Insurance Contracts: Limitations Are Already Underway

What is worthy of attention in your contracts and programmes in order to avoid broader limitations and poorer covers?

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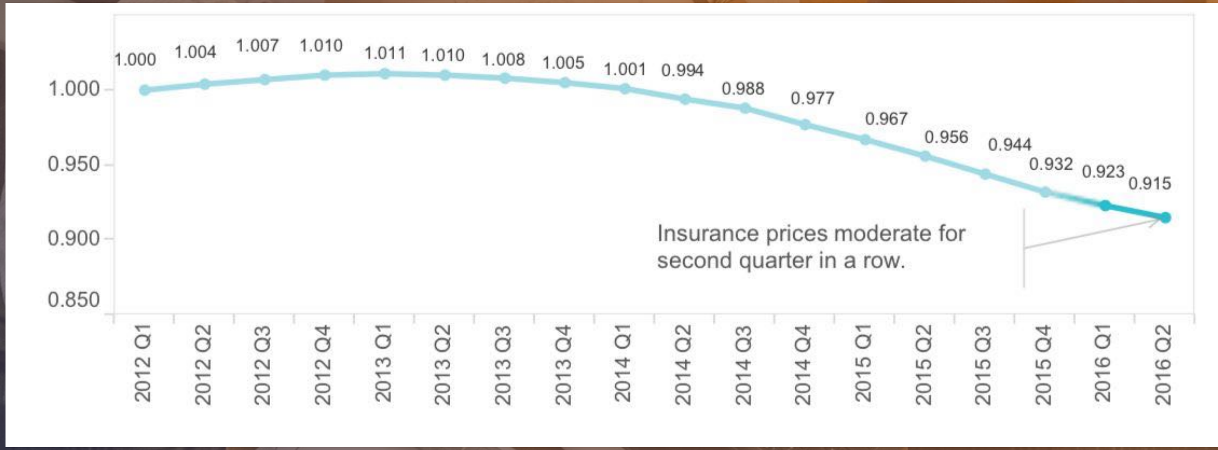
INTRODUCTION

The insurance market began to trend higher in Europe during the first half of 2019: prices have gone up and covers have been more limited. The severe ongoing crisis should exacerbate this upward trend.

Insurers have been reviewing their contracts and programmes to the detriment of policyholders – who should fear broader limitations and poorer covers from 2020 onwards.

Until 2019: Prices Have Decreased for About 15 Years



Marsh, *Global Insurance Market Index – 2016 Q2.*

What Are the Reasons for It?

- Insurance's typical cycle
- Excess liquidity after the 2008 crisis
- Financial markets performing well
- Intense competitive pressure

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End of Financial Cycle Making the Insurance Market Probably Trend Even Higher

0%

Interest rate of 10-year French Treasury bonds (OAT) on June 19, 2019

Negative interest rates have driven the yield on domestic government bonds to lower levels, forcing insurance companies to draw from their capital buffers in order to invest in asset classes delivering higher expected returns.

-34%

S&P 500 drop between February 19 and March 23, 2020

Insurance companies' solvency ratios are measured at their **fair value of assets**. The collapse of financial markets is urging insurers to negotiate the relaxation of solvency rules and increase the prices of their insurance products to stay afloat.

