Honan.

Insurance. Advice. Support.

HONEIN

QUARTERLY
MARKET UPDATE

Q3 FY23

Welcome to HoneIn Q3

Approaching the end of FY23 at pace, now is the time to pause, reflect on the learnings, and look to the future with renewed energy, market intelligence, and focus. Our Q3 issue is packed with practical takeaways to help you do that with confidence!

There is plenty to discuss following the 2023-24 Federal Budget announcement and we have you covered when it comes to making sense of the key takeaways and industry implications. As we move into renewal season, our industry leads share their insights and projections, spanning Corporate Insurance, Professional & Executive Risks, Real Estate & Strata, Employee Benefits, Life Insurance, and Workplace Risk.

Since January's edition of HoneIn, we've proudly welcomed New Zealand-based Certus Insurance Brokers (CIBNZ) into the Honan family, marking our seventh acquisition in a six-month period. Enabling us to expand and diversify our presence in the New Zealand market, CIBNZ is a world-class general brokerage based in central and regional Auckland. For a country impacted by two severe weather events this year alone, rising interest rates, and a general election looming, there are a mix of factors making life and business extremely challenging right now. In this issue of HoneIn, CIBNZ General Manager - Mark Gustafson, shares how the insurance market is responding and why clients may be better protected in the long run.

With the 2023 AFL season well underway it's hard not to be inspired by the determination, discipline, and team spirit displayed on the field. At Honan, these qualities underpin everything we do, which may be why we have attracted a number of our insurance experts that have had a career in or a passion for sport. One such example is Matt Head, whose career as an AFL Field Umpire led him to the world of insurance and into his latest position as Honan's Head of Client Service – Victoria. Don't miss this Q&A which tracks his journey, insights, and lessons along the way.

We hope you find this a thought-provoking update!

Andrew Fluitsma
Chief Executive Officer

WE'VE PROUDLY WELCOMED CERTUS INSURANCE BROKERS (CIBNZ) INTO THE HONAN FAMILY. ENABLING US TO EXPAND AND DIVERSIFY OUR PRESENCE IN THE NEW ZEALAND MARKET, CIBNZ IS A WORLD-CLASS GENERAL BROKERAGE BASED IN CENTRAL AND REGIONAL AUCKLAND.

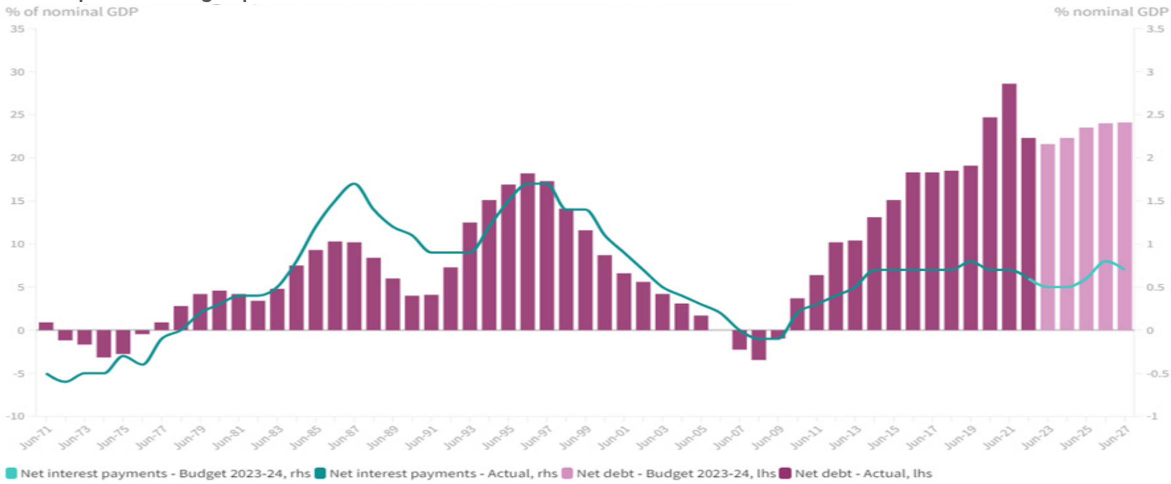
IN REVIEW: AUSTRALIAN BUDGET 2023-2024

Economic Challenges, Surplus, and Investments in the Digital Economy and Cybersecurity

The Australian Government unveiled its 2023-24 Budget, forecasting a surplus of $4.2 billion this fiscal year – the first surplus in over 15 years. However, the economy is expected to slow over the next two years due to the Reserve Bank of Australia's (RBA) 11 cash rate increases to counter inflation, which will impact household consumption and investment. Inflation is predicted to decrease from 6% this year to 3.25% in 2023-24, in line with the RBA's forecasts.

The labour market is also projected to soften, with the unemployment rate increasing from 3.5% to 4.25% by June 2024 and 4.5% by June 2025.

The improved budget position has lowered net debt and interest costs



Laurence Basell, COO

> The Australian Budget 2023-2024 demonstrates the government's commitment to striking a balance between short-term surplus, long-term fiscal sustainability, and investment in crucial sectors such as digital economy and cybersecurity. The surplus is a positive sign, but the return to a deficit next year highlights the need for a more sustainable and robust fiscal strategy that addresses the diverse economic and social challenges we face.

INSURANCE TAKEAWAYS

Notably, the budget lacked insurance initiatives for rising premiums and hard-to-place insurance in flood and bushfire-prone areas but introduced various climate change and disaster response measures. The government has committed $236 million to establish a reliable national flood warning system and $231.8 million to advance emergency response capabilities. There is significant investment planned for cybersecurity, an area of increasing focus for the government and businesses. The budget also introduced measures to decrease red tape for insurance companies, which may result in minor premium reductions due to more efficient reporting requirements and less duplication.

> National Corporate Head of Risk - Poppy Foxton expressed concern stating, "We hoped that the government would have taken a more proactive approach in addressing the insurance needs of vulnerable communities in the coming years, ensuring both affordability and accessibility for home and strata insurance. Particularly in light of the increasing risks associated with climate change and the need for affordable insurance solutions for high-risk regions."

