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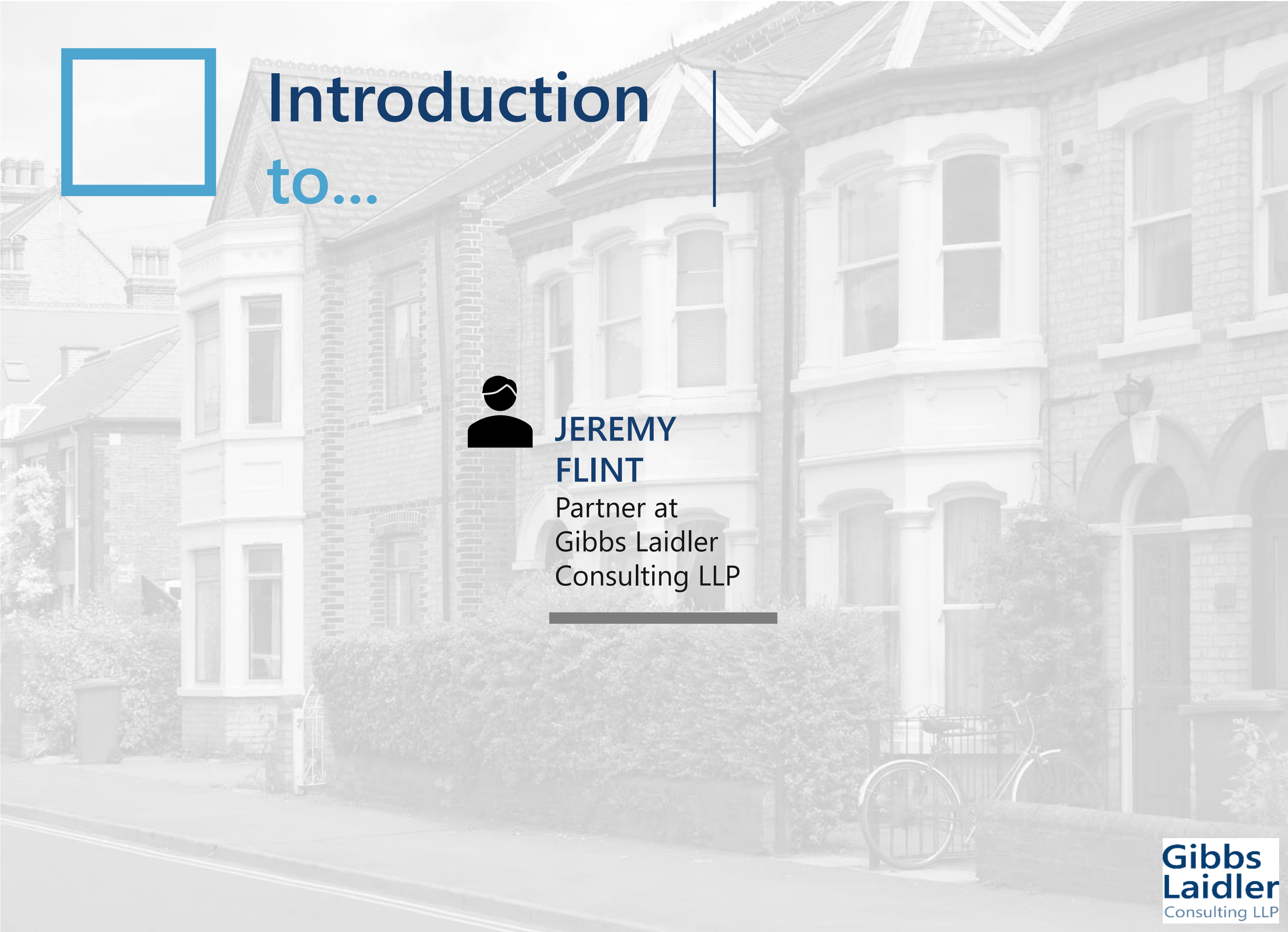
Presentation on the Social Housing Insurance market

By
Gibbs Laidler Consulting



Introduction to...

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Presentation in Two Parts

- Overview of the insurance market for the sector
- Performance bonds

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What is Insurance ?

