EXPERTISE

HALF YEAR REVIEW 2018

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As we enter the second half of 2018, Neil Clutterbuck, Allianz chief underwriting officer, takes stock of some key industry topics and considers how these may develop over the rest of this year and beyond.

By Neil Clutterbuck,
Chief Underwriting Officer

The insurance industry has already witnessed a huge amount of change within the first six months of 2018. The announcement of the Civil Liability Bill has remained high on insurers' agendas, against the continued backdrop of Brexit negotiations. Regulation has featured heavily, with the General Data Protection Regulations (GDPR) mainly dominating the headlines in the lead-up to the deadline of 25 May. Add to this the ever-increasing investment in InsurTech and it's clear to see why both insurance companies and brokers need to continually adapt to changing industry and customer requirements.

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CIVIL LIABILITY BILL

The Civil Liability Bill, which will change the mechanism for setting the personal injury discount rate and reform whiplash claims handling, reached another milestone in June when a proposed amendment to remove compensation tariffs for whiplash claims was voted against. The former Lord Chief Justice, Lord Woolf, had argued that the task of assessing damages should fall to the judiciary rather than the Government. He also expressed concern that the tariffs could result in genuine victims of whiplash receiving lower compensation sums, at the expense of deterring dishonest claimants.

Under the newly proposed tariff structure, the maximum fixed tariff for a whiplash injury, applicable to victims who have suffered for up to 24 months will be £3,725, although a discretionary 20% uplift in damages may be awarded in exceptional cases. A rise in small claims limits for PI cases has also been mooted, and whilst this does not form part of the Bill itself, the changes would be implemented at the same time that the legislation comes into force. Should the changes be made, the small claims limit for road traffic accidents will increase from £1,000 to £5,000, and other PI claims would double from £1,000 to £2,000. It's hoped that this uplift will discourage dishonest consumers from claiming.

At Allianz, we've always been committed to settling personal injury claims quickly and fairly for our customers. However, we also recognise the need for a fair framework for those who buy insurance, and for providing a deterrent against fraudulent claims arising within the current 'compensation culture'. According to the Association of British Insurers (ABI), more than 1,500 whiplash claims are made every day in the UK, which adds around £90 to the average motor insurance premium.

In March, Allianz CEO Jon Dye co-signed a letter to the Lord Chancellor, alongside 25 other insurers. This cited concern about the impact of the discount rate on insurance premiums, and pledged to pass on any cost savings in terms of lower premiums to customers which would arise from a revised Government decision regarding the setting of this rate. Currently, insurers can only wait until further announcements are made, and such an announcement may not be forthcoming for many months. The Ministry of Justice has stated that, if the rate were to be set again, it would likely be within the range of 0% - 1%. We hope any future decision made on the method of calculating the discount rate will bring greater clarity and certainty to the insurance market, whilst fairly compensating customers. In the meantime, we continue to work with our brokers in order to best manage the rising cost of personal injury claims.

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GRENFELL

The UK recently marked the first anniversary of the tragic case of the Grenfell Tower fire. The fire prompted a number of risk assessments to be carried out for similar buildings and an independent UK Government review of building regulations and fire safety; the findings of which were presented by Dame Judith Hackitt in May 2018. Further, it triggered similar reviews and renewed action plans across the globe. Dame Hackitt's report condemned the existing regulations as outdated and unnecessarily complex, highlighting that a new framework should be outcome-based rather than a 'one-size fits all' approach. She recommended the amount of regulatory oversight should be proportionate to the risk, so that buildings with multiple occupants would be subject to stricter regulation, and referenced the Construction (Design and Management) Regulations as a model to emulate. Finally, she emphasised the need for stronger incentives and penalties for those persons involved in the construction and ongoing maintenance of buildings, to ensure compliance with building safety requirements.

Allianz fully supports the research undertaken by the ABI and Fire Protection Association (FPA) to check the fire safety of buildings. Obviously, the lessons learned have prompted insurers to review their existing portfolios to reassess the risk, and the action now must be to work with customers to ensure robust fire prevention systems are in place. The emphasis should be on risk prevention and mitigation to avoid another incident such as Grenfell from reoccurring.

THE EMPHASIS SHOULD BE ON RISK PREVENTION AND MITIGATION

TERRORISM

It has become apparent from recent events that motor vehicles are fast becoming the weapon of choice for terrorist attacks. The incidents witnessed across Europe in the last few years, and most recently in Münster earlier this year, are shocking examples of 'vehicle contact terrorism'.

In the UK where an insured vehicle is used in a terrorist attack, whilst neither contractual nor Road Traffic Accident (RTA) cover would attach, currently the insurer who has issued the policy for that vehicle may be held liable under the MIB Articles of Association ('the Articles') for the handling and payment of claims that result from the terrorist incident. This is due to a change made to 'the Articles' in March 2017 (specifically Article 75) where acts of terrorism were no longer excluded.