Poppy Foxton, Head of Corporate Insurance & Risk Solutions

SPENDING INITIATIVES

New spending initiatives include a $14.6 billion cost-of-living relief package, allocating $1.5 billion for power bill rebates for households and small businesses, aiming to alleviate living cost pressures. However, this package raises concerns about exacerbating inflation. The government's challenge lies in managing inflationary pressures effectively and aligning fiscal policy with monetary policy to contain inflation without resorting to significantly higher interest rates.

The budget has a strong focus on service sector expenditures, such as aged care, health care, training, and education, which could put upward pressure on services inflation, particularly given tight labour markets. Significant investments are planned for the digital economy and cybersecurity, with $46.5 million allocated over four years to establish a National Cyber Security Coordinator, providing leadership across the Australian Public Service in coordinating action in response to major cybersecurity incidents. Furthermore, $101 million is earmarked for investment in the responsible development of Australia's quantum and artificial intelligence industries.

Digital economy and cybersecurity

$46.5m

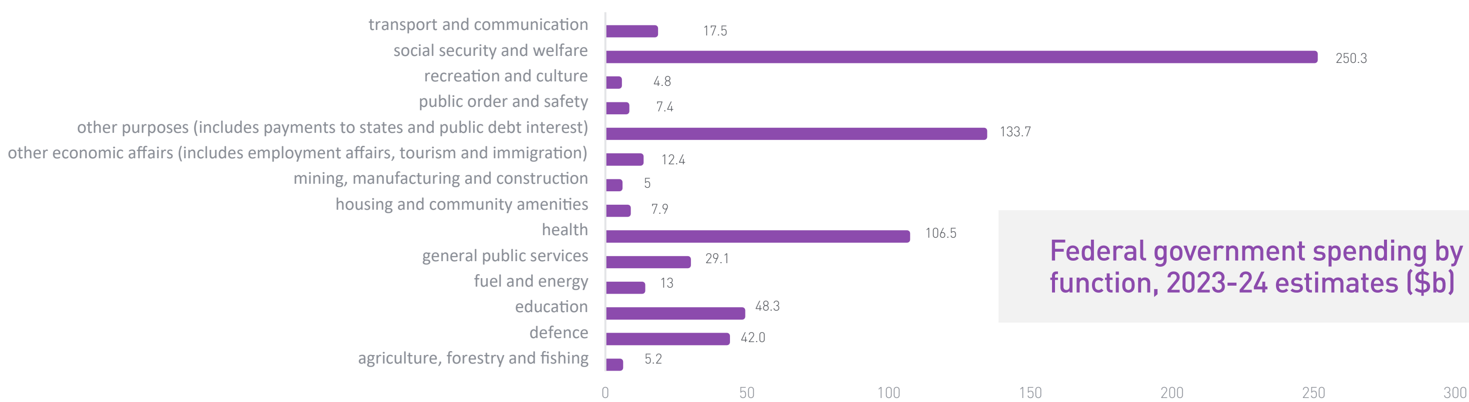
to support the Government's announcment on the establishment of a national Cyber Security Coordinator over the next four years to supoort leadership across the Australian Public Service in the coordiation and triaging of action in response to major cyber security incidents

$101m

Investment in the responsible development of Australia's quantum and artificial intelligence industries

$134.5m

to sustain recent myGov advancements, including the new modernised online platform and recent introduction of the myGov app



Federal government spending by function, 2023-24 estimates ($b)

Benjamin Robinson, Head of Cyber security at Honan, praised the increased focus on cybersecurity, stating, "The government's significant investment in cybersecurity initiatives, including the establishment of a National Cyber Security Coordinator, reflects a much-needed emphasis on protecting Australia's digital infrastructure and assets. This commitment not only bolsters our nation's cyber defenses but also sends a clear message to businesses about the critical importance of investing in cybersecurity measures and insurance to safeguard their operations and data against evolving cyber threats."

Ben Robinson, Head of Cyber Security

Wellness chapter

$2.2bn
package to address primary healthcare services and commence Medicare reform

$3.5bn
boost that will help GPs provide free consultations to around 11.6 million eligible Australians

$234m
to address the growth in vaping and a campaign to discourage smoking and e-cigarettes

5%
increase per year for 3 years in the excise rate for tabacco products

$2.2bn
increase in funding to provide more access to life changing medidcines through the PBS

8
more of our Urgent Care Clinics will be funded in regional communities and growing suburbs at a cost of $358.5m

Funding of $134.5 million has been allocated to sustain recent myGov advancements, including the modernised online platform and the introduction of the myGov application. The budget also includes a $2.2 billion increase in funding to provide more access to life-changing medicines through the Pharmaceutical Benefits Scheme (PBS).

Small businesses will benefit from the $310 million Small Business Energy Incentive, providing tax relief and promoting energy efficiency. Additionally, the Hydrogen Headstart program will receive $2 billion in funding to support large-scale renewable hydrogen projects through competitive hydrogen production contracts.

The surplus & cost of living pressures

The projected surplus is primarily driven by robust personal income tax (PIT) receipts, strong employment and wage growth, and higher-than-expected commodity prices. Revenue upgrades are also expected from tax reforms, such as changes to the petroleum resource rent tax (PRRT), increases in tobacco excise, and doubling the tax on earnings from superannuation holdings exceeding $3 million.

The surplus is expected to be short-lived, with the budget projected to return to a deficit of $13.9 billion next year. This is primarily due to long-term spending pressures from interest payments on debt, the National Disability Insurance Scheme (NDIS), aged care, health, and defence, along with lower productivity growth.

Travis Wendt, Head of Placement

> The budget's focus on cost-of-living relief packages, infrastructure development, and disaster response initiatives illustrates the government's responsiveness to the needs of households, businesses, and the environment. However, the lack of insurance-focused initiatives may leave certain vulnerable communities exposed to the impacts of climate-related disasters.

