

How the hardening insurance market is going to affect your business

The insurance market in its very nature is cyclical, it fluctuates between a hard and soft market which means everchanging rating, cover and availability.

During a soft market insurance organisations aim to expand and grow through attractive policy terms, lower rating structures and wider coverage. The encouragement is for companies to shop around and find the best deal which in turn means that over time the profitability of the market decreases. This coupled with rising loss ratios due to more lenient underwriting means a correction is required, and thus the market begins to harden.

A hard market results in less desire for growth and more restrictions within insurance policy coverage as insurers reevaluate their books of business and their capacity in an attempt to correct adverse loss ratios and depleting profits. This, in turn, makes it more difficult for businesses to find similar coverage options as they enjoyed previously and therefore those who are still offering the cover increase their rates.

Driven largely by the insurance market in London but influenced heavily by global conditions, we are now experiencing the rapid development towards a peak of the hardening insurance market which has been building for the last two years, with the construction industry being hit particularly hard by increasing premiums and restrictions in policy cover. This has had a profound effect on both large and small businesses within the UK, especially when sourcing and negotiating renewal.

Many insurance companies are reducing their capacity or even withdrawing entirely from markets such as Professional Indemnity,

leaving businesses scrambling around to try and replicate the cover they require.

The last few years have seen major floods across the UK which has soaked up the claims reserves for many insurers.



The increasing damage and disruption caused by the increase in flooding and flash floods has implications for the affordability of insurance in this area. To combat this in 2016 saw the introduction of the Flood Re reinsurance scheme which has improved defences and provides some structure around a long-term strategy for dealing with flood risk.

However, the start of 2020 saw an estimated £425 million in claims due to Storms Dennis and Clara which shook the market. As a broker, we have responded to this by having more informed discussions with both insurers our clients around the flooding possibilities at properties and how we can work together to manage the risks.

Furthermore, the emergence of Covid-19 has just magnified the difficulties the insurance market was already facing following an extended period of under-priced Property & Casualty policies. Most policies include some form of pandemic exclusion, but the resulting business interruption loss claims are expected to be in excess of £3.2 billion with the pricing impact to materialise towards the latter stages of the year.

In addition to this the Ogden discount rate which assists in assessing lump sum awards for personal injury claims has not landed where it was expected to be. Any change to the rate has profound financial consequences with a reduction meaning insurers will incur significant additional costs in classes of insurance such as Motor and Liability. It is becoming clearer the standard £10 million for Employers and Public/Products liability just simply isn't enough to adequately protect businesses. Working with experienced insurance brokers like ourselves, businesses are able to protect themselves from this by sourcing excess layers and we have several clients who are understanding of the need to cover themselves adequately to protect their business.



Finally, due the requirements under Solvency II and the development of a closer eye on insurer proprietary funds being adequate to cover requirements, many insurers are having to be fluid with their stance on providing cover for particular sectors. The profitability of many providers has plummeted meaning they are looking to recoup losses wherever they can and as a result of this are focussing increasingly more on the level of risk each business adds onto their books.

Over the last two years, 250 insurers have pulled out of the market entirely, half of those within the past two years.

Organisations need to be investing in risk management to give underwriters a reason to want to insure you. To position yourself to do this as best as possible, working with knowledgeable partners is a must. Aligning with a trusted broker to provide a united stance on presenting your requirements to insurers in the best and most accurate light is paramount for securing cover where many businesses will struggle.

Brokers such as ourselves here at The Bletchley Group are working to use our knowledge and relationships within the insurance market to develop a bespoke solution for our clients which provides the right cover for your needs. We are able to advise on exposures in cover and signpost towards assistance in creating good risk management within your business to make sure insurers continue to provide cover. Working together we can navigate the current insurance market to allow you to continue working with your customers, suppliers and wider team.

If you are interested in working with us to ensure any exposures are discovered and you continue to remain adequately covered through these uncertain times please contact:

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