Insurance and Risk Management
Credit and Guarantee Management
D&O and Cyber
International Insurance Solutions
Pension and Employee Benefits

SÜDVERS

# Market Report
## 01/2021


# Legal Notice

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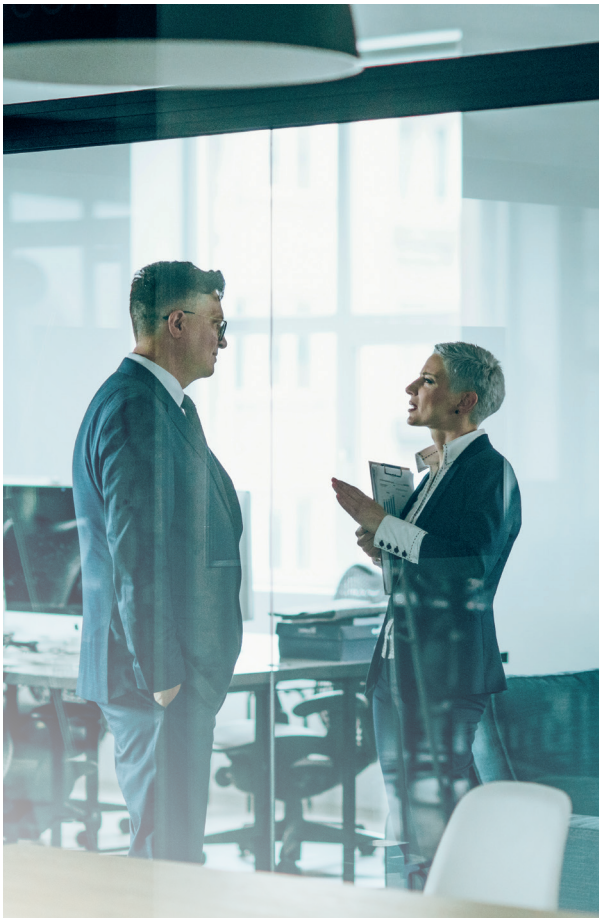


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# Key factors

In the future, many more factors will be taken into account in the development of premiums. For example, the sustainability strategy of companies will increasingly become a focus of consideration.

An adjustment of deductibles or the self-adjustment of claims may also have a positive impact on the premium development of individual companies in 2021.

The currently unforeseeable number of insolvencies expected in 2021 and their associated impact will cause premiums to rise sharply in some areas.

A sharp increase in cyber related losses is also expected in 2021. The shift in workplaces toward working from home in almost all sectors is creating new gateways and driving up premium development while at the same time lowering coverage amounts.

The shortage of qualified personnel will continue in 2021, causing delays and, in some cases, a lack of quota share payments on the part of insurers.

# Preface

Unfortunately, the pandemic has been with us longer than expected, pushing everyone to their limits. This poses particular challenges for entire sectors and thus also for the insurance industry. The past Renewal for 2020 has not only demanded a lot from SUDVERS. The prevailing peculiarities in market conditions, largely driven by the coronavirus pandemic, presented special challenges for the successful placement of all our customers' risks. We are therefore all the more pleased that our customers can look forward to 2021 with confidence after full placement as early as December 2020 and can focus entirely on their original business.

The pandemic acted as a lever on the hardening of the industrial insurance market already evident in 2020. Internationally active insurers in particular are feeling the effects of this in the form of additional claims expenses. In risk management, the question of how to insure against a pandemic in the future is more urgent than ever. In this regard, a dialog must be sought with the government on the issue of state liability. In addition to the pandemic, climate change and the all-encompassing topic of sustainability have now also arrived on priority lists everywhere – including insurers. From now on, climate-related risks must be analyzed comprehensively and integrated into the overall view, because the increase in climate and natural catastrophes is widely identifiable. In the scope of this, there is no way of getting around the necessity of putting short, medium and long-term strategies in place for the assessment of sustainability.

So there are still enough issues in 2021 that will present the renewal 2021 with challenging framework conditions. We at SUDVERS are happy to meet these challenges – with excellent specialist depth, digitalization and innovative approaches, we help our clients with our customary perfection. In doing so, we are supported by clear and transparent communication with customers and insurers. Whether virtually or, hopefully increasingly again, face-to-face.

Yours sincerely,
Ralf Bender
CEO of SUDVERS

# **Property and loss of earnings**insurance

The last renewal in property insurance was characterized by partly very significant premium increases and a reduction of capacities. Some contracts could only be renewed with great difficulty.

It is already becoming apparent that the coming renewal will be associated with similar challenges. Some insurers have already announced their intention to continue with premium increases. It remains to be seen whether this will be the case across the board or only selectively for policies with a negative claims experience or for selected industrial sectors. What is certain, however, is that insurers will continue to deploy their capacities in a very targeted manner and, in some cases, with restraint. The challenge of placing large capacities or risks assessed as "problematic" remains unchanged.