The insurance market began to trend higher

Competition has been decreasing

Financial markets collapsed

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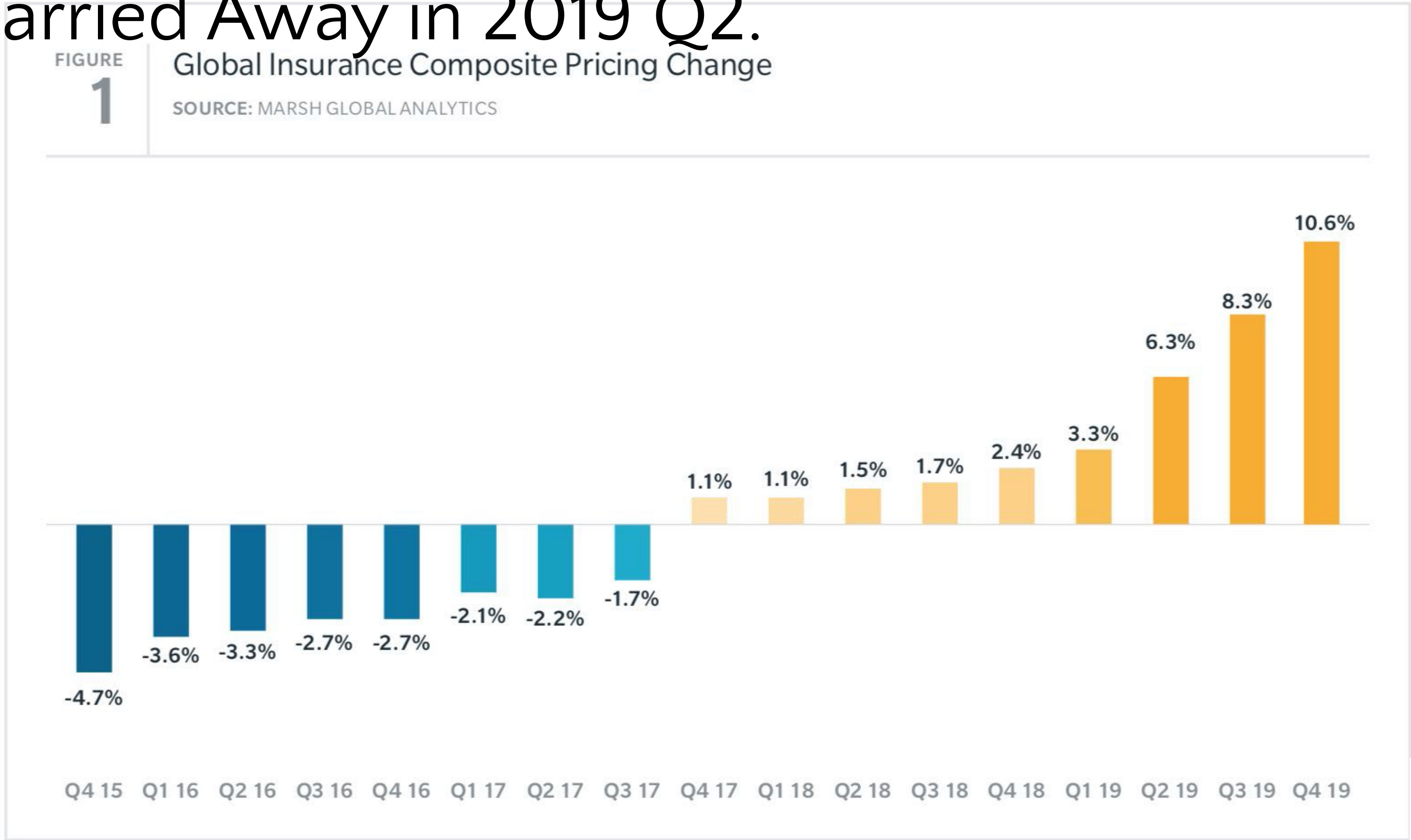
The Insurance Market Started to Reverse Its Trend in 2017,
to Get Carried Away in 2019 Q2.



Marsh, *Global Insurance Market Index – 2019 Q4*, February 2020.

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INSERTS’ MEANS OF ACTION IN A BULLISH MARKET

“Insurance is based on **risk sharing** and **hazard**. Both have gone away due to coronavirus.”[1]
– Guillaume Borie, deputy CEO of AXA France