$4.2bn
surplus this year, the first in 15 years - but then a return to deficit of $13.9bn next year

3.25%
predicted inflation, down from 6% this year

1.5%
economic growth expected next year (down from 3.25% this year)

$14.6bn
cost-of-living relief package

The real GDP growth is anticipated to slow down in 2023-24, from 3.25% to 1.5%, as the economy loses gains from commodity export prices that sustained exports in 2022-23. **The impact of monetary policy tightening is starting to manifest in household spending,** which is central to this slowdown. This is particularly significant as households tighten their belts in response to the ongoing cost of living crisis. However, **a recovery in household disposable income following positive wage growth is expected to propel the economy out of this slump.**

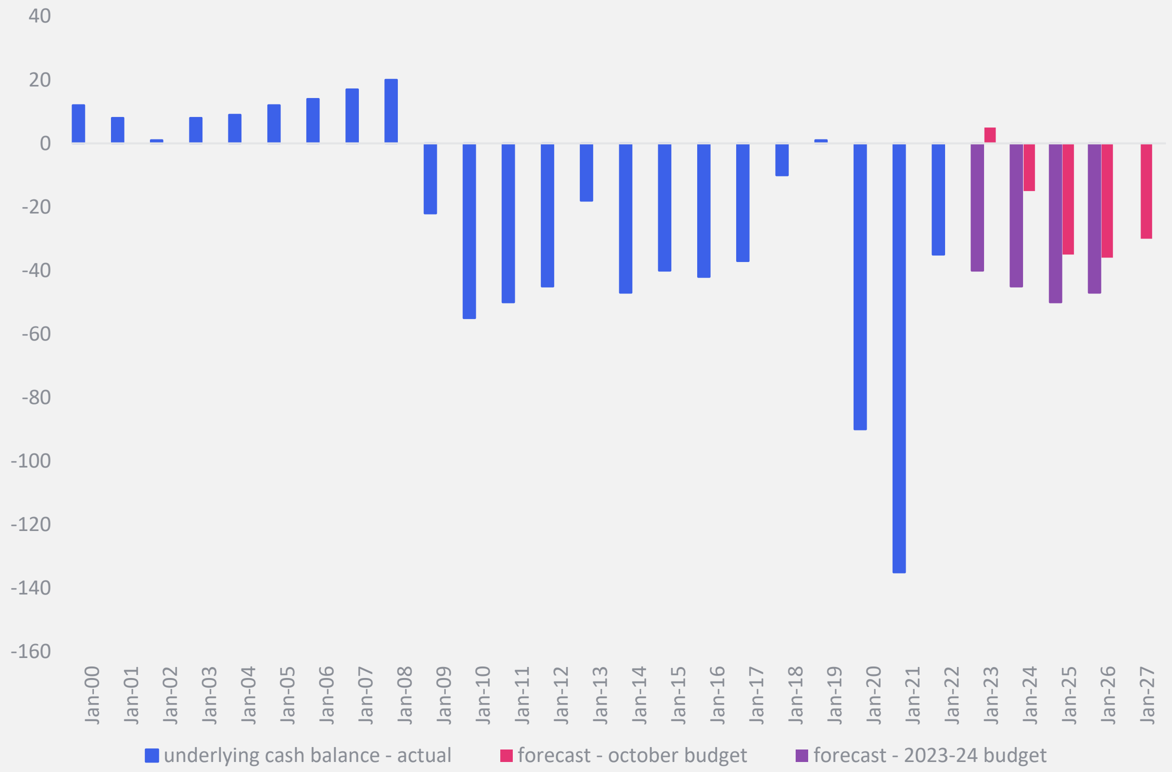
Inflation is projected to decline and remain within the RBA's target range from 2024-25 onwards. Labour market pressures are anticipated to ease slightly over the forecast horizon. The unemployment rate is expected to rise from a historical low of 3.5% in 2022-23 but remain below 4.5% until 2026-27. **Wage growth is predicted to increase from 3.75% in 2022-23 to 4% in 2023-24, boosted by the Fair Work Commission's allocations to support wages for aged care and minimum wage workers.**

Despite the projected surplus for FY23, the return to a deficit in the following year indicates the need for a more sustainable long-term fiscal strategy. **The government will have to carefully navigate the delicate balance between supporting economic growth, maintaining fiscal discipline, and addressing social and environmental challenges.** The 2023-2024 budget is a crucial step in this direction, but the path to achieving long-term economic stability and resilience is still laden with uncertainties and potential obstacles.

