

Market update

Welcome to the February 2018 edition of Aon Inperspective

The Public Sector Bulletin

Staying in front of insurance related issues and trends affecting the public sector can be challenging. Aon Inperspective – the Public Sector Bulletin contains insight and news articles written exclusively by public sector experts and is designed to keep our clients and future clients ahead of the risk curve.



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Nigel Cooper, Aon's National Public Sector Practice Leader, looks at what the next 12 months could bring and outlines how organisations can reduce any effects of a challenging market.

The last 12 months have been tough for the insurance market, with rates coming under considerable pressure. For organisations wishing to shield themselves from significant premium increases, putting together a comprehensive tender well ahead of renewal will be key.

Upward Pressures

A number of factors have put the market under pressure. At the macro level, it's had to sustain more than its fair share of catastrophic losses this year.

For instance, Aon Benfield's catastrophe report shows that 2017 was the costliest year on record for weather disasters. Events such as Hurricanes Harvey, Irma and Maria in the US and Caribbean, and Cyclone Debbie in Australia accounted for economic losses of US\$344bn – 97% of the total US\$353 lost as a result of natural disasters.

While this has already had an effect on some of the large global insurers, the scale of these losses will also hit the reinsurance market, with ramifications for the UK's insurance market. It's still early days but there are signs that property rates in the UK will increase.

Discount rate decisions

The Lord Chancellor's announcement that the claims discount rate was being cut from 2.5% to minus 0.75% has also proved challenging, with insurers increasing rates on liability products to reflect higher personal injury settlements.

Although draft legislation has been published that would see it return to somewhere between 0% and 1%, as Brexit negotiations continue to dominate the parliamentary timetable, there's uncertainty around when this will be. While most have opted to take the rate increase rather than restructure their insurance programmes, it's important to stay alive to the potential insurance implications during this uncertainty. More details can be found in the 'Dealing with the discount rate' article in this newsletter.

GDPR and cyber risk

Two new sets of regulations will be introduced in 2018, with implications for public sector organisations and their insurance requirements.

The first of these is the General Data Protection Regulation (GDPR), which comes into effect on 25 May 2018. This introduces tougher rules around data processing, consent and breach reporting. More detail can be found in the Ten questions and answers about GDPR article in this newsletter.

With the introduction of this new data protection regulation, plus the latest wave of cyber security issues such as Notpetya, WannaCry, Meltdown and Spectre, this is a risk that is troubling organisations more. For instance, in Aon's Global Risk Survey, cyber has jumped up the risk ratings from number nine in 2015 to number five in 2017, with it taking the number one spot for public sector organisations.

As a result of this, and with GDPR looming, we've seen an increased interest in cyber insurance. Although take-up is still relatively low, it's gathering momentum and can provide valuable access to expert support in the event of a cyber attack or data breach.

Highway code of practice

As well as GDPR, the new highway code of practice, Well-managed Highway Infrastructure, comes into effect this year. Issued by the UK Roads Liaison Group, this shifts the focus from reliance on specific guidance and recommendations to a risk-based approach that will be determined by each Highway Authority, based on appropriate analysis of local needs, priorities and cost.

The code was published on 28 October 2016 and, while authorities have until 28 October 2018 to implement it, some have already adopted the new approach. For those authorities that haven't, ensuring an appropriate framework is in place ahead of the October deadline is essential.

LGA Mutual

The Local Government Association continues to explore options for a cost-effective alternative to the conventional insurance market products and services and a number of local authorities have now signed up as founder members.

While it will be interesting to see how the LGA Mutual takes shape, and we always welcome new entrants to the market, some of the claims trends being seen across property, liability and large motor do raise questions around the viability of the mutual model.

Expectations for the insurance market

Although there's pressure on rates, the insurance market remains competitive and there are plenty of insurers competing when we run tenders, especially for property and motor.

For property, providing a detailed property schedule including full address and postcode with up-to-date sums insured and, ideally, a property survey for the top five locations can help secure improved terms.

In addition, as insurers often take a tougher line on claims in a hardening market, providing this level of information can help to reduce this risk.

Motor market movements

In the motor space, a new insurer, Edison Motor, has launched. Set up by two former QBE underwriters, it focuses on commercial motor insurance for niche markets, including the public sector.

We're also seeing more appetite for risk management from motor insurers, with interest focused on technology led solutions. For example, forward facing cameras and telematics solutions can play an important role in risk reduction and claims defensibility, with the latest plug and play dash cams now including in-cab audio ability to monitor any mobile phone usage. Your account team can provide advice in these areas.

Liability issues

Competition is a little more restricted on liability. As well as the uncertainty around the discount rate, insurers are concerned about the increased cost of personal injury claims, especially in relation to children's services and highways. The recent case of *Armes v Nottinghamshire County Council*, where the Supreme Court ruled the local authority had a vicarious liability, will have implications for local authorities arranging foster care. Lawyers and insurers will be watching developments in this space carefully. More details can be found in the A duty of care article of the newsletter.

In spite of the negative pressures across the market, healthy competition between the insurers could serve to be a mitigating factor. Many have ambitious growth targets, which may help to keep rates down across all lines of business.

Securing the best results

While the market is a little more challenging, we still find there's plenty of competition for the right risks. Starting renewal negotiations early and having all the necessary information for insurers will also help.

It can also be worth exploring innovative ideas and alternative options around the design of your insurance programme. By interrogating the data, insurance programmes can be designed that more appropriately fit a risk.

To find out more about any of the topics in this market update, please contact Nigel Cooper at nigel.cooper@aon.co.uk or speak to your account team.

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