1) Increase in price

Premiums are increasing while providing the same cover

2) Reduction in quantity

Reduction in covered amounts

3) Reduction in quality

More and broader limitations, more restrictive warranty conditions

4) Reduction in flexibility

Standardisation of insurance products and less negotiable contracts

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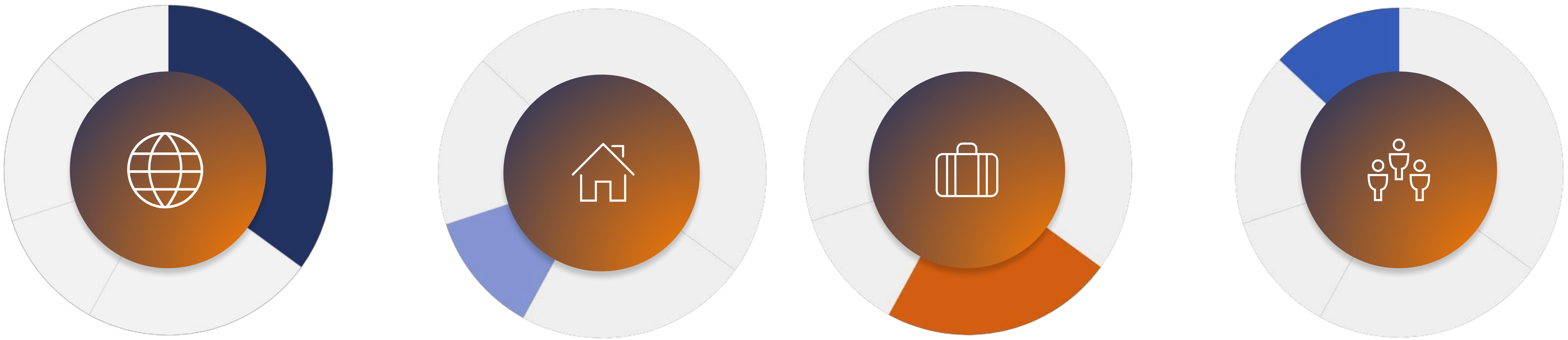
[1] Interview published on March 25, 2020 in *L’Argus de l’assurance*.

1) Sharp Increase in Global Insurance Prices Between 2018 Q4 and 2019 Q4



+10,6%
Global Increase

+13,1%
Global Property

+2,9%
Global Casualty

+17,8%
Global FinPro

Marsh, *Global Insurance Market Index – 2019 Q4*, February 2020.

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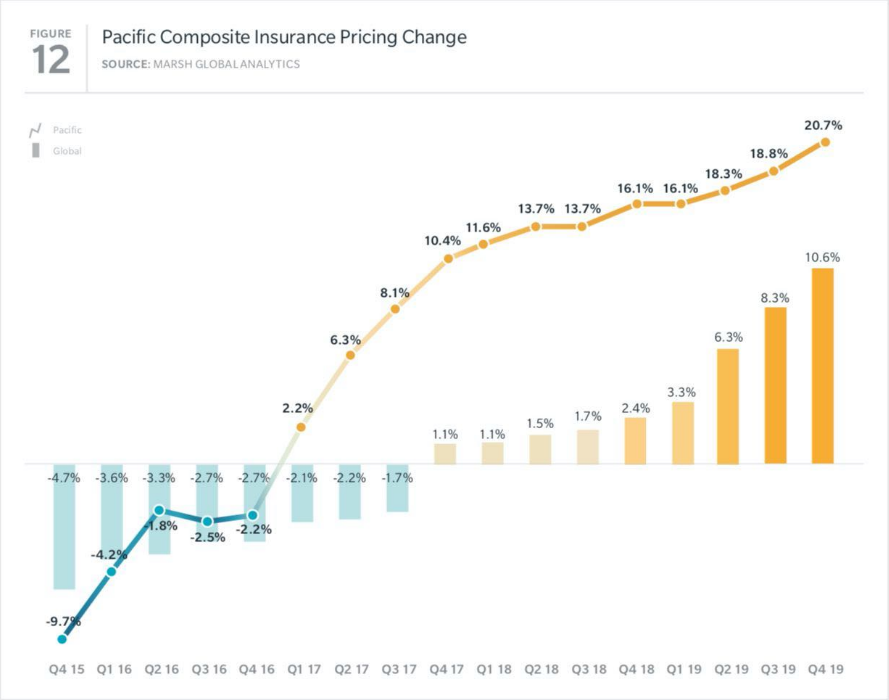
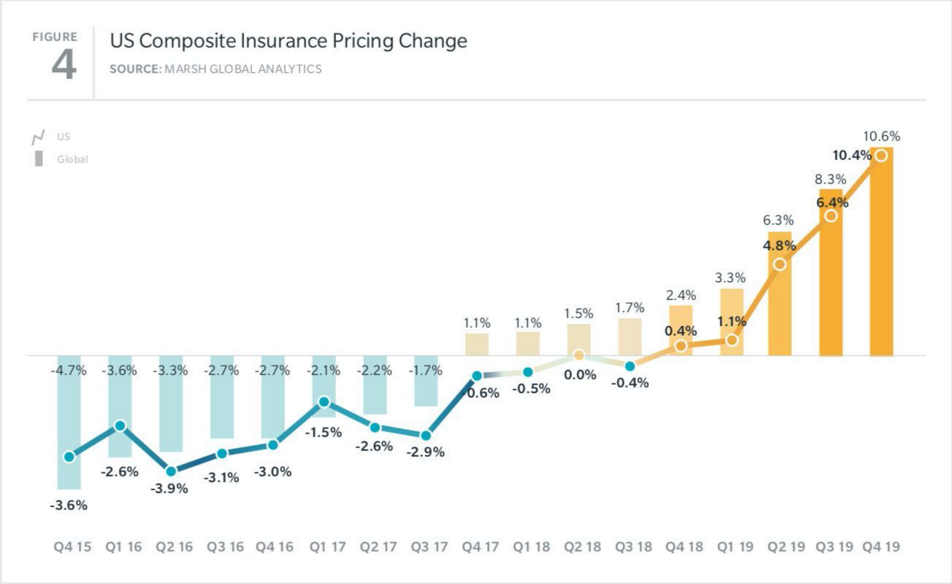
1) Increase in Price