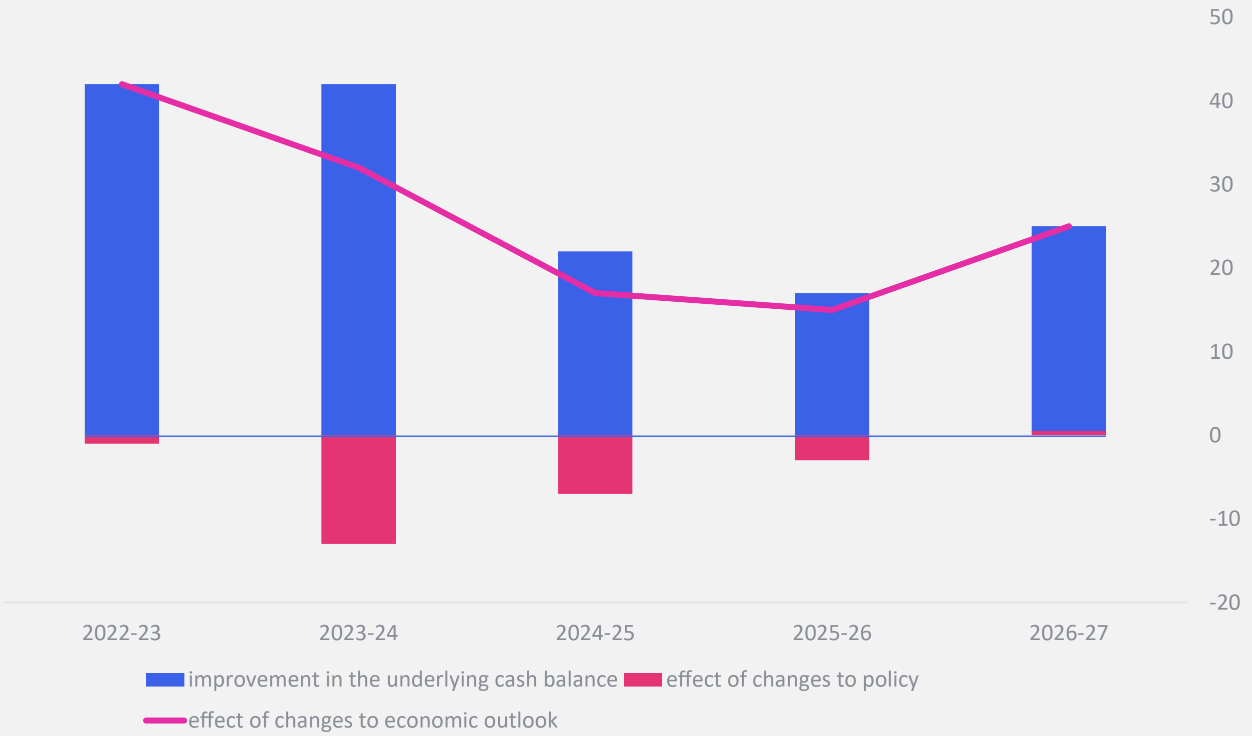
Looking ahead

The 2023-2024 Australian Budget presents a mixed bag of challenges and opportunities. The government's focus on balancing surplus, managing economic slowdown, and tackling inflationary challenges is evident. **The investments in the digital economy, cybersecurity, artificial intelligence, and quantum industries reflect the government's commitment to fostering innovation and securing Australia's position in the global digital landscape.** The budget's emphasis on cost-of-living relief packages, infrastructure development, and disaster response initiatives highlights its responsiveness to the needs of households, businesses, and the environment. However, the return to a deficit next year underscores the importance of developing a sustainable long-term fiscal strategy to ensure Australia's continued economic growth and resilience.

A small budget surplus is forecast for the first time in 15 years



The improved cash balance estimates are due to a better than expected economic outlook



CORPORATE INSURANCE

The insurance market is showing promising signs of growth in the construction sector, with a heightened willingness to take on associated risks. The key reasons for this stem from increased appetite from global insurers, along with more capacity from London that is flowing into local agencies. In the realm of large property risks, insurers are vying for market dominance in the arena of high-quality assets such as non-catastrophe exposed locations and well-constructed properties. However, subpar risks with substandard construction or inadequate risk management remain a difficult sell and are subject to increased rates. Meanwhile, the entrance of new players in the motor insurance segment is spurring tension and leading to more competitive coverage options for clients.

Casualty insurers remain deeply concerned about the persistent impact of long-term social inflation on the cost of liability claims. This phenomenon, which has been affecting the industry for many years, is primarily driven by a surge in litigation and rising court awards for pain and suffering settlements. Although this is not a new trend, **the true impact is only now becoming apparent as liability claims can take three years or more to reach resolution.** Insurers continue to face significant challenges in meeting the casualty insurance needs of businesses that engage in any activities involving children. We are observing 5%-15% rate increases for renewals without a history of claims. Having said this, Honan works proactively with our clients to ensure strong risk control measures and claims management processes are in place to help minimise the frequency and cost of claims, driving better renewal outcomes.

Honan has observed the impact of natural catastrophes globally and the restrictions from the 1:1 treaty reinsurance renewal spill into the property insurance space for sporting associations. Insurers are restricting cover for floods to clubs that are located near a river or watercourse. This has a direct impact on many sporting associations, as their zoning and clubhouse locations are often situated in low-lying areas or where residential construction is not permitted. As a result, many sporting organisations are required to self-fund increasing amounts of risk exposure for future major catastrophes. To support grassroots community sporting groups into the future, **it will be crucial for state and local governments to take actions such as implementing buy-back schemes, improving town planning and zoning, and updating building codes.**

EMPLOYEE BENEFITS

The 2023 Salary Guide from Robert Half reveals that Australian employees are highly attuned to non-monetary benefits as well as financial benefits when evaluating their compensation packages. **Around two-thirds (63%) of Australian employers had a candidate accept a job offer because of their benefits package, even when they were unable to meet the candidate's salary expectations.** This is driven by the rise of holistic wellbeing in the "post covid" era as well as increasing inflation and cost of living pressures.

The most offered benefits:

60% flexible schedules

55% mental health programs

52% remote work

50% extra paid parental leave

48% wellness programs

Australian employers are getting creative when it comes to hiring in the extremely competitive labour market. The 2023 Robert Half Salary Guide highlights a wave of new perks and benefits that Australian employers are considering, such as:

- **Enhanced leave entitlements:** including extra paid annual leave, paid parental leave, leaves of absence/ sabbaticals, domestic violence leave, and paid menopause leave to employees
- **Increased Allowances:** including remote work allowances, car allowances, and subsidising meals
- **Supporting their employees' lifestyles:** Reproductive health benefits to support IVF treatment, health insurance, and financial planning assistance
- **Training and development opportunities:** Training Allowances for care development and upskilling, international secondment opportunities

In the present environment of high inflation and economic uncertainty, salary increases and bonuses (which have always been high on the priority list for Australian employees) are not realistic for all businesses. More and more, businesses are recognising the power of benefits in attracting and retaining talent and we **anticipate an increasing number of businesses evaluating and re-inventing their benefits programs to remain competitive in this hiring market.**

PROFESSIONAL & EXECUTIVE RISK

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PROFESSIONAL INDEMNITY

The Professional Indemnity (PI) market continues to perform at varying rates, depending on occupation and industry type.

A significant portion of the market classified as **"Miscellaneous" professionals saw flat or decreased pricing as Australian insurers compete for market share. Miscellaneous professionals are services outside traditional professions such as Lawyers, Accountants, Financial Planners, Engineers, Architects, and IT.**

Whilst these professionals do have exposure to Professional Indemnity claims, their low frequency and severity makes them attractive to insurers. Additionally, the cover and limits are often driven by contractual requirements which might not reflect the insured's risk, another reason why this area performs well from an insurer's perspective.

Whilst the traditional professional services mentioned above are experiencing improved buying driven by intensifying competition, the growing volume of litigation, broader definitions of liability accompanied by more plaintiff-friendly legal decisions, and larger compensatory jury awards are all forcing insurers to pass on higher costs to policyholders. Notwithstanding this, policyholders with a positive claims history and strong internal protocols will be viewed more favourably by insurers and have the luxury of optionality and competitive pricing, relative to their industry peers.

CYBER

As corporate Australia's approach to cyber security continues to improve, insurer sentiment is also more favourable and the product is starting to attract greater capacity.

