant and the threats changing by the day. Of particular concern: weaknesses in your digital supply chain – the potential for your business partners to provide the ingress to hostile actors.

When it comes to cyber – and any of the areas discussed in this issue – we are here to not only help get you the right coverage but ensure your business isn't leaving anything to chance.

Mark Oatway
Managing Director – Placement

Market capacity challenges continue

Business insurance markets continue to remain in a hard cycle, where placement of insurance requires strategic and partnership expertise to navigate access.

Businesses continue to face very difficult and ever evolving challenges – from the markets they operate in to the way they run their day-to-day operations.

Over the past two years the insurance market has hardened and as a consequence prices have increased as appetite for risk has tightened. We are beginning to see some evidence of price increases levelling out, however, the challenges remain. Across the board insurers are assessing which areas of the market they want to participate in and overall there's significantly less capacity than there has been previously.

Because of this, placement is more difficult – but we can generally find cover. We have long-established relationships across the globe, and under current conditions these are really delivering results for our clients. Through utilisation of the markets in our global networks, particularly in Singapore and London, in addition to what's available in Australia, we canvass availability comprehensively to ensure we achieve the optimum coverage possible.

For every client, however, we are being asked for an increasing amount of information about the business and the risk mitigation in place, and because of this it's imperative that the renewal process starts earlier than it may have done in previous years.

The impact of COVID-19 test cases

We haven't yet seen a resolution to the COVID-19 business interruption test cases in Australia but the potential impact is already being felt as insurers tighten up policy wordings – not just in relation to the pandemic and how policies could be perceived to respond, but across the board for all policies and exclusions – to ensure they're not leaving themselves open to cover unintended exposures.

Critical factors affecting the availability of insurance cover

There are a number of factors with an ongoing effect on the current insurance market, including:

- catastrophic natural events over the past decade, the increasing prevalence of extreme weather events and large individual fire losses
- considerably diminished insurer investment returns coupled with higher costs from the treaty reinsurance market are forcing insurers to restructure risk portfolios around long-term sustainability
- increased litigation from class action activity and greater regulatory scrutiny has resulted in risk aversion where C-suite insurance cover for boards and directors is involved
- COVID-19 implications and constraints on key insurance market operators, and
- for some industries, environmental accountability pressures.

KEY TRENDS

- **Our insurer relationships and access to global markets enable us to pursue suitable cover for our clients.**
- **Insurers are tightening up policy wordings and exclusions to avoid unintended exposures.**
- **Submissions to insurers now require more detail on active risk management strategies and protocols.**

Responding to hard market conditions

Operating in a hard insurance market brings its own unique challenges and has significant implications for clients' risk management and renewal strategies.

Insurers and underwriters are much more cautious about the risks they take on, so it's imperative that you and your organisation work closely with your Gallagher broker and insurers.

While Gallagher's international reach means we can access global insurance markets to offset local market constraints, the requirement for detailed risk management information is now a given.

To support this need for greater detail our broking experts are providing critically important advice on:

- managing renewals early to enable lead time for presenting, reviewing and negotiating risk options with insurers (six-plus months for large businesses/insurance programs)
- re-assessing risk programs and policies based on the current climate, and considering innovative strategies for structuring and risk options
- developing high-quality submissions to insurers that contain significant detail and demonstrate strong risk management – critical factors to gaining support from the market
- taking a diverse approach to the insurance market, accessing both local and international insurance providers, applying expertise in market selection to tailor cover and pricing options.

We work with strong strategic insurer networks locally in Australia and as an international business we also access global insurer markets in the United States, United Kingdom, Europe, Asia and Bermuda, for specific client options and needs.

CLAIMS

Adam Squire
Head of Claims

One in 100 weeks: the new one in 100 years

Extreme weather events are par for the course in Australia – but they are becoming more frequent and more dangerous, and businesses need to be prepared.

KEY TRENDS

- **Extreme weather events are becoming more frequent in Australia and businesses need to be prepared.**
- **Ex-tropical cyclone Seroja caused huge damage to WA coastal town Kalbarri recently – on the same parallel of latitude as Brisbane.**
- **Weather-related claims are complex and there's a lot of room for interpretation in policy wording.**

From bushfires to hailstorms, cyclones to floods, we are well accustomed to dealing with extreme weather events here in Australia – both as a population and as an industry.

It's not a new phenomenon: from an insurance perspective Sydney's April 1999 hailstorm is still believed to be the country's biggest claims event – but the intensity and frequency of these events are increasing.

Many of the recent cases of extreme weather have affected areas of the country that have a limited population but those odds can't be counted on. To illustrate the point, the recent ex-tropical cyclone Seroja hit Kalbarri on the coast of Western Australia recently, causing widespread and severe devastation: 70% of the town's buildings were damaged, 40% of those sustaining major damage.

The small coastal town is on the 27th parallel of latitude – the same as Brisbane – and it's the first time since European settlement that a major cyclone has crossed that far down on the WA coast.

While areas further north in the country more accustomed to cyclones, such as Townsville and Cairns, have building codes that reflect that, Kalbarri does not. And if this occurred on the west coast, it could just as easily happen on the east. Imagine the damage a cyclone would cause in Brisbane.

We saw just 18 months ago the devastation caused by bushfires. This year we've experienced extreme flooding and now cyclones. Increasingly areas of the country that were at risk of indirect impact from weather events are now at risk of direct impact, and for businesses this further illustrates the need for having a business continuity plan and policy in place. Businesses need to plan for how they would respond if their premises were rendered unusable.

During the pandemic we've seen businesses switch over to an online service model and this is where an up to date business continuity plan can ease a necessary emergency transition. Disaster rarely strikes Monday to Friday from 9 to 5.

