

HONEIN

QUARTERLY MARKET UPDATE

Q1 FY24



WELCOME TO HONEIN Q1

The beginning of FY24 has been quite eventful, with plenty of risks and news to keep up with. From reduced rainfall due to El Niño, an early start to bushfire season, premium relief for businesses in the Financial Institutions sector to increases in fuel prices that place significant strain on the Transport & Logistics sector. To help you stay in the loop and navigate these developments specific to your industry, our team of experts has gathered the latest industry news and emerging trends across Corporate Risk, Professional & Executive Risks, Global, Real Estate & Strata insurance, and Transport & Logistics.

The M&A market is another fascinating area that has shown both uncertainties and opportunities. In this issue, we dive into the recent data from the Australian landscape, revealing captivating dynamics that could shape the direction for businesses and investors in the foreseeable future. Plus, in our own M&A news, we proudly welcomed Citadel Insurance to the Honan family of brands last month. We spoke with Nicholas Bedggood - Principal & Founder to uncover his unexpected journey into insurance and his perspective on risk-taking. Don't miss out on these engaging stories!

Andrew Fluitsma
Chief Executive Officer

GOING AGAINST THE GRAIN

Honan's Acquisition Strategy

Amidst a rapidly evolving business landscape, Honan has emerged prominently with its bold acquisition strategy. In just 18 months, we have sealed over ten deals, veering from prevailing M&A trajectories that have leaned towards fewer transactions. This strategy isn't just about numbers; it has culminated in broader service offerings, superior customer engagement, and outstanding retention figures, boasting a staggering 98% customer retention and an NPS of 68.

Taking a closer look at what's happening around us, recent notable listings include Arm's debut on the Nasdaq, skyrocketing by a substantial 25% on its first day and raking in a commendable \$7.6 billion. Meanwhile, Maplebear Inc. (Instacart) had a buoyant launch, with its shares soaring from an initial \$30 to \$42 on day one. **It's fair to say that the M&A and IPO market in Australia has shown promising signs of revival this year and has exciting prospects, filled with both challenges and opportunities.**

M&A Trends in Australia

The M&A market has shown varied trends that reflect both the uncertainties and opportunities present today. Recent data from the Australian landscape reveals a set of fascinating dynamics that could shape the direction for businesses and investors for the foreseeable future.

01

Sectorial Shifts and Dynamics

One of the most striking trends is the **marked shift towards the Industrials sector**. Claiming a notable 31% of the total deal flow, the rise in this sector underscores the emphasis on ensuring supply chain security for Australian businesses, especially in an era where global economies are riddled with uncertainties.

Not all sectors have fared similarly as **the once dominant IT sector has seen a reduction**, accounting for 20% of total deal flow, a decline of 33% from its previous reporting period. The Healthcare sector too has slowed down in its M&A activities, suggesting perhaps a temporary saturation post the pandemic-induced boom.

The **Consumer Discretionary sector surprisingly witnessed a 16% surge in deal volume** but this growth might be tenuous and could reverse if economic conditions worsen.

02

The Corporate M&A Play

A significant revelation highlights the dominant role of corporates in the acquisition space. They have been responsible for 95% of acquisitions, a trend particularly evident in the Industrials and IT sector. Investment Managers have made a minor dent, accounting for just 5% of the deals.



The M&A landscape remains a complex web of intertwined factors, underlining the need for businesses and investors to stay agile and adaptive.



03

Understanding Valuation Metrics

Valuations have always been the linchpin in M&A deals. The EBITDA multiple, a significant metric, has seen a slight uptick, standing at 8.0x, up from the previous 7.8x. However, given the lower volume of reported deal multiples, this figure should be approached with a degree of caution. Larger businesses naturally command a premium, attributed to their stability and diversified earning potentials.

04

The Path Ahead

The M&A landscape remains a complex web of intertwined factors. Given the multitude of political and economic challenges, sectors like Industrials and Utilities are gaining renewed importance, while IT and Healthcare continue to hold significant potential. **The shift in the Telecommunication, Financials, and Materials sectors underlines the need for businesses and investors to stay agile and adaptive.**

Recent reports from industry stalwarts EY and Grant Thornton further highlight the unique opportunities businesses have to leverage these conditions. And as **Honan's strategy indicates, there's ample room for growth and success for those willing to understand and navigate the market nuances.**



CORPORATE INSURANCE

With the Australian government committing a \$1 billion disaster recovery fund to help Australian businesses tackle the impact of natural catastrophe losses, we might see a positive impact on insurers' profitability, which will drive insurer appetite and premium prices.

