

Insurance Market Update

Market challenges that may
impact your insurance cover

Due to a ‘perfect storm’ of 2019/20 bushfires, the COVID-19 pandemic, and recent large insurance losses in global insurance markets, negotiations with insurers are more difficult than we have seen in a very long time. Over 2020 and 2021, we have seen insurers increasing prices, reducing coverage, excluding certain types of risks and lowering policy limits.

This alert is provided to highlight some issues that we are seeing in the market so that you can better understand and plan for them. In these difficult times, it is more important than ever that you read and understand your policy documents, including applicable exclusions and limits.

If you have any questions about the issues raised in this update, about the coverage or limits in any of your policies, or about other types of insurance covers which may be available for you to purchase, please contact your Aon representative.

Changes in Terms and Conditions

Insurers are imposing changes in terms and conditions at a greater rate than ever before. For example, while a new set of policy conditions may appear similar to current coverage, there may be potential loss scenarios that will not be covered as before.

Additionally, there is a greater divergence in policy terms between insurers – with some insurers’ wordings likely to respond more favourably to some events, but less favourably to others.

Set out below are some of the main issues we are seeing right now. This commentary is not exhaustive, and it is not specific advice to you. Additionally, and importantly, insurance market conditions are likely to continue to change over the remainder of 2021 and into at least 2022. It is important to read and understand your policy documents. If you have any questions or concerns – contact your Aon representative.

Bushfire, flood and natural catastrophe

We have seen a significant reduction in the willingness of insurers to cover many policyholders for ‘natural catastrophe’ events, such as bushfire, or flood. Covers which were available last year may not be available at the same limits or on the same terms – or may not be available at all.

Infectious disease exclusions

Following the widespread economic disruption caused by COVID-19, insurers are continuing to amend the basis of cover in property/business interruption policies, as well as in liability and financial lines policies. This includes applying complex exclusions. Insurers are often refusing to negotiate on these provisions. In addition to understanding the coverage position in your new policies, it is important for you to understand how any prior business interruption insurance that you held might respond to COVID-19. If you held business interruption insurance during any time that your business revenue was impacted by COVID-19, please review the material on our [website](#).

Silent Cyber exclusions

'Silent Cyber' is an insurance industry term that describes cyber and technology exposures in traditional property and liability policies. Over the last 18 months, we have seen insurers applying cyber exclusions to these policies. Some of these exclusions can significantly limit the cover available – even where the cyber or technological element of any loss was not the main cause of the loss. Computers, electronic devices, and information technology are now so pervasive in our lives and the way we do business, that this is a serious development. Some insurers are beginning to apply cyber exclusion to Professional Indemnity and D&O policies, sometimes as standard and other times on a risk by risk basis.

It is important that you read and understand any cyber exclusion in any insurances that you hold. Insurers' exclusions are so many and so varied that we cannot identify and explain each possible potential exclusion in this alert.

Sublimit and deductible changes

We are seeing many insurers decrease insured limits and increase policy deductibles. It is important that you consider all such important changes.

In addition to the main policy limits and deductible, many insurance policies apply sublimits and deductibles to certain losses and perils – thereby limiting cover for them. These can significantly affect the amount payable in the event of a claim.

Often different insurers will apply different limits and deductibles, which also makes and comparing insurance quotes difficult.

Insolvency exclusions on Financial Lines policies

Insurers are continuing to impose insolvency exclusions on Professional Indemnity policies as a clarification that cover is not intended for that exposure. Insolvency exclusions are also being applied to D&O and Management Liability policies – sometimes as standard across the board and sometimes risk by risk.

Some insurers are applying a Financial Mismanagement Exclusion in lieu of an Insolvency Exclusion. These exclusions seem to have a broader application and exclude cover for any claim connected to the insolvency or administration of a company.

D+O cover and cover for financial institutions

We are seeing a significant scaling back of the number of insurers willing to insure D&O risk and willing to insure financial institutions. 'Side C' D&O cover continues to be problematic, and worryingly some insurers are reviewing their appetite for Side A and Side B coverage, too. D&O cover and financial institutions cover continue to be subject to increasing premiums.

Aon has been able to work with many affected clients to overcome capacity restrictions in the local insurance market in innovative ways, leveraging Aon's unmatched Global teams.

Risk mitigation

Increasingly, insurers are requiring clients to undertake risk mitigation steps as a precondition to quoting for renewals. Aon is often able to assist clients to undertake this work. Please talk to your Aon representative about what services Aon can offer in this regard.

Where to go for help

It is more important than ever to read and understand all policy documents, including applicable exclusions and limits.

If you have any questions about the issues raised in this update, about the coverage or limits in any of your policies or about other types of insurance covers which may be available for you to purchase, please contact your Aon representative.

If you would like further information or believe you have cause to claim upon your insurance, please do not hesitate to contact your Aon representative who will be happy to help.