Enabling business as usual

One good thing to come out of our experience with COVID-19 is the way in which we've been able to keep our businesses running. We've grown more accustomed to working virtually and in many cases it's far more efficient to do so.

It's a very different case for a product-based business; having a warehouse, manufacturing plant, storefront or other premises places you at greater risk. When it comes to protecting an asset businesses need to consider risk factors such as proximity to overhanging trees as well as any mitigating circumstances in order to minimise the impact on their insurance premiums.

In response to the increased instances of extreme weather the insurance industry is starting to implement a number of innovations to help underwrite assets, assess claims and assist with disaster response. For example, high resolution satellite imaging is now used to estimate the extent of severe weather damage and

aerial imagery is commonly deployed to help ascertain a building's risk profile. In North America specialised smart apps use 3D modelling to help with claims lodgment and assessment.

Since we're in a constant cycle of weather events businesses need to have a back-up plan for their supply chain, location alternatives for their premises and routes to market. All of these business interruption issues can be solved, but these solutions need to be put in place in advance – which you can't do effectively in the midst of a catastrophe.

If you need assistance with putting together a business continuity plan or want to review your business's policies that protect you from the impact of severe weather events, we're always here to help.

Increasingly areas of the country that were at risk of indirect impact from weather events are now at risk of direct impact.

Natasha Barker
Manager, Corporate

Mitigating rising premiums

When premiums are increasing businesses should consider what compensatory actions can be taken to contain costs.

KEY TRENDS

- **Rising premiums are affecting businesses, particularly the property aspect of industrial special risks cover.**
- **Having risk-management plans in place is essential in order to potentially mitigate the premium rise.**
- **Higher deductibles and excess isn't a silver bullet.**

With insurance premiums rising across all industries, clients are increasingly asking if there is anything they can do to mitigate the rising costs.

The good news is, yes, there is.

It goes without saying that the earlier you start working with your broker in advance of the renewal, the better – and be prepared to invest time in giving more detailed information than ever before, because insurers and underwriters are asking more questions in order to understand and underwrite the exposure. In current conditions if you can't provide a documented risk management plan it's difficult to entice insurers to even provide quotes.

And, while all areas of insurance are affected, one of the most significantly impacted is the property side of industrial special risks (ISR) cover, primarily due to weather events both here in Australia and globally. The fires in California, for example, and devastating hurricanes overseas affect the capacity internationally owned insurers can provide in Australia, as well as their appetite for risk.

Among the many factors influencing the rising ISR premiums: the occupation of the policyholder, the location and surrounding exposures (e.g. cyclone, bushfire, flood), the age of the building(s), its construction and protection, as well as the risk management protocols in place – and insurers are putting all of these under increased scrutiny.

Buildings in flood or bushfire exposed areas are receiving close attention but, regardless of location, the construction of a building is the subject of scrutiny. Is it made out of wood? Does the fabrication include combustible materials such as expanded polystyrene (EPS)? Is there aluminium composite panel (ACP) cladding? Is the building sprinkler protected?

Since it may not be possible to alter the building or its location how can you otherwise demonstrate effective risk management? Having robust and thorough emergency management plans that address protection of property as well as people – particularly in relation to flood and bushfire risks – shows proactive risk management. A heavy hailstorm can cause serious damage and also carries the risk of a significant downpour of water, so you need embedded measures in place to ensure your roofing and guttering are well maintained.

Scope of consideration

Having a documented self-inspection procedure and maintenance schedule that ranges from regular roof maintenance and guttering clearing to checking buildings' roofs for damage, to ensuring no combustible material is left in adjacent areas and that wiring is monitored and upgraded when required demonstrates the business has an active risk management agenda for maintaining the premises and preventing loss or damage.

It's important to consider some of those risks that aren't immediately obvious. A business can have very detailed risk mitigation plans for all their likely exposures but not provide for a left field risk such as a once in 100 years event like flooding. It's important to consider the full range of risks, planning ahead, being prepared in terms of potential future exposures and having self-monitoring processes and emergency management plans in place.

As a case in point 18 months ago not many businesses would have taken a global pandemic into consideration and that's a reminder that the unexpected can happen. We had an earthquake in Newcastle in the 1980s and a plane crash next to Melbourne Airport a few years ago – businesses do need to allow for the full scope of what could go wrong and how their policies would respond in the case of such events.

Ultimately as brokers representing your interests we need to be able to articulate and demonstrate what a business is doing to mitigate risks. If we can't, the insurer will make an assumption that not much is being done – and that will have an impact on premiums, cover, excesses and deductibles.

In fact, it could be the difference between the insurer being willing to insure that business or not.

Having robust and thorough emergency management plans – particularly in relation to flood and bushfire risks – demonstrates that you're managing the risk.

Over the past six months there has been a significant shift in the cyber market. Insurers are subjecting clients to far greater scrutiny because the potential for cyber claims has increased dramatically with risks extending beyond the underwriting of a single business and its security processes.

Robyn Adcock
Cyber / Tech Practice Leader

Alberto Piccenna
Client Manager, Professional & Financial Risks (Cyber & Tech)

The new insurer standards for cyber risk cover

Your business is only as cyber secure as the weakest link in your supply chain – and the enormity of this risk is changing the insurance landscape.

Cyber is one area of insurance that's incredibly difficult to underwrite because the risks of non-compliance by multiple suppliers can quickly aggregate to significant losses across a business ecosystem. This has shifted the position of risk for insurers globally, and their perspective on how to underwrite that risk is continuing to evolve.