Following a consultation in February to obtain views from Motor Insurance Bureau (MIB) members on how the insurance industry wished to deal with claims arising from such terrorist attacks, a formal vote was held in July. The result was that more than 75% of motor insurers voted for the MIB to handle and pay claims to victims in accidents where a vehicle is used as a weapon. The new initiative will be funded by motor insurers through a levy thereby mutualising the impact of a terrorist incident across the market.

This further builds on progress relating to claims resulting from terrorism seen earlier in the year; in March the Government passed a proposal backed by Pool Re and the ABI to amend the 1993 Reinsurance (Acts of Terrorism) Act to extend cover to include losses that are not contingent on damage to property. The existing gap in cover resulted in a number of businesses suffering uninsured losses due to an inability to trade whilst they were within a police cordon, following events such as the Westminster and Borough Market attacks in 2017.

Like BIBA, we welcome the result of the MIB members' vote and support any measures which ensure that any victims of terrorism are swiftly, adequately and consistently compensated from any such occurrence.

BROKER MARKET **CONSOLIDATION**

The last couple of years have seen much consolidation in the broker market, in a trend described as a 'broker consolidation frenzy'[1]. Indeed with a reported 144 acquisitions[2] announced since 2016, and a further 17 already completed so far this year, it seems this is a development likely to continue for the foreseeable future. But what could this mean for the wider market?

In terms of revenue generated, there's already a significant gap between the top ten brokerages and the rest of the marketplace, leading to speculation that the bigger players will increasingly dominate the industry. However it's evident that some smaller enterprises wish to remain independent and focus on specialty coverage, placing them in a prime position to compete in niche markets, offering personalised customer experience.

There are a multitude of reasons why brokers are pursuing the consolidation route. Compliance with increasing regulation has posed a problem for some, whilst others cite changing fee structures as a key consideration. Further, many are cognisant of the benefits of being part of a larger organisation, including investment and easier access to larger insurers.

Whilst some fear a 'hollowing out' of the middle of the broker market, others argue that this merely falls under business as usual in an industry where mergers and acquisitions have always occurred.

I'm certain we'll see more announcements in this vein over the next six months as brokers continue to identify the best ways to support their staff and service their customers.

THERE ARE A MULTITUDE OF REASONS WHY BROKERS ARE PURSUING THE CONSOLIDATION ROUTE

ASSOCIATION OF BRITISH INSURERS' (ABI) **PRICING PRINCIPLES**

As a long term customer of any service, it can be frustrating to see rewards and preferential pricing given to newer customers. The same applies for insurance and so in May, the ABI, in conjunction with the British Insurance Brokers' Association (BIBA), launched a set of guiding principles and action points for fair pricing.

These Guiding Principles and Action Points (GPAPs) seek to reconcile discrepancies in pricing between premiums for new and for renewing customers. This dual pricing model arose from a combination of renewal price increases at variance with 'sign-on' or 'first year' offers of discounts for prospective customers.

At Allianz, we fully endorse any measures taken to ensure transparency and fairness for our customers. It's encouraging to see this issue being prioritised and we're optimistic that working in partnership with our brokers, we can deliver against the guiding principles to achieve appropriate outcomes.

[1] Insurance Age May 2018
[2] Insurance Post 2018: https://www.postonline.co.uk/broker/3601526/grps-mike-bruce-on-win-win-consolidation

THE REST OF **2018**

BREXIT WILL NEVER BE FAR FROM EVERYONE'S THOUGHTS

Looking to the rest of the year, Brexit will never be far from everyone's thoughts. At this time of writing, the EU Withdrawal Bill has just been passed by the House of Lords following the vote on the proposed amendment, which would have allowed Parliament to have influence over the final Brexit deal. We've already begun to see some repercussions from Brexit, including increased claims costs driven by higher inflation and a weakened pound. We know Brexit will pose many other risks to our industry, particularly with regard to the UK's ability to trade within the EU. However, it may also bring opportunities, such as expansion into other markets.

Undoubtedly we'll also see more news around cyber, which emerged as the top threat for UK businesses for the third consecutive year in the Allianz Risk Barometer. A 2017 Government survey[3] found that almost half of UK businesses had identified at least one cybersecurity breach or attack. This is symptomatic of the increasingly interconnected world we live in where no business is immune. It's expected that we'll see more cyber products enter the market as demand for this insurance grows.

Additionally, I anticipate a sustained focus on data protection, whilst insurers and brokers continually look to improve processes around the handling of customer data in line with GDPR.

It's certainly a time of great change for our industry but it needn't be doom and gloom. On the contrary, change brings opportunity, and remaining adaptable and informed will be key for both insurers and brokers as we enter this new period of uncertainty.

[3] Cyber Security Breaches Survey 2017

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