Policyholders meeting the "ACSC Essential 8" and ISO27001 certification are considered best-in-class amongst insurers and are being rewarded with flat or reduced pricing. Meanwhile, companies still on their way to an improved cyber security posture are being cautiously underwritten.

Companies with a high volume of Personally Identifiable Information (PII) are extremely attractive to cyber-criminals and continue to be the target of ransom attacks. Whilst Optus and Medibank made media headlines in 2022, in 2023 it is ASX-listed Latitude Financial experiencing a similar fate, with over 14 million customers exposed in a recent data breach.

Law firms Gordon Legal and Hayden Stephens and Associates have announced they will investigate a potential legal action against Latitude over the breach. This follows two class actions being brought against Medibank, filed in February and March 2023 for their breach.

With Professional Indemnity (PI) insurers introducing cyber exclusions to their policies in recent years, it is the Cyber Liability policies which will be relied upon to defend and settle third-party privacy liability claims made against policyholders. Accompanied by regulatory fines and penalties which may be imposed, it will be interesting to see how both matters evolve and the potential impact to insurers from these emerging third-party liability lawsuits.

DIRECTORS & OFFICERS LIABILITY (D&O)

Rates in the D&O market have continued on a downwards trajectory, following a trend reversal in late-2022. This was mainly driven by an increase in insurer appetite and capacity out of London, which forced Australian markets to follow suit. After five years of hardening market rates, **insurers are now offering renewal terms at "expiring" or reduced rates to defend their market share** from new entrants.

As economic conditions worsen, companies and their directors face the risk of insolvency. Depending on the circumstances which give rise to a company's insolvency, a director may be held personally liable for the debts incurred. As a result, insurers have taken a cautious approach to industries with greater exposer to raw materials and inflationary pressures (such as construction and manufacturing), with many applying insolvency exclusions until they have satisfactorily reviewed company financials.

Despite rates softening, the D&O market has seen several claim trends emerge. One of the most notable developments is the growing focus on cyber risk. As companies become more reliant on technology, they also become more vulnerable to cyber-attacks. While directors are not expected to know the technical ins and outs of their systems, they must be able to properly govern privacy and cyber-security risks. We expect to see cyber securities class action lawsuits being launched which will expose Directors and Officers and these liabilities will need to be adequately insured under D&O programmes.

STRATA INSURANCE

The "perfect storm" continued to dominate the strata insurance market with high inflation, labour shortages, and the devastating South-East Queensland and Northern New South Wales floods (which totalled a record-breaking $5.81 billion in claims) all contributing to increasing premiums.

As we near the end of FY23, it is worth acknowledging that this year has been yet another challenging one for the strata and commercial real estate insurance industry. Moving forward, it is the reinsurance costs from major strata insurers that will likely have the most significant impact on the market during FY24.

The strata market has continued to see insurance premiums increase by approximately 15% nationally on standard risks where insurance brokers are remarketing risks with a broad range of insurers. Insurers are viewing the regions of southwest Sydney, coastal areas of northern NSW, and southern Queensland as under-priced following recent losses caused by the storms and floods, resulting in premium increases of up to 40% in these areas.

Insurers have been persistent in their pricing corrections in regions impacted by catastrophes, similar to trends in alpine and bushfire-prone regions two years ago. However, the corrections are modest compared to the premium increases in northern Australian cyclone-exposed regions five years ago. Buildings exposed to natural peril such as cyclones, flooding, and bushfires are seeing catastrophe premium loadings continue to rise as international reinsurance markets balance their risk exposures and improve their long-term profitability.

Strata policy coverage and placement challenges

Due to the rising costs of claims, labour, and materials, strata insurers are increasing their standard excesses in both the strata and home insurance sectors. In fact, **many standard strata renewals now have excesses of $2,000, while larger buildings over $50 million are seeing excesses of $5,000 or more.**

Building defects, cladding and high-risk activities in commercial and industrial strata remain hot topics for the industry with many insurers increasing the subjectivities and conditions that are applied to renewals if controls and risk improvement recommendations have not been implemented. In severe cases where defects, cladding or high-hazard activities are fundamentally impacting fire safety or building support integrity, certain exclusions and high excesses are being applied more frequently.

Australia's inflation rate (7% in April 2023) is tracking below what the Australian Bureau of Statistics (ABS) is reporting for many costs of building materials and trades labour. This has a knock-on effect on strata and real estate claims repair. **We are seeing some improvements to the supply chain, and there are signs that the recent decline in housing construction may help to stabilise the labour shortage and building material costs over the next 12 months.**

Quality of Advice review encourages more transparency

The Quality of Advice Review was presented to the Federal Government by Michelle Levy earlier this year and maintains the recommendation that The Corporations Act provides exemptions to the ban on conflicted remuneration for benefits given in relation to a general insurance product. The review also recommends greater transparency in commissions for residential strata products and other retail products.

The Quality of Advice Review was instigated after the Royal Commission into Financial Services and ran in parallel to other industry-initiated reviews looking at remuneration practices in specific sectors. The Strata Community Association (SCA) has stated it is supportive of insurance brokers and strata managers receiving insurance commissions and that the remuneration is justifiable. The National Insurance Brokers Association (NIBA) has broadly confirmed its support of insurance commissions within the industry. Honan is of the view that strata managers and insurance brokers are integral to the coverage stability and long term downward pressure on premium pricing via greater choice and competition.

New insurer security makes minimal impact to strata pricing suppression

It is encouraging to see some insurers re-entering the strata insurance market as is evident in the return of some Lloyds of London security into two binders. Lloyd's security remains highly disciplined, meaning the premium volume of buildings being written into Lloyds for strata remains quite small. Most newer binders (and some older ones) in strata are focused on small to medium sized buildings for the time being, and there is minimal appetite from new insurers to write risks with cladding, defects, or high-risk hazard commercial and industrial activities.

Premium pricing trends

We are forecasting insurance pricing increases of 15% - 20% for residential strata and approximately 20% for commercial strata properties in FY24. Inflation will drive up reinsurance costs by around 20% over the remainder of the 2023 calendar year. Also concerning is the upward cost pressure on building materials and trades labour due to supply chain disruptions, labour shortages, and increased construction costs – all of which are contributing to the rising cost of claims.