In recent months we've seen the attack on United States software vendor SolarWinds in which malware was planted in an update that compromised more than 18,000 clients, including US government departments such as Homeland Security and a whole host of big-name private companies. Microsoft was also attacked, with ransomware installed on its Exchange servers. That affected 250,000 corporate servers across the world, including the European Banking Authority.

These incidents help illustrate the enormity of the threat that businesses face – and of the risk insurers are

KEY TRENDS

- **Over the past six months insurers have put corporate cyber security systems and processes under close scrutiny.**
- **Boards must proactively address their cyber exposures.**
- **Businesses must audit their cyber supply chain to ensure each component is meeting cybersecurity standards.**

striving to manage. As a consequence scrutiny during the underwriting process has increased significantly: more and more questions are being asked, processes and procedures further explored – all in all it's a longer and more challenging quoting process.

For example, one of the largest risks is ransomware – both the frequency and severity of recorded claims have increased in the last 12–18 months, so there are a number of security controls examined around this risk particularly.

One insurer added 30 questions to the renewal proposal form specifically to address ransomware risk.

Understanding tech risks is imperative

In light of the SolarWinds and Microsoft attacks a business's supply chain is now – understandably – under greater scrutiny. Businesses should be vetting their supply chains and proactively addressing any potential gaps. After all, a chain is only as strong as its weakest link. If you can go to an insurer with a robust audit process, you can provide a level of confidence in your business being a good risk.

For businesses, internal education on cybercrime is imperative throughout the organisation – particularly as 38% of all cybercrime in Australia succeeds due to human error.

Everyone involved in business today – compliance teams, technology teams, executive leadership and boards – must understand the world of technology. They must be comfortable talking about their security risk management framework, committing to a security investment strategy and understanding the terminology that significantly impacts their business, and its implications. They must understand the technology strategy, the risks they face, and how those risks are to be managed by the business.

There are some very simple and straightforward actions to take – such as compulsory employee training, multifactor authentication, tabletop tests, software updates (patching), back-up protocols and access privilege management – and insurers will be looking into your policies and procedures around these measures. What are you doing with audit results? How often are you training, testing and measuring the results? How quickly are you implementing patches? Can you verify that?

Directors and officers' liability

Cybersecurity needs to form part of the overall business strategy, and the tech team must be fundamentally involved in that process. For boards, cyber must be a focus because if a business doesn't have the right security controls, shareholders will hold them accountable for not addressing this properly and potentially damaging the company itself.

How cyber risk assessment has changed

Insurers are now examining corporate procedures. For example, in the past multi-factor authentication was 'nice to have' and it protected access to systems across the enterprise; now it's almost compulsory. If you don't have it, it's going to be difficult to find insurance.

Overall, businesses have to realise the threats they face. The cost of cybercrime is expected to reach $6 trillion by end of 2021. When you conduct a risk and threat analyses, cybercrime has to figure majorly i n that. Ransomware alone attacks a business every 11 seconds – it's huge organised crime.

We're quickly moving towards a situation where unless you can demonstrate you're doing everything you can to defend your business, you'll be asked to part-underwrite that exposure, or even be turned down flat by the insurer because the risk is assessed to be just too great.

After years of talking about the threat of cyber, time has run out. Businesses need to act, and this is why insurers and underwriters have changed their approach so dramatically.

Kylie Hull
Head of Regional Branches

The benefits of branching out

Making a tree-change in your business operations could help grow your business – and regional Australia.

KEY TRENDS

- **With more and more people moving out of Australia's cities this shift presents opportunities for businesses.**
- **Regional centres for back office operations could cut costs and open up a new talent pool.**
- **The ability to work from regional Australia could also be a significant employee benefit.**

The global pandemic has opened up a whole host of possibilities to businesses and employees in terms of how – and where – they work.

Businesses were forced to quickly mobilise their staff to work from home, and since then there's been a seismic shift in the perception of how working works.

The reality now is that many employees don't want to spend hours commuting to and from the city. They don't necessarily want to have to work 9 to 5: they want to be able to work in a way that supports a more flexible work-life balance.

We've all heard about people making a lifestyle move from cities to regional centres and this trend has now picked up pace.

For example, according to figures from the Australian Bureau of Statistics, in the quarter to December 2019, the net population of capital cities decreased by 3847. In the quarter to December 2020 that figure was 10,625. In the September 2020 quarter, meanwhile, 11,000 people relocated from capital cities – the highest figure on record.

The opportunity to relocate to a regional centre – either now or in the future – could be a significant attraction for current staff and future recruits.

The COVID pandemic and the consequential changes to how we work have opened people's eyes to the option of a different way of living. A more relaxed, cheaper way of living that could potentially offers huge mental-health benefits.

It was, of course, a way of living that many of us were enjoying before COVID even entered our vocabulary. I've been a Dubbo local all my life, and regional Australia is home to about a third of our nation's population.

Many of my regional counterparts are accustomed to working remotely and the accompanying need to conduct business using a blend of online and in-person interactions.

For businesses, enabling this flexibility in working arrangements is going to be critically important when it comes to recruiting and retaining staff. The best people will enjoy the choice of working from wherever they want.

Reduced rents, access to amenities, safety and a cleaner environment are just some of the reasons that many people have elected to relocate away from the city. These same principals apply to businesses.

Of course, a city-centre presence is always going to be valuable for many organisations – that face-to-face interaction is vitally important for many facets of a business, particularly sales.

However, there are a whole host of back-end business functions that don't need to be in the city – and moving those functions to a regional hub is something many business leaders are seriously considering.

And it's easy to understand why. Compare the expensive city rates to what you'll pay in a regional location. Cities by their nature are occupied by a more fluid population, which can lead to a higher staff turnover than in regional Australia.