- The transfer of risk from your balanced sheet to an insurer
- The insurer should have a balance sheet greater than yours
- Insurer security is key

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Market Overview

- The RSL insurance market (non-life) is dominated by 3 players
- Zurich a direct dealing insurer, Gallagher and Marsh two of the largest Brokers in the world
- Not many insurers provide cover for Property & Liability risks for the sector

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Market Overview (cont…)

- Main property / liability insurers in addition to Zurich
- Aviva, Protector, Avid, Aspen, NIG(?)
- Ocaso withdrew Q3 of 2021
- Other insurers provide specialist Policies (Lloyds / Chubb / Allianz / RSA)

Current State of The Market

- We are now in a hard market (insurers definition for increased premiums and less cover)
- Premiums of the many pay for the claims of the few
- Claims costs are rising - forest fires/European storms (one factory in West Germany is rumored to have cost AXA £100,000,000)
- Recent floods in London estimated to cost Aviva in excess of £5,000,000 in London alone (surface water claims)
- Then there is Covid…

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Current State of The Market (cont...)

- Estimated cost for Lloyds of London for valid Covid claims in excess of £1 billion
- Lloyds costs protected by re insurance
- Lloyds one of the largest reinsurance markets
- Ocaso (Spanish insurer) no longer writing in the UK

Background
Insights

Market started to harden for the construction industry in 2020

Contractors still not able to obtain cover for professional indemnity on an “any one claim basis”

Insurers generally limiting cover, charging higher premiums or not offering renewal on some risks

Commercial sector probably being hit harder than the social housing sector for rising insurance cost

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Insurers Premium Considerations

- Insurers charge a premium for **the risk they perceive**
- The profile of the organisation (large care home exposure)
- The location of the stock
- Large exposures (tower blocks)
- The rebuild value of the stock
- Flood exposures
- Poor claims experience
- Cost of reinsurance
- Insurers to make a profit
- Loss ratio (less than 65%)

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Considerations for Housing Associations

- Risk data is key
- High value now seen as anything in excess of £5,000,000
- You will need to demonstrate that you know your high rise risks (cladding / insulation / fire separation)
- Need a plan for remediation and timescales
- Start early
- Review claims data (insurers have been known to get claims estimates '*wrong*')
- Take time to provide the right data in the right format

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In the Know...

Crime and Cyber market still tough but options are available

D&O market has probably peaked

Motor based on claims experience

Professional indemnity premiums no longer increasing

Watch index linking (8%)

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Points to Note

- Long term agreements are being broken in some cases
- Some LTA breaks are justified
- Renewal premiums will be based on loss ratio (suggest constant review but at least 6 months out review)
- Avoid the temptation to roll over the LTA in the final year for an increased premium (locks you into the increased premium)

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Points to Note (Cont...)

- Some insurers will still provide Covid PL cover
- Some insurers will provide limited Covid PL cover
- Some insurers will provide no Covid PL cover
- We suggest a risk-based approach, but only a handful of claim notifications to date for liability claims from Covid

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Will my premium go up?

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Will my premium
Go up?

- Where there is no high-rise risk, and the claims experience is good (less than 50%) expect level terms on property
- In respect of liability, some Brokers are increasing premiums as their insurer is reducing capacity and a new insurer is required even when claims experience is good
- Where claims experience is poor, expect premium increases but have a story to tell (one off claim?)
- Insurers may need to pay for additional reinsurance (high value buildings), costs directly passed on to you. Know your high value buildings
- Index linking on property will add 7%-8% to property premiums
- Insurers may request up to date stock valuation to include VAT @20%. Resist the VAT on the stock as it adds 20% to premium

Points of Note

- Premium rates for the sector are competitive
- Insurers will try to increase rates but the sector has been profitable to insurers
- Resist rate increases where you can
- We are sympathetic to insurers but only a little bit!!
- If higher excess options are offered, undertake a cost benefit analysis

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Moving Forward

- Recent tenders have resulted in cost reductions but not at previous levels
- We are seeing increase in renewal costs in most cases within expected margins
- Challenge the brokers/insurers
- *Ask for* early indications of costs
- Nobody has a crystal ball, but market seems to have peaked

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Any Questions?

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