It is currently open whether and, if so, how insurers want to implement targeted demands from the reinsurance market to exclude cyber losses on a broad scale. Changes are to be expected for large and international customers in particular. Multi-year policy terms will hardly be available and can only be agreed for selected individual cases.

The importance of prevention, loss prevention, dealing with hazardous situations (in short: risk management) remains high. Companies that strengthen their own risk awareness and act accordingly will continue to benefit from competition among insurers in the future. However, companies that are reluctant to participate in the process of risk improvement will again have to reckon with noticeable premium increases and may also have to bear part of their risk themselves.

In 2021, insurers will continue to feel the effects of their sometimes thin staffing levels. For example, quota share levies continue to be rejected with increasing frequency due to a lack of personnel capacity.

Premiums are expected to rise.

Risk management

"On the part of insurers, there is a noticeably higher need for information."

# **Liability** insurance

The market for commercial and industrial liability insurance continues to present a mixed picture: in the segment of medium-sized companies, a hardening of the market on a broad front continues to be imperceptible. While in the case of industrial risks, adjustment tendencies were already noticeable from the last renewal, in some cases. In the case of large international liability insurance programs, insurers are reducing their maximum capacities that can be represented in a coverage line. This leads to an increased need for coordination in contract renewals.

Focus remains on exposed sectors such as the automotive supply and construction materials industries. Even in the case of largely loss-free individual risks, against the backdrop of steadily rising overall loss figures in these industries, adjustments will be most pronounced in the form of higher premiums, lower capacities, and increased ownership. Risks with high US exposure are also affected by this.

The coronavirus pandemic has so far only had a modest impact on the liability sector. The rapid recovery of the economy in the second half of 2020 has in many cases made it possible to absorb sales shortfalls from the first two quarters, thus forming a comparatively stable basis for the calculation base in liability insurance. On the claims side, industrial liability insurance has also been affected to a minor extent by the coronavirus. Nevertheless, insurers already reacted to the last renewal round with coronavirus risk exclusions.

For companies taking out insurance this year in particular, it will be crucial to create risk transparency vis-à-vis insurers in order to be able to exploit all leeway in renewal conditions.

"New insurance tax regulations necessitate a review of international program structures."

A slight increase in premium development is to be assumed.

# **Group accident** insurance

Following the extensive expansions of terms and conditions in recent years, loss-affected policies will continue to be systematically restructured. Any reorganizations are therefore not related to specific lines of business, but are of a more general nature – with regard to the claims development of the respective contract.

The coronavirus-induced relocation of large parts of the workforce to working from home has led to new forms of coverage in group accident insurance. Accident risks in connection with working from home can now be insured as a separate form of coverage, detached from the assignment to an occupational accident.

International accident insurance programs continue to be in demand.

"**Good conditions** can still be achieved if the claims experience is good."

# **Automobile** insurance

In previous years, automobile fleet insurance has seen repeated premium adjustments to bring the combined ratio out of loss territory. Although the frequency of claims has reduced, increased repair costs continue to make for a tight automobile market. The figures have certainly eased somewhat as a result of the coronavirus pandemic, but a lasting effect cannot be assumed here.

Positive loss ratios on the part of customers continue to be rewarded in that premiums remain stable and in some cases reductions are even possible.

Due to the dynamic development of car-related processes, fleet and claims managers as well as brokers and insurers will have to continue to find tailored solutions.

In the case of damage-prone car fleets, insurers are willing to forego or reduce remediation if the policyholder pays more into the owner coverage and deductibles are introduced or increased.

# **Transport** insurance

In general, many policies are grossly underpriced due to the intensive renegotiation of the marine insurance line of business over many years. In these cases, the premium is no longer in line with demand, which means that insurers need to make adjustments. With risks developing positively and stable to good loss ratios, there is still a willingness on the part of insurers to negotiate.

Thanks to new technologies and increasing mechanization of means of transport, the industry hopes to create a risk/premium structure in line with demand within the next few years. Certainly, claims experience remains to be seen for mega-container ships, which will play a significant role in insurers' premium reserves for accumulation risks in the future. Compared to previous years, coverage for scheduled warehouses is increasingly checked for all risk parameters via marine insurance and is only underwritten very selectively. As a rule, a risk questionnaire must always be submitted and positively checked for new storage facilities, and for known storage facilities a new risk check is also carried out in each case if the storage amounts are increased. In addition to the usual key data related to standard storage questionnaires, the risk situation regarding natural hazards and the existence of general safety features is increasingly analyzed and updated.