Of course, there's a huge risk-mitigation aspect here for businesses too. We've all seen our city centres shut down to varying degrees over the past 12 months – with Melbourne bearing the brunt. In regional Australia, bar a couple of months at the beginning of the pandemic, we've – thankfully – barely been affected.

Whatever the future holds, in terms of managing risk diversifying the locations of your physical presence is a smart move. There's huge investment going into regional Australia at present, and many incentives for businesses to establish a regional presence.

There's an already prosperous and diverse network of businesses throughout regional Australia, from small creative companies to large agricultural and agtech operations.

This community is set to expand with the migration of skilled, talented workers from the metro areas, and businesses increasingly looking to opening regional operations.

At Gallagher we have 13 regional branches led by people who have deep connections and long-standing experience working in their respective locations. Knowing the localised insurance risks specific for a particular area is critically important. That local knowledge and network of connections and resources cannot be underestimated.

Knowing how to make things happen is also a critical skill in regional Australia, and Gallagher regional experts can expedite those crucial business connections. With people on the ground in regional areas, we're here to help.

Mark Bramley
Area Director

Have waste and recycling risks reached tipping point?

Communicating the individual risks of your operations is increasingly important in obtaining cover for waste and recycling businesses.

The reduced availability of insurance along with rising premium costs are a common story across every sector of insurance, with the waste and recycling industry also affected significantly.

In this sector we have seen premium increases of 10–15% as standard, and as such we are having longer and deeper conversations with insurers today as we work to ensure our clients' operations are covered for relevant risks.

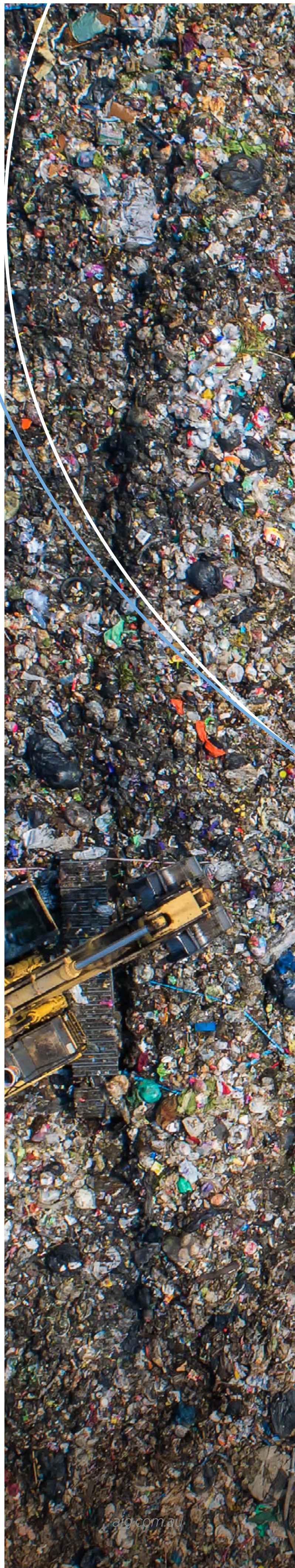
To offset these increases we are being more specific about the exposures involved in each particular business. One of the key points of difference concerns fire risk. Insurers see the waste and recycling industry as one, however, there is considerable variation in industry practices that requires communicating in depth what applies to the business concerned.

For example, the fire risk pertaining to a cardboard recycling plant differs enormously from that posed by a dirty water recycling operation. A scrap metal recycler that operates as a holding yard and doesn't process anything similarly involves low fire risk.

In those instances a report profiling the business, its processes and operations should be compiled, and a site survey conducted to accurately assess actual risks on the ground.

Waste recycling tenancies

Another increasing risk affects commercial property owners who lease space to a waste or recycling businesses. If you're in commercial property, it's hugely important for all concerned to be aware of the insurance risk different businesses represent before accepting them as tenants.



KEY TRENDS

- Waste and recycling is an increasingly diverse sector, but one that insurers treat under one banner.
- Pollution liability cover is becoming a must-have for many businesses.
- Lithium batteries pose a major fire risk in transit – education is needed.

In this sector we have seen premium increases of 10–15%, and we are having longer and deeper conversations with insurers.

This is because a fire in business premises involves vast amounts of water or fire retardant but the fire service is not responsible for any run-off. The property owner is responsible for water or other liquids running into third-party properties, drains and potentially into natural water courses, and the resultant clean-up costs, and the fines and penalties that can be imposed.

Finally, there's currently a huge issue around the collection in general waste of lithium batteries which are creating fires – usually in garbage compactors collecting waste. The insurer is at risk of the truck being engulfed in flames or, if the driver spots it early enough, the load will be dumped on the street and firefighters will be called.

We are about to launch an education campaign around the disposal of lithium batteries because it's another risk some may not be aware of – but insurers most certainly are.