Industry insights for Q1



Following the tumultuous 1st January reinsurance negotiations earlier this year, annual treaty renewals occurred in June and July for many of the major Australian Insurers with a continued focus on risk accumulation in catastrophe-exposed risks, including flood, wind and bushfire. Reinsurers are still questioning whether increased rates are sufficient to cover potential risk, specifically due to increasing claims costs, rising asset values from inflation, cost of reinsurance capital, and expected natural catastrophic events. **The cost of reinsurance capital will likely be passed onto insureds, specifically for secondary perils, such as flood, bushfire, hail and storm.** Honan are watching these developments closely.

The construction industry, having learned valuable lessons from the combustible cladding crisis, is witnessing a substantial transformation in the insurance landscape. While coverage for claims related to combustible cladding is gradually becoming more accessible to practitioners, new challenges are on the horizon. **One area regulators and industry professionals have shifted their focus towards is waterproofing, recognising the potential flow-on effects of mould developments in the built environment.** As a result, insurers are taking a cautious approach when it comes to underwriting, closely monitoring the situation. Some insurers proactively tighten their policies by restricting coverage for claims arising from toxic mould varieties but insurance options remain available in the market for businesses impacted by these changes.

Developments to watch over FY24



The Australian government has committed a \$1 billion disaster recovery fund to help Australian businesses tackle the impact of natural catastrophe losses. This is complemented by an extensive \$200 million infrastructure program, designed to build resilience over five years through changes to housing development, zoning, and town planning. The deployment of this fund and program will be critical in supporting businesses and communities facing the impact of floods and fires in coming years, but also driving sustainability in insurance coverage and pricing in the future. **By reducing the impact and cost of catastrophic events, we might see a positive impact on insurers' profitability, which will drive insurer appetite and premium prices.**

With the Bureau of Meteorology declaring an official El Nino, it is important that insureds are well prepared for potential catastrophic bushfire losses in the upcoming summer season. **It is a critical time for businesses in risk zones to review any business continuity and disaster recovery plans and ensure adequate business interruption limits and indemnity periods.** With the upwards pressure on rebuild costs due to supply chain issues, cost of materials and general inflation, we advise businesses to make sure that sum insureds reflect recent asset valuations to avoid underinsurance. Lloyds Chief of Markets, Patrick Tiernan, weighed in on this issue at a recent industry convention, surmising that **the significant increase in insured values in high-hazard locations is driving the impact of catastrophic events, rather than purely the frequency and severity of the events themselves.**

To finish on a positive note, Bureau of Meteorology expects a "below average" cyclone season this year due to El Nino, a welcome potential relief for businesses in northern locations.



PROFESSIONAL & EXECUTIVE RISKS

While the financial markets continue to be underwhelming, the Financial Institutions (FI) sector remains stable with decreasing inflationary expectations, the interest rate environment potentially easing, and liquidity slowly entering the insurance market.



Directors & Officers Liability (D&O)

The D&O insurance market continues to soften as we come to the end of the first quarter of the new financial year. **Decreasing premiums continue to be the norm as we see an increasing supply of insurance capital from new local and overseas insurers providing competitive tension against existing providers.** This momentum is expected to continue for the rest of the year. Unlike the previous quarter, there are positive signs in the capital markets as liquidity is increasing and companies are successfully raising funds. This might lead to more stable premiums in the future as underwriters see insurance requests growing.

Similar to last quarter, average premium reductions remain consistent at ~10% across our portfolio with premium decreases for large accounts and improved coverage for quality risks. **Although underwriters are still cautious when it comes to public company market D&O insurance, pricing and coverage remain consistent with discounts achievable on quality-rated accounts.**

There has also been a stronger leaning towards the insurance market in London for Side A Difference in Conditions (DIC) placements. Side A DIC insurance provides excess coverage for directors when the underlying D&O insurance is eroded. The policy also provides coverage when claims are excluded by the underlying D&O policy. The predilection towards London is namely due to syndicates releasing more favourable wordings and coverage options in comparison to their Australian counterparts, not to mention more competitive pricing.