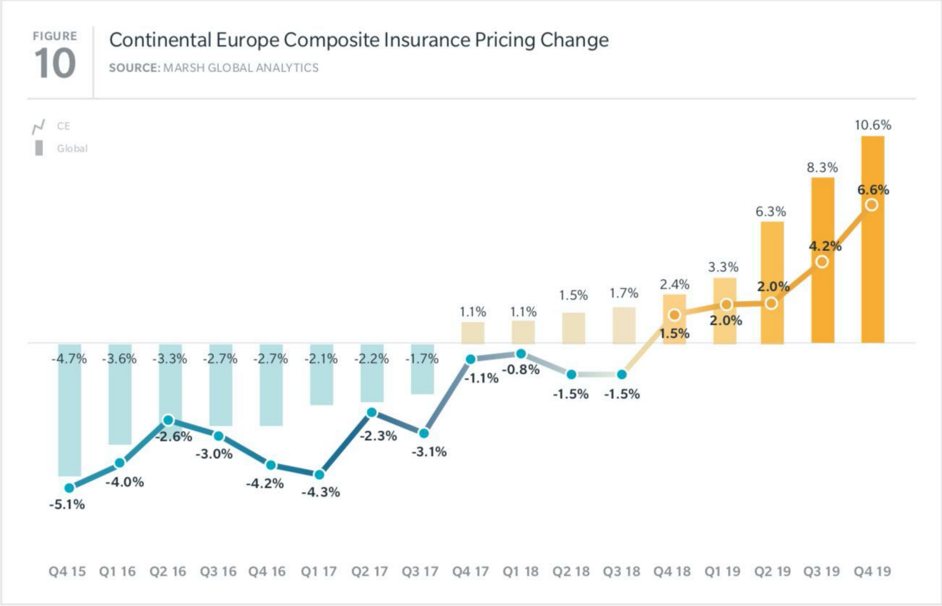
Premiums Are Increasing While Providing the Same Cover

Sensitives cases (high claims ratio, poor level of prevention, exposure to natural hazards and/or Contingent Business Interruption (CBI)) may be subject to **increase**.[1]

However, this increase may be mitigated based on the quality of risk protection and prevention.







[1] Siaci Saint Honoré, *État du marché IARDT. Renouvellements 2019*.

Charts: Marsh, *Global Insurance Market Index – 2019 Q4*, February 2020.