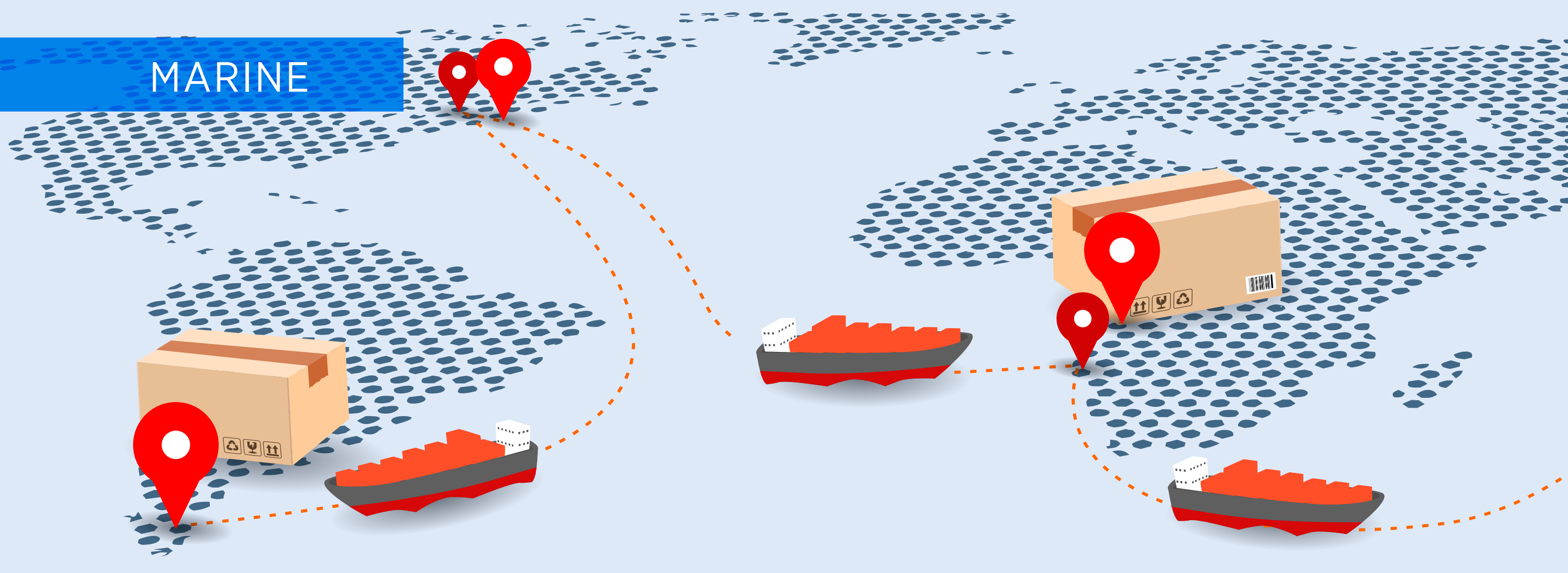
Normally the property owner would make contractual provision for outgoings for insurance costs to be carried by the lessee. However, we often find that the property owner controls the insurance. In these cases when they accept a waste or recycling business as a tenant they may find availability of providers to cover the risks that type of business presents will have decreased, and the premiums increased tenfold to more than the tenant is paying in rent.

Multinational tenants may be covered under a global program, with an excess of $5–$10 million. In that instance we would recommend specifying that the tenant obtain a bond or bank guarantee for the sum insured.

Environmental exposures and costs

In terms of waste and recycling liability exposures there's an increasing amount of regulatory compliance required by environmental protection agencies, and we're seeing greater demand for environmental pollution liability insurance, particularly from liquid waste providers. In reality when we're talking with underwriters they're saying that almost every waste and recycling business should have it.

We're seeing greater demand for environmental pollution liability insurance, particularly from liquid waste providers.



Stephen Rudman
National Head of Marine

Shared liabilities highlight risks at sea

The worldwide news of the grounding of the *Ever Given* in the Suez Canal has understandably raised some interesting questions on how insurance responds – and provides some timely reminders about the risks involved in transporting goods.

The sight of the *Ever Given* being grounded in the Suez Canal earlier this year made headline news around the world. The shipping container was stuck for six days, blocking the path of almost 400 ships and preventing nearly US$10bn of trade.

For many companies the matter served a timely reminder to the value of marine and cargo insurance and why self-insurance is a hazardous business for cargo owners and shippers.

The vessel's owners, Shoei Kisen Kaisha, declared General Average (GA) – a means of damage sharing – and consequently, it's likely to take some time for the issue to be resolved.

The law of General Average is a legal institute in maritime law according to which all parties in a maritime adventure proportionally share any losses resulting from a voluntary sacrifice of part of the ship or cargo to save the whole community in an emergency of extraordinary expenses being advanced in the common interest of all parties concerned in a maritime adventure.

All parties involved in a General Average situation are called on to contribute their proportional

KEY TRENDS

- ***Ever Given* grounding losses will further shrink marine reinsurance availability.**
- **Lloyd's of London has expressed assurance that the sector is structured to deal with large claims.**
- **Importers and exporters should pay close attention to the 'critical point' in cargo movements when arranging cover.**

contribution based upon a share or percentage to the merchant(s) whose goods have been saved.

The costs are estimated to be around $16m. The consequences for shippers/cargo owners with uninsured cargo is that it leaves them highly vulnerable to losing their cargo and suffering financial loss.

The vessel owner can hold the 'goods' under lien (the right to keep possession of property belonging to another person until a debt owed by that person is discharged) until the cargo owner pays a deposit. In contrast, shippers with insured goods will have those deposits covered by their insurers.

When a general average is declared or salvage services received, the shipowner and salvor will have lien over the cargo. They will exercise this lien unless the cargo owner provides a security or a guarantee, or they will insist on a cash deposit, which could take a long time to recover.

Furthermore, salvage requires a guarantee provided by a company. Therefore, it is not an exaggeration to say that GA and salvage alone are two reasons why cargo owners/shippers should not opt for self-insurance.