Key areas that impact the D&O underwriting process:

- **Cyber risk management** has never been more important. The cyber-attacks targeting Optus and Medibank made underwriters extremely cautious when it comes to cyber operational adequacy
- **Cash runway** is crucial. Despite capital market liquidity improving, the credit climate remains constrained
- Due to **increased capital raising activity and underperforming financial markets**, underwriters review capital raising documents with a fine-tooth comb to understand the nature and extent of representations made to the market
- **The backlog of securities claims** could have longtail effects on technical premium rates and capacity deployment, even when an individual account has the ideal risk profile



The industry segment, location, loss experience, market cap and financial health of your company are key factors that will always play a part in the underwriting process.



Financial Institutions



The Financial Institutions (FI) sector remains stable despite the financial markets continuing to be underwhelming. With decreasing inflationary expectations, the interest rate environment potentially easing, and liquidity slowly entering the insurance market, underwriters now look more favourably towards FI sector risks. **This means more competitive pricing and the allocation of insurance limits being a by-product.** Offshore insurance markets like Londen still broaden their risk appetite and sharpen their pricing, stimulating more competition in the Australian market.

Similar to last quarter, underwriters are still cautious of the macroeconomic conditions and will scrutinise risks on a case-by-case basis despite the general financial market outlook being more positive.

Key areas that impact the FI underwriting process:

- **Fintech cash runway** is crucial as several FinTech's have recently wound up despite having robust business models and positive performance trajectories in place
- **Cyber operational resilience** will be a key focus for underwriters, given ASIC (as part of its strategic four-year strategy 22-26) will be honing in on institutions with lax cyber risk controls
- **Funds with a high allocation to Web3** (open-source applications powered by blockchain) **or cryptocurrency-related exposures** have been reviewed by underwriters with extra caution due to their highly volatile nature
- **ESG-related claims** will be put under the microscope because of the increasing level of claims in this space
- Underwriters will intensify their scrutiny of AFSL holders who rent out their licenses to Corporate Authorized Representatives (CARs). There have been liability claims against insurers due to **inadequate supervision of CARs**, prompting a greater emphasis on proper oversight, risk assessment, and controls by AFSL holders

Most financial services claims come from banking misconduct or frozen redemptions in asset property funds.

Professional Indemnity



As loss costs and exposures in the insurance industry remained consistent, this continued to push pricing marginally higher overall. However, **the entrance of new, specialised PI insurance providers has helped to create a more balanced pricing environment** and, in some cases, reduced rates where strong risk management and the quality of risks have been demonstrated.

There was a growing emphasis on distinguishing different levels of risk in the underwriting process, and achieving better outcomes relied heavily on having thorough and reliable underwriting information, especially concerning measures to reduce risks.

We observed deductions on excess layer premiums, predominantly driven by new capacity entering the Commercial PI market. Primary markets continued to roll over, where strong risk management practices could be demonstrated.

Design & Construct PI remains a challenged class, particularly in the construction sector where insurers are risk-averse, and premiums are high.

Cyber Liability



Over the first quarter, the cyber insurance market continued to soften in favour of insureds. This was driven by improvements in insurer loss ratios and the influx of new capacity. In further positive news, **insurers increased limits, broadened their scope of coverage, and eased some of the previously imposed restrictions during renewals.**

Despite these changes, underwriting standards have remained stringent, focusing on factors like risk maturity, controls, and the collection of biometric information. Special attention was given to areas such as Operational Technology, Supply Chain Risk, and the volatile geopolitical situation in Eastern Europe. Insurers were particularly careful when offering coverage for critical infrastructure and events with systemic or correlated impacts.

It is likely that small-to-medium enterprises (SMEs) with revenue under \$3M, will no longer be exempt by regulators under the Privacy Act, facing [new obligations around the handling of personal information](#). If this change comes to pass, SMEs will need to be aware of and ensure minimum cyber security levels are embedded within their businesses to help protect client data.

The sustained improvement in pricing last quarter was influenced by heightened competition, enhanced cybersecurity measures, an overall decline in ransomware incidents in 2022. Ongoing reductions in excess layer premiums also contributed to the overall decrease in program pricing.

In general, coverage expanded and in some instances, we saw the removal of coinsurance obligations and increased enhancements to sub-limited coverage. Insured parties that could demonstrate strengthened cybersecurity measures were typically able to negotiate lower deductibles.



