

Covid-19 transforms professional lines market

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Rising premiums are expected for risk managers across the Asia-Pacific region

COVID-19 has caused an “unprecedented level of uncertainty” in the professional lines insurance market, according to Berkshire Hathaway Specialty Insurance, with rising premiums expected for risk managers across the Asia-Pacific region.

The devastating virus outbreak continues to take a stranglehold on countries across Asia and Oceania, with rising cases in Hong Kong and Australia this week. Scotland Walsh-Riddle, regional head of Executive and Professional Lines, Asia at Berkshire Hathaway Specialty Insurance, says the pandemic has been a market-changing event.

He predicts a more volatile world will impact insurers’ risk appetite and pricing. “We’ve already seen a few headline bankruptcies, and we will see more in the future,” he says. “There are concerns of a tidal wave of litigation over the horizon.”

Amid wider economic turmoil, Walsh-Riddle projects litigation will arise from supply chain issues, M&A deals, and insolvencies, as well as banks litigating to minimise losses in loan portfolios.

He noted “evolving risk appetite”, with insurers introducing “more exclusionary wording”, and COVID-19 exclusions across the globe. With market forces changing professional lines, Walsh-Riddle says risk managers will see several changes as they seek insurance.

“In the D&O space, you can expect increasing solvency reviews, questions around supply chains, market disclosure pressures, and discussions around highly-impacted industries like tourism and hospitality; you’re going to see questions around sustainability and communicating that to investors.”

“To PI, or errors and omissions, there’s going to be more focus on fee reductions. There’s not as much work for lawyers, accountants, architects. For cyber buyers, there will be questions around the security of working from home. Large populations are working from home, and that’s a new exposure.”

“For financial institutions such as asset managers and banks, you will see increased focus on loan and asset portfolios with exposure to high risk industries such as real estate. I think you should expect questions around investor communications on performance and portfolio suitability as topics that underwriters are going to be keen to understand. Broadly, we are going to see rates increase, coupled with heightened scrutiny on underwriting discipline.”

The BHSI executive said insurance buyers would also change their behaviour in this new market, seeking higher retentions, a reduction in limits, and self-insurance. “We’ve occasionally seen that if customers can’t get the price point they are seeking in the market, they will utilise self-insurance.”

Walsh-Riddle advises risk managers to talk to their brokers early about their insurance renewals, in order to get ahead of market changes and ensure that they are adequately covered. He expects a lasting impact from Covid-19, as the outbreak continues to leave its mark on the world.

“For the remainder of the year into 2021, geopolitical instability will continue. We are going to see underperforming portfolios, with carrier consolidation and appetite restriction for ‘red flag’ industries,” he adds.