Trading terms

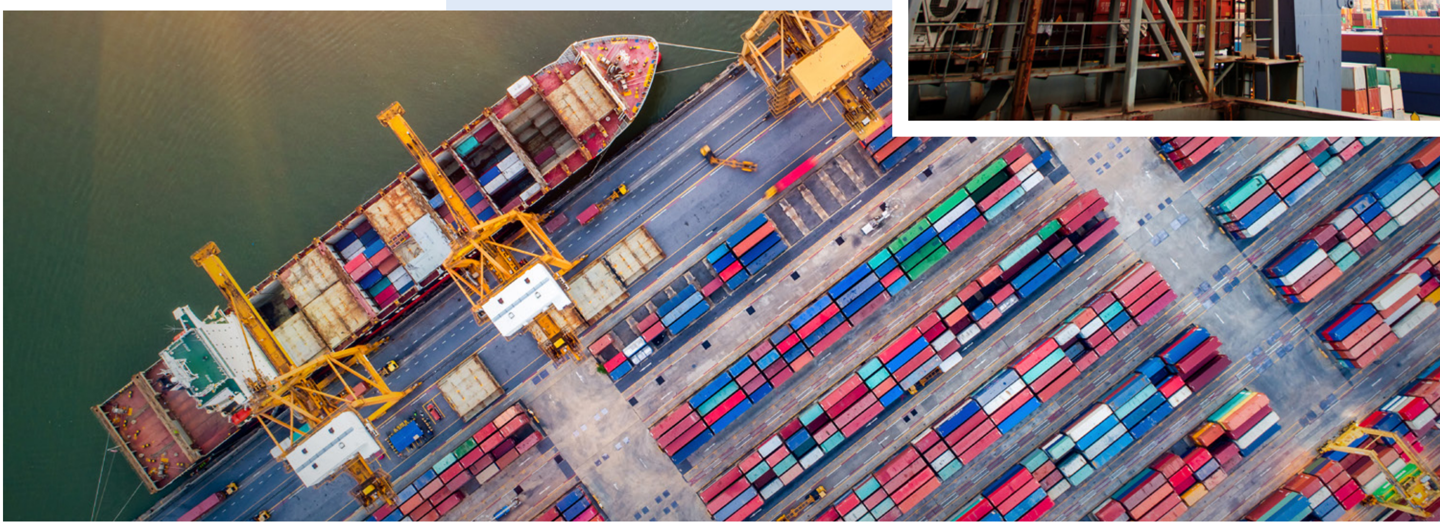
In an international sale involving a seller and an overseas buyer, the question of who should arrange marine cargo insurance depends on the terms of the sale.

Incoterms 2000 provide a standard set of terms that spell out the respective rights and obligations of the parties to a contract of sale, including the definition of the 'critical point' during transportation of goods when the risk of loss or damage is transferred from the seller to the buyer. This, in turn, determines whose responsibility it is to arrange marine cargo insurance.

Specialist advice needed more than ever

The changing market conditions across all areas of insurance is very well publicised now, and marine and cargo are affected as much as any other sector. This is a complex subject, and this incident highlights the importance of having specialist brokers who can add considerable value to the insurance process through a deep understanding of not only the insurance market but also the specific concerns of the maritime industry and – importantly – the requirements of their client's interests.

It is inconceivable that high-value goods would ever be shipped without insurance. It's difficult to believe a bank lending money to finance a trade without the collateral security of an insurance policy.



CONSTRUCTION

Roger Irvine
Head of Construction Australia and Asia

A challenging construction market

While the availability of construction insurance in Australia remains constrained, we are seeing some new capacity in the London market.

KEY TRENDS

- **Worker deductibles on liability policies are under particular pressure.**
- **The London construction insurance market shows signs of new capacity but Australia is still retracting.**
- **A well thought out go-to-market strategy is essential for all construction classes.**

It is fair to say that the Australian construction insurance underwriters are still under book repair. We have seen a number of withdrawals or reduction of appetite from all major Australian insurers. The announcement by one major insurer that it would no longer underwrite construction seemed significant, but in reality appetite has reduced so much over the last two or three years their eventual withdrawal hasn't left much of a gap.

This reduction in capacity and appetite in the Australian construction market across both contract works and liability insurers has resulted in both deductible increases and low double-digit premium rate increases on well performing accounts. Worker-to-worker deductibles on liability policies are under particular pressure as insurers continue to manage the liability tail associated with injuries on site.

Coupled with that broad coverage is more difficult to obtain, with both LEG3 and guarantee maintenance cover particularly challenging on larger projects.

For many of our major clients and larger projects we are looking to London to provide a competitive alternative. The London construction insurance market remains accessible and we are seeing the first indications of new capacity, while the Australian market is still on the retreat. Examples include the opening of Castel to underwrite contract works and plant and equipment.

For many of our major clients and larger projects we are looking to London to obtain cover.

Our smaller construction clients and projects can still access that London capacity, utilising local underwriting agencies.

Having a long-term relationship with your insurers can help your business weather the current market conditions. However, a well thought out go-to-market strategy in accessing insurance is essential for all construction classes and should include the elements below.

- **Start early –** underwriters are overloaded with underwriting submissions and rushing a late submission is likely to lead to the underwriter rushing a quick quote that won't necessarily provide an optimal outcome.
- **Provide a detailed underwriting submission** to positively differentiate your company or your project from others. Underwriters are conservative by nature and will price unknowns negatively – the more information you provide the more unknowns are removed.
- **Take care with your risk presentation –** unless you can articulate your business isk profile and claims history effectively to insurers, you may not get the best outcome.
- **Tri-partite relationship –** when we meet clients of other brokers our first question is normally "Have you met your underwriters?" and surprisingly the answer is frequently "no". For some reason brokers like to keep the client and underwriter separated – this is not conducive to a long-term relationship or obtaining the best terms. Clients should have a direct relationship – that way underwriters get much better insight into the business than if solely relayed through an insurance broker

Professional indemnity

Professional indemnity cover remains difficult. Clearly the high profile issues here are cladding and building defects, but there are significant claims coming through on civil engineering and infrastructure also. We are yet to see new capacity entering the market here but believe at current higher pricing levels, this is only a matter of time.