Reinsurance challenges

The major challenges for the strata insurance market are the increase in claims and the associated costs of reinsurance. This has been driven in part by natural catastrophes such as the 2022 floods and 2020 bushfires. Also of note is cyclone Gabrielle in New Zealand - the worst storm in over two decades. This will impact the Australian property insurance market due to international insurers pooling New Zealand into Australian reinsurance territories and vice versa.

Earlier this year for example, insurer IAG reported that reinsurance costs for catastrophe events have increased by 20% - 25% and retention of their excess has risen, meaning insurers are retaining more risk and therefore increasing their own excesses.

The industry will be watching insurer QBE's decisions on reinsurance pricing in FY24 as an indicator of the broader strata insurance market trend. The big three strata insurers (QBE, Chubb and IAG) represent the aggregate capacity of approximately two-thirds of strata's premium via their reinsurance schemes and their broad appetite for large risks, cladding, defects, and claims impacted buildings in commercial and industrial strata. This capacity cannot be replaced overnight if there is any significant change in their risk appetite.

REAL ESTATE SOLUTIONS

Professional Risks

There is limited appetite among insurers supporting the Professional exposures of the Real Estate sector.

Several real estate insurers have an automatic decline or restricted coverage for Professional Indemnity insurance due to the rise in claims, particularly in the residential and property manager space. Agents with a large percentage of their turnover derived from property management services or other branches of the industry such as off-the-plan sales or valuations services are attracting higher increases and deductibles from a smaller pool of insurers with an appetite for these risks.

Exposures covered under Management Liability continue to rise, particularly that of Employment Practices Liability (EPL). Dual Australia reports that EPL accounts for 40% of all Management Liability claims, which is a significant rise. This trend reflects ongoing changes in the employment sector, including updated regulations and employee expectations, which employers may struggle to meet. Additionally, there is a growing trend of legal action regarding alleged harassment, bullying, and unfair dismissal.

Small and medium-sized enterprises (SMEs), including real estate agents, continue to be a prime target for cybercriminals who are becoming more sophisticated in their methods. Flexible working models and the use of mobile devices for work purposes outside of secure networks have further increased the risk of cyber threats to SMEs. The majority of cyberattacks occur through phishing or the compromise of employees' email accounts, often via clicking on links. Businesses must be proactive in protecting their networks, devices, and data and educating staff about cyber security to help prevent these types of attacks from occurring. Find out more in this simple guide to combatting cybercrime.

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Property Risks

New entrants in the residential landlord insurance market are fuelling competition after a period of rate correction through 2020-2022. Clients can still expect increases upon renewal of around 5% -10% on average, however, they may have access to a wider pool of insurers.

The commercial property market is also starting to show signs of a shift in favour of clients. While premiums for Property Insurance are still assessed on the level of risk presented by tenants and their activities, and some general insurers are hesitant to insure high-hazard occupants, the market is opening up to new players.

The emergence of new underwriting agencies specialising in the hard-to-place property market is creating opportunities for property owners and managers to obtain coverage where it was previously limited and driven by the London market. These specialist agencies can offer innovative solutions to property owners who have been declined coverage by traditional insurers due to the perceived risks associated with their properties.

LIFE INSURANCE

The Quality of Advice review, published by the Government in January, has been well-received by industry professionals. The review offers several recommendations aimed at reducing the cost of financial advice for consumers, without compromising on consumer protections. By easing the compliance burden on financial advisors and simplifying the advice process, **the proposed measures would make financial advice more accessible to a wider range of individuals, ensuring that more people can benefit from professional financial advice.**

Draft legislation has also been released for consultation to better recognise experienced financial advisers. Under current regulations, all advisers must meet specific education standards, which involve holding an approved degree by 2026. This will create a hurdle for highly experienced advisers without an approved degree, requiring them to complete significant further study to remain qualified. As a result, it is anticipated that many experienced advisers will leave the industry, which could reduce access to quality financial advice and increase costs for consumers.

According to the proposed legislation, advisers who have 10 years of cumulative experience providing advice between 2007-2021 and a clean disciplinary record, would be deemed to have met the education requirements. This proposal has been welcomed by the industry.

The recent rise in life insurance premiums has become a concern for policyholders and financial advisers alike, with even 'level' premiums showing an increase. Driving this trend is a significant uptick in claims. **Several reasons have been identified for the increase in claims, including:**

Advances in medical technology and increased diligence around health checks have led to a rise in the diagnosis of chronic illnesses, such as heart disease and cancer. While earlier detection can have a positive impact on the chances of recovery, it has resulted in a higher number of claims, particularly for Trauma and Income Protection insurance.

Changes in lifestyle factors such as higher rates of obesity, alcohol consumption and smoking/vaping. These lifestyle factors can be detrimental to the health of policyholders, leading to an increase in claims.

Regulatory changes such as the introduction of the Life Insurance Framework (LIF) in 2018 and APRA restrictions on Income Protection products in 2020 have increased insurers' compliance costs and contributed to higher premiums. In some cases, existing Income Protection policies have seen repricing increases of over 40% year on year, even on 'level' premium products.

It has never been more important to regularly review your insurance portfolio to ensure that the policies and coverage levels align with your current objectives and circumstances. **Completing a cost benefit analysis with a financial adviser can help you evaluate the trade-off between superior policy features and affordable premiums.** This means you are more likely to be adequately protected without overpaying for unnecessary coverage.

To prioritise sustainability, insurers are increasingly incorporating environmental considerations into their underwriting and investment strategies. This has led to tighter underwriting guidelines from both local insurers and reinsurers. **The new guidelines involve more rigorous assessments of medical and financial factors, resulting in policies that are more accurately priced and risks that are managed appropriately.**

It is worth noting that insurers' risk appetites continue to differ across the market, providing consumers with a wider range of options. Although insurers may be more selective in their underwriting processes, this variability can be seen as a positive for consumers, as it allows them to choose a policy that best suits their individual circumstances.

WORKERS' COMPENSATION

Most employers are likely aware of the Fair Work employment law changes that have recently come into effect or will take effect in 2023. While these changes aim to enhance equity in the relationship between workers and employers, they could also broaden Workers' Compensation exposures. These changes align with the recent modifications to the Work Health and Safety (WHS) codes of practice, which address psychosocial hazards across most states and territories.