GLOBAL & NETWORKS

The flow-on effect from the increased claims and losses due to extreme weather events causes reduced profitability for insurance companies. This continues to influence risk assessment and pricing within actuarial models, further reducing capacity in the US market.

In the ever-evolving global landscape of the insurance industry, staying ahead of the curve is not only a challenge but a necessity. Nowhere is this truer than in the United States, where its ever-shifting market forces require insurers to adapt continually. For businesses in the Asia Pacific region looking for opportunities to expand their operations in the US, it's essential to be on top of the latest trends reshaping the American Insurance landscape.

Gleaned from our partner brokers in the US, here are five key trends.



Economic instability: liquidity and capital management

The impact of rising interest rates on an insurance company's investments will depend on various factors, including its investment strategy, the mix of assets in its portfolio, and the duration of its liabilities. Insurers employ various risk management and investment strategies to navigate the effects of changing interest rates and to maintain the financial stability necessary to meet their policyholder obligations. These increases might result in insurance premiums not being affordable anymore for clients which in turn may force a reduction in cover or policies being lapsed, ultimately reducing the insurers' top-line revenue.



Climate change and sustainability

Extreme weather events like floods and bushfires are a significant concern for the insurance industry globally. The industry faces challenges in assessing, pricing, and managing the risks associated with these events, and it must adapt to the changing landscape by developing new strategies and solutions to address climate-related risks. The flow-on effect from the increased claims and losses causes reduced profitability for insurance companies. This continues to influence risk assessment and pricing within actuarial models, further reducing capacity in the market. Ultimately, this can lead to regulatory change by the local USA government and further investment portfolio impacts.



Competition from other industries

Tech companies will become big players and provide new competition for insurers. With these new non-traditional players who are able to access data on companies' insurance needs, insurers will have to adapt by implementing their own in-house technology to evolve client experience and risk assessment tools.



Modern technologies: disruption and adoption

Advancements such as AI, Blockchain and Machine Learning have a profound impact on various aspects of the industry, including customer engagement, underwriting, claims processing, and risk assessment. These developments can lead to efficiency gains and improved risk identification and mitigation methods, calling for insurers to keep up or they might otherwise risk losing market share.



Diverse regulatory requirements by jurisdiction

Each state in the US and each jurisdiction operates differently regarding local requirements. That's why it is essential to have a broker with multinational experience and relationships with recommended local brokers in countries across the globe. These brokers with local knowledge will be able to ensure that you comply with the individual states product and financial regulations, market conduct and licensing. Having local policies in place is therefore strongly recommended.





STRATA

Premium increases are impacted by inflationary pressure on claims, increasing valuations of buildings, and insurers applying rate increases following prolonged periods of losses.

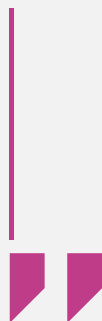
Key insurance outtakes from Q1



Since the start of FY24, strata premiums are increasing nationally by about 15-20%. These increases are driven by claims costs inflation, rising building valuations, and insurers raising rates after periods of losses. Looking forward, **committees, lot owners, and body corporate managers should anticipate premium hikes of 15-20% for clean claims records and up to 30% for those with challenging claims histories.** Occasionally, premiums for desirable risks have begun to stabilise due to underwriters re-entering the market with new risk appetites and Northern South East Queensland receiving benefit from the ARPC Cyclone Pool.



Buildings with defects received the most challenging premium increases, imposed policy conditions and challenges with obtaining insurance. Strata managers and owners should work closely with insurance brokers to communicate clear action plans and regular progress updates to insurers for known issues such as open claim causation maintenance or defects.



International Insurance Markets can provide an alternative for insureds when local insurers don't provide cover, but we continue to observe cost-prohibitive premiums.

Buildings in Northern Australia may notice premium relief if eligible for inclusion in the ARPC cyclone pool. The cyclone pool is designed to lower insurance premiums for households and small businesses with high cyclone and related flood damage risk by reducing the cost of reinsurance. All major insurers are required to join the cyclone pool by December 2023 but it remains to be seen if insurer underwriting appetite and capacity in North Queensland will change.

New development trends in Australia's major cities



The Urban Development Institute of Australia (UDIA) has released its 2023 State of the Land report, a study into the strata industry for buildings constructed in 2022, and an overview of the new development pipeline in major cities.