Only a few insurers are still active in the project-specific PI market. There is a lack of competition in this space as projects chase capacity and therefore underwriters are able to charge what they like. We are aware of some crazy pricing for these policies where the premium is nearly 60–70% of the policy limit. This is not sustainable and Gallagher is actively working with government, contractors and consultants to find an optimum outcome for projects.

Nick Granville

General Manager, Platform Innovation and Enablement

The true cost of workplace financial stress

As an employer if you can address stressors that reduce your people's focus on their work you can increase your business's productivity.

In business our people are our greatest asset, and usually the biggest cost on the balance sheet. However, when we think about the risks we need to manage and mitigate we sometimes don't pay as much attention as we should to our people.

It's easy to understand why – the risks aren't as obvious. Of course, if a valuable team member suddenly decides to leave it is certainly noticeable, but the more common risks are more frequent, invisible, relatively undetectable and are eating away at your business's performance.

Three factors influence employee wellbeing: physical, emotional and financial. And, in much the same way as managing insurance risks, a proactive approach can go a long way towards minimising people risks and the impact they're having on your business.

One of the biggest challenges a business faces is productivity, which research shows is directly related to stress. The more stressors an employee has, the less work they're doing for you.

There are many influences on mood and frame of mind, some of which employers don't have the right to delve into: personal relationships, for example. Others, however, they do.

After their families and their bank it's employers who know most about their people: how much they are paid, details of their super and relevant business-related insurances – there's a level of trust there.

KEY TRENDS

- **70 per cent of employees suffer financial stress.**
- **A financially stressed person spends on average two hours of work time a week managing their finances.**
- **By investing in your people you can increase productivity, decrease absenteeism and create a more appealing workplace.**

70 per cent of people admitted to suffering some form of financial stress, with 46 per cent of people saying it was the leading cause of stress in their lives.

Money troubles affect the majority

The primary element that causes people stress – which they then bring to work – is their finances. In fact 70% of people admitted to suffering some form of financial stress, with 46% saying it's the leading cause of stress in their lives. Pay grade is immaterial – from CEOs to office juniors, seven out of every 10 people suffer financial stress.

The impact this has on a business is huge because research shows that every person with financial stress spends two hours a week of work time on their personal finances.

By doing the maths the extent of the problem becomes apparent. For a company with 200 employees, paying each of them the national minimum wage, the weekly cost is $7000, or $325,000 per year.

Something that businesses can do to help employees manage their finances, reduce stress and improve productivity is to introduce financial literacy training. And it's needed – 85% of Australians don't have a financial plan of any sort, whether from a professional or that they've put together themselves. The vast majority of employees live week to week, month to month, with little planning for their financial future.

Gallagher Benefits helps businesses protect their people from the effects of financial stress by providing the educational tools for managing their money. We've developed a white-label app that businesses can use to educate their people in financial literacy – and if businesses can do that then they can regain lost productivity.

The prospect of employees not working to their physical and mental maximum is a significant risk for any business. By investing in your people, you can reduce absenteeism and staff turnover, and make your workplace one that attracts and retains top talent.