Psychosocial hazards in the workplace refer to certain aspects of work or situations that may trigger a stress response, which can result in psychological or physical harm. The Code of Practice guidelines specifically address bullying, harassment, including sexual harassment, work overload, workplace violence, overwork, and interpersonal conflict to name a few, and the requirement of Employers to identify, mitigate or reduce these exposures.

If employers fail to implement these changes effectively and do not take reasonable management actions, **this could lead to an increase in mental health or physical injury claims, which may be more easily accepted in an already no-fault system.** Honan, along with our WHS experts, can help employers identify these trends and develop effective strategies to ensure their policies and procedures meet regulatory guidelines while also focusing on risk mitigation.

Industry rate changes have not yet been released across all States and Territories. An announcement is expected in May, however the indication is that premium rates will increase. As we approach insurance renewal season, **it is crucial for clients to collaborate closely with their broker or claims agent to understand the influence of claims performance on premiums, and the potential impacts of industry rate changes.** Our team is always ready to help!

NEW SOUTH WALES

icare has announced that the premium rate will rise by 2.9%, increasing from 1.44% to 1.48% of wages resulting in a 2.9% increase across the scheme. This does not mean all industry sectors will be impacted, but it indicates that half of the industries will, particularly those that are not performing as well. The icare announcement can be found in the following link.

VICTORIA

Please remember to review your FY23 wage estimates. If the actual wages are projected to exceed 20% of the initial estimate, it is mandatory to revise the estimate before 30 May 2023. Failure to make a declaration may result in a penalty fee for under declaration.

Change to premium calculation:

WorkSafe released their half-yearly results in March 2023, which confirmed a Performance from Insurance Operations (PFIO) deficit of $508 million. It is anticipated that the annual deficit will increase to $1.1 billion by the end of the year.

Despite the Victorian Government's investment in the scheme over the past two years to ensure its financial sustainability, WorkSafe's recent annual report highlighted the presence of risks related to premium inadequacy due to longer claims durations and a rise in mental injury claims.

Clients can rest assured that the three years claims cost window for the calculation of premium will remain unchanged. Year one is paid weekly compensation payments and death lump sum payments, and years two and three will include paid and estimated values in the calculation. Claims costs for the 2023/24 renewal have been locked in as of March 31st, 2023.

As expected, there will be an increase to the capped claim amount from $438,300 to $450,500. An increase to premium capping will also be considered for 2023/24, however this is yet to be confirmed by WorkSafe. This has been driven by the average scheme rate remaining at 1.27% since 2014/15. If WorkSafe increases the average scheme rate this will result in an increase to premium capping. A capping floor has also been considered. If implemented, WorkSafe could change the premium calculation methodology that means poor performing employers have a minimum premium payable of 50% of the value of their True Risk cost of claims.

In March, Safe Work Australia released some key findings exploring the impacts of COVID-19 on workers returning to work after an injury or illness.

Key findings:

- **1 in 5 injured or ill workers** said the pandemic affected their return to work and recovery, with those suffering from a psychological injury or experiencing distress most impacted
- **Limited access to social and family support** was the most frequently reported negative effect of the pandemic
- Injured workers under 25 years were most likely to report being **stood down/having their hours reduced during the pandemic**
- Over 20% of respondents said the pandemic had **positively influenced their recovery and return to work**

10-15% and more for clients with a poor claims history. If you have claims developing, it will be important to prepare for these increases.

In Western Australia, discussion around the adoption of the revised Workers' Compensation and Injury Management Bill continues. Debate, for instance, includes the definition of a 'worker' when it comes to the commencement of benefits for pending claims. Of greatest potential impact to insureds, is the removal of Principles Indemnity with Waiver of Subrogation extension. This could lead to complicated contract negotiations for clients as the extension is mandatory for most mining or construction sites. We will continue to monitor developments around this Bill and keep you informed.

An update from across the Tasman

Certus Insurance Brokers (CIBNZ)

In another noteworthy plot point in the Honan story, we welcomed Certus Insurance Brokers (CIBNZ) into the family of brands in March this year. Expanding and diversifying our presence in the New Zealand market, CIBNZ is a world-class general brokerage operating across two sites in central and regional Auckland.

We sat down with General Manager, Mark Gustafson, who shared more about the local insurance market (which has already been impacted by two storm events in 2023), developments to watch now and over the longer term, and some advice he finds himself consistently repeating to clients.

Q1

First up, Mark, for those that don't know Certus Insurance Brokers, can you tell us a little about yourselves?

We have been operating for over 20 years and there are 15 of us in the business. Our brokers are all highly experienced and each have at least 15 years' insurance experience. Our client base is evenly split between small-to-medium enterprises (SME) and personal lines of insurance for private clients. **We are known for high quality advice, innovative risk-based solutions and we focus on fostering long-term relationships with our customers and insurers.** This has seen us become a successful and trusted brokerage with clients throughout New Zealand.

Q2

New Zealand has had a tumultuous start to the year, including devastating weather events like Cyclone Gabrielle, and a new PM. Can you tell us more about what has been happening?

Damage from the two storm events in January and February this year has generated tens of thousands of claims, estimated to exceed $4 billion in repair and replacement costs. Last year was also a very bad year for storm events so this has come on top of an already stressed system. The damage has not only been to private property but also key infrastructure including roads. The claims losses represent almost half the annual premium pool for New Zealand.

New Zealand is currently dealing with high inflation and rising interest rates that are impacting both consumers and businesses. As a result, **discretionary spending is tightening and with rapidly rising premiums, many customers are grappling with affordability issues.** This combination of factors has created a challenging environment for many people in the country. It is also going to be a big year politically in New Zealand with the general election in October.

Q3

How is this likely to impact the insurance market?

The extent of the damage has overwhelmed many communities and the insurers are really struggling to work through the volume of claims. So there are claims processing delays and leading insurers Vero and NZI have provided brokers with delegated claims authority for some lower value claims. The processing and settlement delays are starting to frustrate customers and we are working hard to have our clients' claims pushed through and settled as quickly as possible. **Claims advocacy is one of the key ways we add value for our clients.**

The insurers are also already responding with significant pricing increases. At renewal, we are seeing premium rises of 20-50% in property classes and 10-20% in motor.