2) Reduction in Quantity

Reduction in **Covered Amounts**

Reduction of Insurers' Underwriting Capacities

For example, the total capacity of insurers covering professional indemnity fell from 550 to 400 million euros (one-third reduction).

More Restrictive Cover

- Increase in **sublimits**[1]
- Reduction of **trigger (e.g. fewer aggregates)**
- Increase in **retentions**[2]
- Hence a renewed interest for **captive insurance companies**[3]

[1] Gras Savoye Willis Towers Watson, *Les marchés de l'assurance en 2020. Note de conjoncture*, September 2019.
[2] Aon, *Navigating a changing insurance market. A European perspective*, June 2019.
[3] Siaci Saint Honoré, *État du marché IARDT. Renouvellements 2019*.

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3) Reduction in Quality

More and Broader Limitations, More Restrictive Warranty Conditions

Emergence of New Limitations

Market limitations: insurers will make sure to exclude the **consequences of COVID-19** in forthcoming insurance policies.

Example of limitation: direct or indirect losses occurring from communicable diseases.

Partial Redemptions of Limitation

1) The insurer creates a limitation while the premium remains the same.
2) The insurer offers a partial redemption of the aforesaid limitation.
3) This partial redemption involves paying an **additional premium**.
4) The cover eventually turns out to be lower while the premium is higher.

Claims Payment: More Restrictive Interpretation of the Cover

Generally speaking, insurers may interpret the cover more restrictively. With regard to COVID-19, even though the loss is established, it is reasonable to conceive that insurers may invoke **"pollutants"**, **"contamination"**, or other relevant policy limitations to avoid granting the cover.[1]

[1] Marsh, *COVID-19 : Evolving Insurance and Risk Management Implications*, March 25, 2020.

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Communicable Disease Exclusion

"Notwithstanding anything to the contrary herein, this Policy does not cover any loss directly or indirectly arising out of, contributed to by, or resulting from a Communicable Disease and/or any directly or indirectly related condition or threat or fear thereof (whether actual or perceived).

Communicable Disease shall mean any infectious disease that is contagious and that can be transmitted either directly or indirectly from one source to another by an infectious agent or its toxins.

All other terms and conditions remain unchanged."

4) Reduction in Flexibility

Standardisation of Insurance Products and Less Negotiable Contracts

Insurers' Conservatism

Insurers are focusing on making existing risks profitable and are more reluctant to cover new risks.

Less Common LTAs

Insurers are more unwilling to grant discounts in return for **Long Term Agreements (LTA)**.[1]
They are more hardly granted for more than 2 years or they are along with price increases.[2]

Standardisation of Insurance Products

Standardisation of covers.

Insurers refuse to take account of the **policyholder's past performance**.[2]

Insurers are expecting companies to provide them with a stronger **rationale** to support their approach to risk.[3]

[1] Siaci Saint Honoré, *État du marché IARDT. Renouvellements 2019*.
[2] Gras Savoye Willis Towers Watson, *Les marchés de l'assurance en 2020. Note de conjoncture*, September 2019.
[3] Aon, *Navigating a changing insurance market. A European perspective*, June 2019.

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Position of Intermediaries

As to Major Risks, in most cases intermediaries' remunerations:

- Are transparent
- In fees and/or in commissions
- Are negotiated by the policyholder

Except Major Risks, as intermediaries are generally paid in commissions in a large number of countries, the increase in premiums may lead to a conflict of interest. You may therefore consider appropriate negotiating an increase in premium without any increase in commission.

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What Can Be Done in 2020 for Your Insurance Contracts?

Once the ongoing crisis is over, in Europe, insurers will implement that new policy:

- for contracts that will be renewed in 2020 Q3 & Q4,
- given that the negotiation period will probably be shortened for policyholders.

Therefore, it is appropriate to:

Q2

Check policies, conditions & limitations before negotiation considering what insurers will ask for.

Q3 & Q4

Begin your negotiations on insurers' new demands after having:

- Set your priorities (covered amounts, trigger, deductibles, policy & quality of cover, etc.);
- Read carefully the conditions & limitations your insurers are newly demanding.

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