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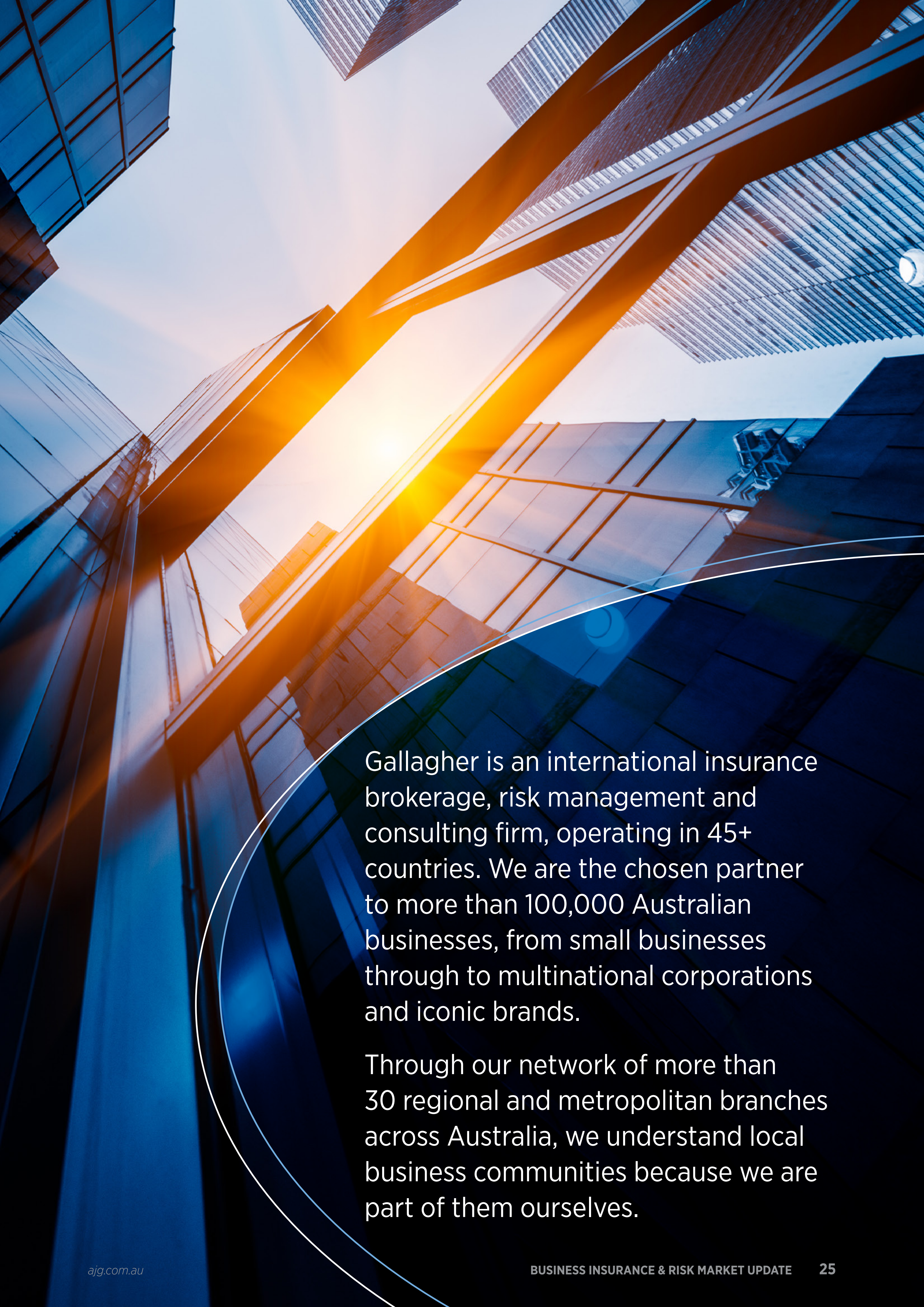
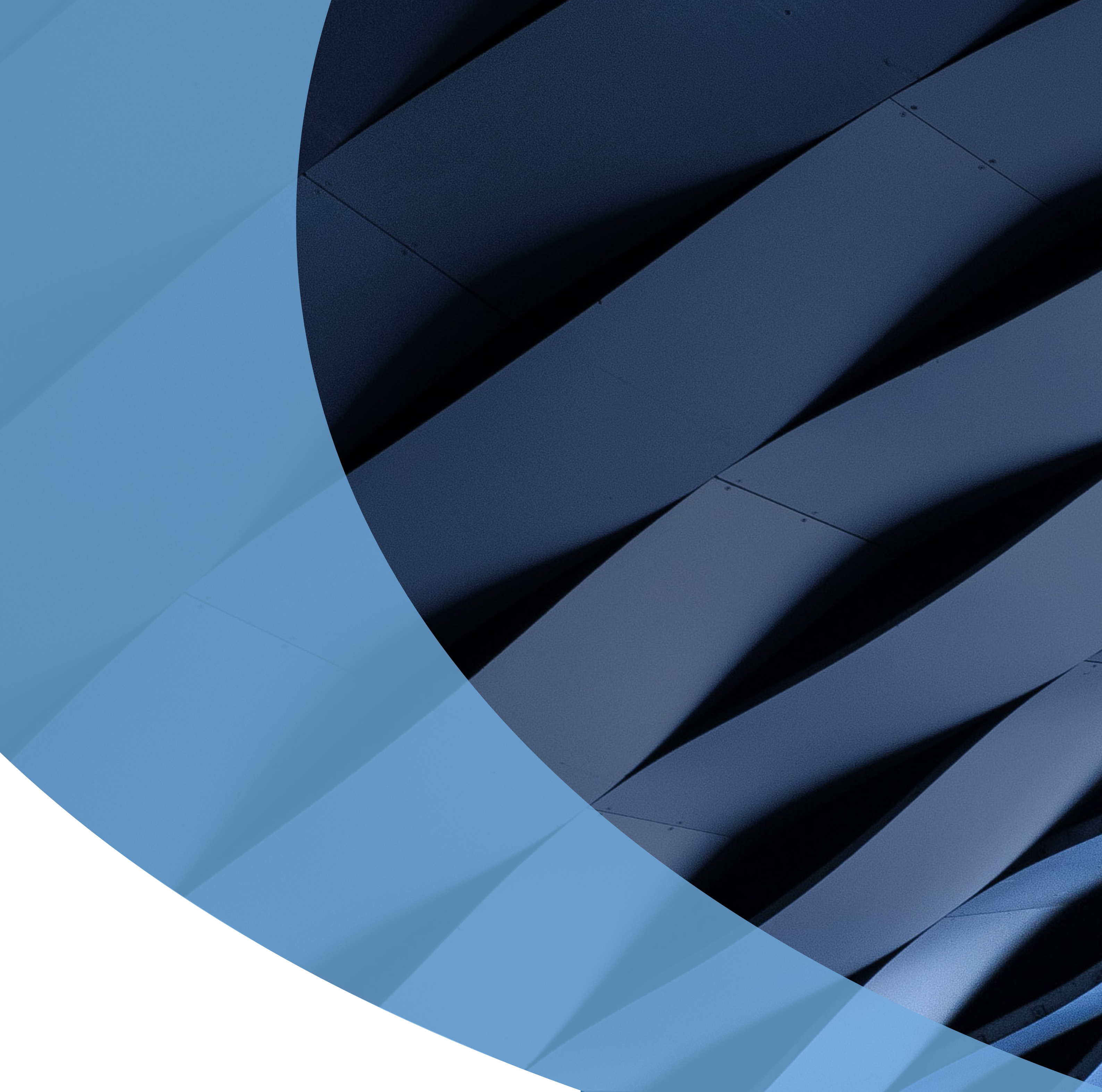
Find us & more risk updates on LinkedIn, on the Gallagher Australia page.



Gallagher is an international insurance brokerage, risk management and consulting firm, operating in 45+ countries. We are the chosen partner to more than 100,000 Australian businesses, from small businesses through to multinational corporations and iconic brands.

Through our network of more than 30 regional and metropolitan branches across Australia, we understand local business communities because we are part of them ourselves.



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