Q4

Are there any particular industry insights /developments to watch over the remainder of FY23?

With high inflation, higher interest and significantly increasing insurance premiums, insurance affordability is likely to become an issue for clients.

It appears this is more than a hardening of the market and it is likely there will be reduction in willingness to underwrite risks with flood and storm exposures. This may be at an individual risk level or imbedded into insurers' policy wordings. We saw these kinds of fundamental changes following the Christchurch earthquakes.

Clients are already starting to show higher levels of engagement in their insurance portfolios, **this is a good thing that has come out of these unfortunate events because it means customers are better insured instead of "setting and forgetting" their levels of cover.**

Q5

What 3 factors are most likely to impact the NZ insurance market over the next year or two?

Reinsurance costs and the impact these will have on insurance pricing and risk appetite.

Automation and digitisation of processes and interactions between intermediaries, insurers and insureds. **Technology will help to streamline the way we work, allowing for more efficient processes and faster turnaround times to ensure we maintain our focus on servicing our clients.**

Increasing regulation of the insurance industry, which will continue to change our processes and practices to remain complaint and provide high quality customer outcomes.

Q6

Finally, is there a piece of advice you find yourself repeating to clients (and why)?

Make sure you c**arefully consider your sums insured at each renewal and remember to update them mid-year if there are any material changes.** Use experts for valuations and don't guestimate. I can't say I have ever heard a customer after a major loss complain, "You advised me to take out too much insurance!"

Honan on the move

> Not spending time on the footy field anymore, I quickly found myself traveling to Lloyd's of London and managing a large team which was a sink-or-swim moment. I swam and have never looked back

is what Matthew Head, Head of Client Service - VIC, shared about his move from the footy field to a corporate role.

We caught up with Matt as he commences his new role to learn more about how looking for an employer that would support his sporting career as an AFL Field Umpire lead him into the insurance industry, what motivates him in his role and the surprising source for the career advice he'd give his younger self.

Q1 **Welcome Matt, and thanks for stepping into the Honan Careers Spotlight!**
First things first, let's start at the beginning... as a child, what did you want to be when you 'grew up'?

I wanted to be a professional sportsperson performing at a high level, preferably a runner at the Olympics. I remember being fascinated by walking into different stadiums around the world and being on the "field of dreams".

Q2 **You've been in the insurance industry for many years but began your career in a totally different field. Tell us a little about your career journey – where it started and how you've progressed to where you are right now.**

After I graduated, I was looking for an employer that would support my sporting career as an AFL Field Umpire which I did whilst also holding an office job. In reality, this meant flexible working hours to go to training and games. I started with an insurance brokerage that specialised in golf clubs which saw me playing about three rounds a week. A few years later, around the same time, I suffered a long-term injury and the brokerage was acquired by a global company. Not spending time on the field anymore, I quickly found myself traveling to Lloyd's of London and managing a large team which was a sink-or-swim moment. I swam and have never looked back.

Q3 **You're currently the Head of Client Service, VIC. What does this role entail?**

I manage a team of 18 brokers who provide insurance and risk advisory services to a portfolio of amazing clients. Part of it is negotiating deals with Insurers that are good for our clients by way of coverage, understandable language, minimal paperwork, quick turnarounds and competitively priced. At Honan, we always try to create a genuine difference for our clients and I'm proud to be a custodian of the Honan brand.

Q4 **Looking at your career path, are there any transferrable skills you were able to take from the footy field to your corporate role?**

On the footy field, I had to be the calmest person in the heat of the battle so you will rarely see me flip my lip when dealing with tricky situations. The ability to make decisions in an instant and under pressure while understanding the rule book and explaining it to players is not too different from dealing with policy wordings and clients.

Q5 **In the scheme of career progression, what is one of the most challenging obstacles you've come up against? How did you overcome it?**

I'm quiet and fairly introverted by nature. Learning to showcase what achievements, ideas, and challenges I had was a challenge. Over the years I've learned to be confident to put myself in front of senior people.

Q6 **What is the biggest risk you've ever taken, and did it pay off? Can be work-related or not**

Investing in property from an early age. I was encouraged by a family member to extend myself as much as possible (within reason). It's been rewarding in many different ways, especially when a renovation or build turns out being better than expected.

Q7 **What motivates / energises you most about your work/role?**

I like everything Honan stands for; it's fast, dynamic, upbeat and there's a desire to win. Showing up with this ethos every day highly motivates me.

Q8 What's one work-related goal you have set yourself to accomplish in 2023?

I'm working on a data-capturing project that will take us to the next level by helping to improve benchmarking our clients' insurance programs against comparable companies. I want to get this completed so we can weave some new magic for our clients.

Q9 Who is somebody who has influenced / inspired you most in your career, and why?

This is a question I find hard to answer because it's been bits and pieces from all the people I've met and the places I've been during my career. I've been very fortunate to work with some very talented insurance people in travels to London and the USA.

Another source of inspiration are the people I follow on Instagram and Twitter. I carefully select who I follow, mainly those who are training to reach a goal such as the Olympics or those that are starting up a new business. Truly inspiring!

Q10 Noting career 'success' is often underpinned by leveraging strengths and superpowers ... tell us, what's one of yours?

My strength is feedback, giving and receiving it in a timely manner. My superpower is "reading the play". In umpiring it was anticipating where the ball might go next and in insurance it's how a client might react and what an insurer might offer. It's all about having a hunch about what might happen and then dealing with it there and then.

Q11 Magic happens when organisational and personal purpose collide. What is it about Honan that keeps you coming back each day?

I've always been drawn to a high-performance environment and good leadership. Honan is that company where you get both.

Q12 If you could share one piece of career advice with your younger self, what would it be?

The Kenny Rogers song The Gambler is a great business and life metaphor about choosing the right battles and I wish I understood this earlier in my career:

"...Know when to hold'em, know when to fold 'em....".

It's fair to say sport is simply part of our DNA – whether it's football, marathons, cycling, or hockey. To learn more about how we can help your organisation create a holistic risk program truly fit for purpose and ready to perform, visit the Honan Sport website.

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