In 2022, multi-unit dwelling completions in capital cities dropped by 3%, totalling 45,429 units, down 45% from the 2017 peak. Meanwhile, the pipeline for new multi-unit supply has decreased by 1% overall, with the most significant reductions in Melbourne, Sydney, and the ACT. Southeast Queensland's pipeline increased by 12%, driven by 'Early Planning' and 'Under Construction' units, while Perth stabilised with a 3% increase, and Adelaide's pipeline reduced by 3%.

Challenges affecting strata new development growth

Lending for the construction of dwellings has decreased significantly, with lending for newly erected dwellings also down due to rising interest rates. Further interest rate increases are expected to continue putting pressure on housing market activity in 2024. International supply chain disruptions during the pandemic, rising freight costs and increased construction material costs and shortages have driven up housing construction input costs. Prices of materials like timber, plaster products, and concrete have increased, impacting building costs. **The same supply challenges and increased costs for buildings materials that are challenging for developers also impact the insurance industry in relation to claims cost escalation and underinsurance.**

New property developments – takeaways for Owners and developers



Poor design and quality

Two decades of declining design and building quality in large multi-level developments have resulted in a host of issues including structural defects, passive fire penetration defects, waterproofing failures, and water ingress issues. **Structures containing materials such as flammable ACP cladding or NRG Greenboard (rendered EPS foam), are attracting higher premiums and the insurer appetite for buildings containing these materials continues to be limited.**

The growing popularity of garden rooftops, rooftop pools, and balcony greenspaces has raised insurer concerns about water membrane failures, maintenance issues, and fire hazards. We have also seen instances where strong winds have blown trees off rooftop greenspaces which is a potential liability exposure. We strongly advise property owners and developers to assess and conduct risk surveys for long-term design and build quality. The Body Corporate should have current maintenance programs in place.

Each insurer has a set of underwriting guidelines that influence their risk tolerance and in turn, the premiums they offer for new developments.



Insurers can change their underwriting guidelines and premium rates, varying from 50% to 100% from time of indication quoting until practical completion which can be years later.





Strategically timed insurance placement

Upon practical completion of the development, the construction insurance policy ceases to provide coverage. At that time a strata policy should be put in place to provide insurance coverage for the building. After the registration of the Body Corporate (BC), the developer must secure insurance for a full year from the registration date. This requires an endorsement to extend the policy's expiry date. Some insurers enforce mid-term policy cancellation and subsequent reinstatement for a full 12 months from the registration date.



Precise valuations for new developments and existing strata buildings

At Honan, we address concerns regarding second-year premium increases within Bodies Corporate following property valuations. **Opting for insurance coverage solely based on the project's construction cost can result in insufficient coverage in the event of a total loss.** International supply chain disruptions, rising freight costs, and increased construction material costs and shortages have driven up housing construction input costs. In turn, this increases the cost to repair or replace properties in the event of a claimable loss.

For this reason, **a comprehensive insurance valuation should factor in debris removal, professional fees, escalation, and complete rebuilding expenses.** We strongly advocate for an independent valuation before practical completion or within 60 days thereafter, ensuring the initial premium reflects the building's complete replacement cost. Existing Strata Buildings should also make sure their valuations are up to date. Individual state legislation and recommendations vary, calling for updated valuations anywhere from 2 to 5 years. Please refer to the relevant legislation for your State / Territory.



A comprehensive insurance valuation should factor in debris removal, professional fees, escalation, and complete rebuilding expenses.





REAL ESTATE

Housing affordability and the rental crisis remain front of mind for our Real Estate Partners. While the governments commitment to housing supply is a positive sign for the real estate and strata industry, reprieve might be years away.

Key insurance outtakes from Q1



After the catastrophe events in early 2022, the past 12 months of insurance events have been tempered in comparison and have provided insurers with some much-needed relief. Real estate insurance premiums continue to increase, mainly driven by inflation and insurers recouping historical claims losses. **The global supply chain for building products has seen little to no reprieve, adding further additional pressure to claim costs, which are already sitting at inflated levels.** Significant net overseas migration is helping to alleviate the skills shortage but is also compounding the rental crisis.

Looking at international influences on the strata, property and real estate market for reinsurance, the Northern Hemisphere summer of 2023 has been recorded as the hottest in recent history. El Niño pushed up temperatures and drove extreme weather events across much of the Northern Hemisphere and this in turn has kept up the pressure on global reinsurance markets.

