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Insurance | Risk Management | Consulting



SOCIAL HOUSING MARKET UPDATE 2023

Gallagher is one of the leading social housing brokers in the UK, providing services to 35% of the social housing market.¹ Our dedicated team of specialists partner with our clients to understand their requirements and provide custom insurance and risk management solutions.

The Social Housing team provides a complete insurance and risk management service, including programme design, procurement, risk identification, claims management and risk management support. The vast majority of housing associations will have renewed again for this year, as most have a renewal date of 31 March or 1 April.

In our latest update, our Social Housing team considers the main themes in the social housing insurance market in 2023 so far.

Property stock

The insurance market is very challenging and there is currently limited choice for property stock insurance. We have seen three social housing property stock insurers withdraw over the last 18 months. This coupled with other factors, such as claims inflation, COVID-19 and increased reinsurance costs, has led to significant increases in premiums and reduced cover being offered by insurers.

There are a number of reasons for the conditions we are currently seeing in the market.

Claims inflation

The cost of claims across the housing sector has been steadily increasing for several years now. Fires are a particular cause for significant concern and this trend appears to follow through the whole of the residential and commercial property sectors. This trend is not unexpected, however, and would normally be dealt with by adjustments to pricing and restrictions on cover but nothing of the magnitude we are currently seeing.

¹Correct as at May 2023.



High rise cladding

Whilst this problem is being dealt with in the social housing sector, it has caused insurers to look much more closely at the properties they are being asked to insure. They are asking far more questions than they ever did before, and many housing associations are finding that they are unable to provide the level of detail required. Where insurers need to make assumptions, they are inevitably being cautious and this results in a much lower appetite to underwrite a risk than we have typically seen previously.

Historical underinsurance

Whilst many housing associations undertake regular stock valuations, many do not. Insurers have increasingly been finding that properties are costing more to reinstate than the declared value. Insurance cover in the social housing sector typically does not impose penalties for underinsurance, so claims are paid in full, however, it does cause problems when an insurer questions the accuracy of the information it is being given.

Reinsurance

Reinsurance is effectively insurance for insurance companies. Insurers are only able to sustain losses up to a certain limit so they arrange reinsurance to step in if those limits are breached.

This could be an individual loss which affects many different policyholders or an accumulation of losses over a specified period of time. The nature of reinsurance is that it tends to be needed for catastrophe-type losses, so reinsurers are particularly focussed on risk exposures that can result in very large claims. For housing associations, the risk of flood damage to multiple properties located in the same area is very significant. This is called 'accumulation risk' and reinsurers have restricted the accumulation risk they are willing to cover.

In practice, the result of this is that the threshold at which reinsurance responds has doubled or even tripled. Additionally, the cost of reinsurance for UK property risks has increased by approximately 50% so insurers are having to pay more for less cover.

The knock-on effect is that insurers are much less willing to cover accumulation risks as they are now having to bear much more of that risk on their own balance sheets. They need to charge a premium for this and they also need to pass on the extra cost of the reinsurance. This is one of the main reasons for the rise in premiums we are seeing.

Another outcome is that insurers are limiting the number of policies they issue that feature accumulation risk. This is referred to as capacity, and once an insurer has reached its limit on accumulation risk it runs out of capacity, and is unable to take on any more risk regardless of the premium. This is one of the reasons for insurers declining to provide quotations when they would have done so in the past.

On a positive we have seen some new entrants: Allied World, Berkshire Hathaway and AIG. Due to the limited choice of insurers, we are exploring different ways to arrange cover for housing association insurance. One of these is in the form of co-insurance, where one insurer leads the risk and one more follows on a percentage split basis. Higher excess options are being considered more due to increases in premiums and captives are becoming more attractive.

Cyber liability

Premiums have increased in the last 12 months following a spate of cyber claims both in and out of the housing sector. This has led to increased security requirements, and reduced cover being offered by insurers. Throughout this year, we have seen cases of cyber liability premiums being offered at the same premium as last year.

This is really positive to see, plus we are seeing new entrants which normally generate competition and more sustainable premiums.

However, the requirements from insurers don't seem to be slowing down. We have seen a rise in the controls required and the need for several proposal forms to be completed in order to obtain quotations from all insurers.

The current key requirements are:

- Multi-Factor Authentication (MFA) for remote and privileged access
- End-of-Life (EOL) software segregated
- Endpoint protection
- Offline backups
- Sender Policy Framework (SPF) enforced on incoming emails
- Penetration testing detail and frequency
- Data retention and purging policy

Directors' & Officers' (D&O) liability

The insurance market for D&O cover has improved considerably so far this year, with more insurers offering this cover. Premiums have remained unchanged from last year and in some cases we have seen reductions.

We are starting to see the appetite from insurers to offer cover on an each-claim basis, as opposed to in the aggregate.



This means that you can claim the full indemnity limit as many times in one policy year, as opposed to that amount once in total over more than one claim.

For example, if you had a £1 million indemnity limit on an aggregate basis, and you suffered a £500,000 claim then you could only claim a maximum of £500,000 for the rest of that policy year.

Using the same example but on an each-claim basis, you could claim up to the full £1 million limit multiple times in the same policy period.

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