In Australia, there have been recent bushfires in NSW and Victoria, along with some flooding in the Gippsland region. These events have primarily affected sparsely populated rural areas and have had a relatively minor impact on insurance losses. Nevertheless, they could serve as concerning indicators for the upcoming season.

Industry insights for Q1



A red-hot housing market continues as prices hit a new post-pandemic record high. The combined value of Australian housing rebounded to \$10 trillion at the end of August 2023, the first time the total estimated value hit double digits since June 2022. From a housing debt perspective, inflation is growing at its fastest pace in 20 years. Australia's annual inflation rate has hit 7%, according to the Australian Bureau of Statistics' latest quarterly figures. The RBA has now increased rates 12 times since May 2022 to 4.1 per cent, taking rates to their highest level since they sat at 4.25% in April 2012. The Senate inquiry in August heard that almost 650,000 households across Australia were experiencing some form of financial stress, with stories of renters struggling amid soaring prices and low vacancy rates.

Residential Landlords

Housing affordability and the rental crisis remain front of mind for our Real Estate Partners. Rental vacancies and the share of properties available to rent in Australia have hit a record low of 1.10%, and the annual rent increase is currently sitting at over 16%. In the past two and a half years, median rent values have risen by as much as they did in the entire 13 and a half years before that.

Will the Housing Australia Future Fund (HALF) fix the Housing Crisis?



The Housing Australia Future Fund is a \$10 billion investment fund the government will create, with the returns each year used to create social and affordable housing. This investment will provide a long-running supply of social and affordable rental housing.

How will it work?

HALF is touted as a \$10 billion policy – but that's not how much will go directly into building new homes. \$10 billion will go into an investment fund and the fund can lose or gain money annually. However, the government guarantees a minimum housing spend of \$500 million each year, regardless of the fund's performance.

How many homes will be built?

The government says 30,000 new social and affordable rental homes will be built over the fund's first five years (6,000 annually). We don't know exactly where all 30,000 homes will be built, but we do know every state and territory will receive at least 1200 each.

Will HALF fix the housing crisis?

Industries state HAFF is unlikely to close the gap of the 25,000 social and affordable homes needed annually as the fund will only cover 20% of the current five-year forecasted need. Investment into townhouses and apartments will need to occur as a priority due to the lack of available green sites for building. The government's commitment to housing supply is a positive sign for the real estate and strata industry, however, reprieve is years away, with the additional pressures of increased population growth continuing to intensify.

What do these developments mean for the insurance industry?

Property Managers are feeling the brunt of a highly competitive market. Advances in technology to ease and appease their workload are of high value. **The need to ensure Landlord Insurance limits are set in line with the current rental agreement and Rent Default cover has been selected has never been more important** as pressure on household budgets continues to increase. Ensuring property managers are skilled and supported can help reduce the Professional Indemnity exposure for the agency in times of high contest.

Developments to watch over FY24



If a summer of catastrophic events in Australia does eventuate, we expect to see property insurance as a remaining challenge for another year with higher excesses, restricted cover relating to areas such as floods and increasing premiums.

The cost of living crisis combined with the current rental crisis and mounting household budget pressure has the potential to flow through to an increase in Rent Default related claims.

Build To Rent (BTR) accommodation will be an important investment for the sector to embrace in the next year with the number of investors targeting Australian Build-to-Rent (BTR) having grown exponentially over the past 2 years. The pipeline has already seen a 50% increase this year, highlighting the growing interest. The involvement of institutional investors is pivotal for the success of BTR.

The Australian short-term rental market has been growing strongly. The sector has increased almost 23% over the past year. Victoria will be the first state to implement a levy on short-stay accommodation and some politicians are advocating for rental caps and better regulation of short-term rentals like Airbnb. UNSW has looked at both sides of the issue saying that a two-year emergency rent cap could offer relief to tenants, but it might also result in landlords choosing to sell their properties.



TRANSPORT & LOGISTICS

Standard features on trucks are continuing to expand and many of these safety features provided in small trucks are similar to top-of-the-range passenger cars. In time, these features have the potential to support the reduction in the incidence of claims and may help to lower insurance premiums.

Key insurance outtakes from Q1



Unfortunately, Q1 has been characterised by insurance premium rate increases across the board for trucks, trailers, and plant and machinery. These overall 'hard market' conditions are the result of high claims costs (both in terms of volume and severity of claims), as well as the high vehicle and machinery replacement costs.

In response to these factors, insurers are being more selective in the risks they are willing to underwrite. For example, some of the larger transport insurers will not currently write insurance for a small operator with multiple claims, as they currently view this as unprofitable. There also continues to be reduced insurer appetite and capacity for distressed (high claims) accounts. Large fleet accounts that do not have many claims are the exception and insurers are still pricing these risks competitively. This is because large leading fleet accounts tend to have strong company risk management policies and procedures, a culture of safety, and a focus on driver wellbeing.

Prices for the second-hand vehicle market remain competitive. In this environment however, underinsurance is a significant issue, and there is a risk of clients not being adequately covered in the event of an incident. We urge clients to ensure they are insured for a sufficient amount to protect their businesses.

Industry insights for Q2



A shrinking pool of available drivers is an ongoing issue, causing some small operators to reduce the size of their fleets and operations. **An influx of less experienced drivers is adversely impacting insurers through an increased frequency of claims** whereas experienced, well-trained drivers tend to have fewer claims than less experienced drivers.

A shortage in available parts continues to slow down vehicle repairs. Clients may consider the option of downtime cover when taking out commercial motor insurance or renewing their current policy, as this may provide relief in the event of lengthy repair processes and claims delays.

Developments to watch over FY24



Data from [The Australian Bureau of Statistics](#) released in late September showed that automotive fuels had increased almost 14 percent in the 12 months to August. From an operator profitability perspective, **the increase in fuel prices is placing significant strain on the transport industry**, particularly smaller operators who often struggle to pass on costs to the companies for whom they are hauling goods.

From an electric truck uptake perspective, there is still a lot of work to be done to enhance infrastructure at both the Government and industry levels.

A wave of new technology targeting safety continues to sweep through the industry and the advent of telematics technology (including engine diagnostics, vehicle location, and driver behaviour) is spreading quickly. Standard features on trucks are continuing to expand and many of these features provided in small trucks are similar to top-of-the-range passenger cars. In time, these features are likely to support in the reduction of claims incidence and may help to reduce pressures on premium increases.

Grow as We Go

M&A ACTIVITY AT HONAN

Kicking off our M&A activity for FY24, we proudly welcomed Citadel Insurance into the Honan family of brands, which includes Certus, Carollo Horton, ATIA, Trumpet, and Rehab Life. To introduce you to our latest addition, we sat down with Nicholas Bedgood, Principal and founder of Citadel Insurance to share a little about himself, the brand, and his ambitions for FY24 and beyond.

citadel.
Insurance. Advice. Support.



Founder
Nicholas Bedgood

Established
2016

Location
Newcastle, NSW

Joined Honan
September 2023

Q1**What is the crux of Citadel Insurance?**

It is all about being available and providing honest and exceptional service. These components have contributed to Citadel's success over the years.

Q2**Can you tell us a little about how Citadel Insurance came to be?**

I was selling boats in Sydney and my wife Lucy and I were about to have our first child. Lucy suggested that I might want to get a job that paid better. I used to have a beer with a general broker at the Greengate Hotel on the North Shore in Sydney and he always seemed to be doing well. It was then I had my epiphany moment – 'everyone needs insurance, not everyone needs a boat' – so it was then that I decided to make the move into insurance.

Q3**People who work in insurance often say they 'fell' into it. As a child, what did you want to be when you 'grew up'?**

Really simple, an airline pilot like my uncle but mathematics and I never really got on as well as we should have. I've worked in fashion, stockbroking, the marine industry, and now general insurance.

Q4**What is the biggest risk you've ever taken in work or life, and did it pay off?**

Participating in four Sydney to Hobart Yacht races – best thing I've ever done.

Q5**Who is somebody who has influenced/inspired you most in your career, and why?**

Actually no one person in particular to be honest. My inspiration has been to observe that passion and hard work do actually pay off.....plus Shane Warne – the King!

Q6**What are you most excited about for the business over the next 12 months?**

Growing Honan in Newcastle and Sydney under the Citadel banner, particularly in the marine space.

MELBOURNE | SYDNEY | BRISBANE | PERTH | ADELAIDE | DARWIN | NEWCASTLE | AUCKLAND
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