Co-insurance of warehouse risks is usually only possible by supplying comprehensive and advantageous risk documentation.

# **Technical** insurance

In the area of technical insurance (TV), stable premiums can be expected on average. One contributor to this is machinery insurance, which – characterized by fierce competition among insurers – offers demanded capacity for risks with good claims experience at stable premiums. In principle, the insurer market is open to "new technologies" and exposed TV risks, but in some areas tends to underwrite them in a more strategically restrictive or cautious manner.

Despite positive claims experience throughout the industry, the electronics insurance line continues to develop steadily, without significant changes in premiums. A slight increase in claims in the area of building services insurance, as well as personnel expenses for processing at the insurers, contribute towards a slightly rising premium trend.

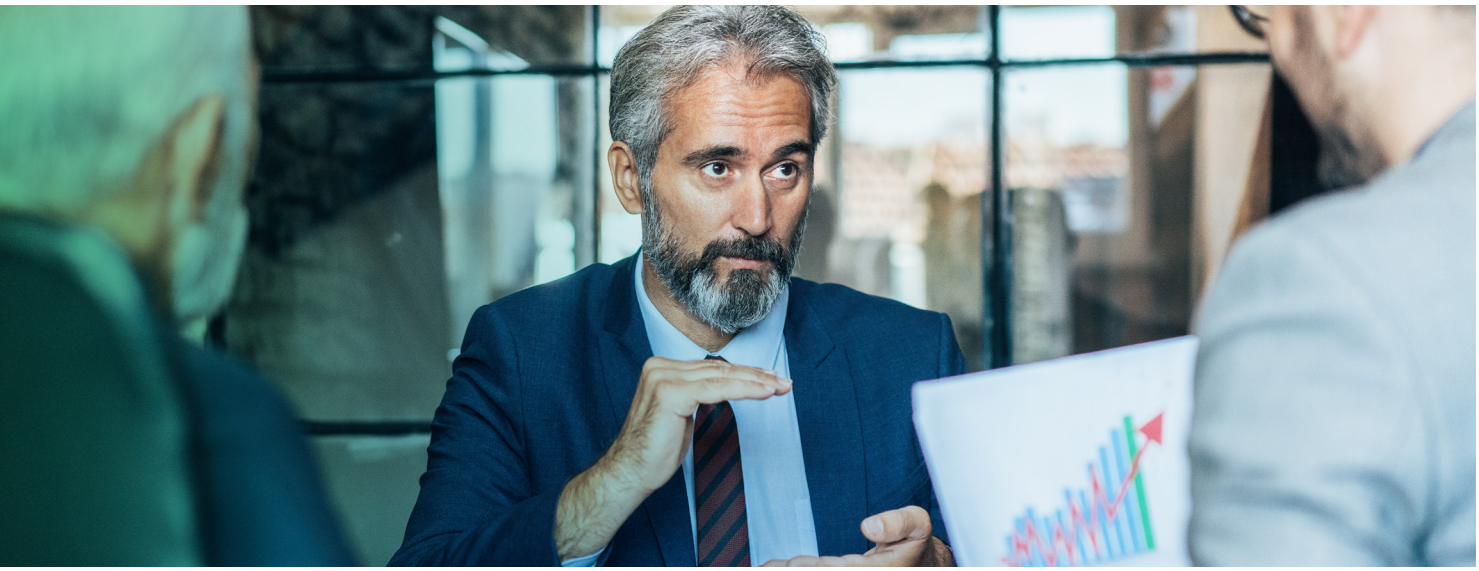
"Peak risks, e.g. from the area of large-volume civil engineering and building construction projects, as well as from the energy industry, will in perspective only be insured through higher premiums – detached from the actual loss burden."

A constant to max. slightly increasing premium trend is to be expected in the area of engineering insurance.

# **Fidelity** insurance

There continues to be a pronounced increase in claims figures in the market, especially due to third-party losses (hacker attacks, fake president, fake identity and payment diversion). This is further accelerated by working from home, with often reduced security measures and changed organizational processes. Insurers are not yet reacting with general premium increases, but with more intensive risk assessment and selective adjustments. Loss prevention through preventive measures such as regular employee training and ongoing investment in IT security will continue to be extremely important.

"Loss avoidance through **preventive** measures"



There is generally no sign of a more pronounced increase in premiums.

The intensity of risk assessment as well as selective adjustment on the part of insurers is increasing.

"Companies must prepare for **rising deductibles** for difficult risk classes."

# **Credit** insurance

Even though, according to the German Federal Statistical Office, we are currently seeing a significant decline in corporate insolvencies despite the coronavirus pandemic, this will not remain the case. Government loans, grants and guarantees, as well as bailout funds and the law suspending the obligation to file for insolvency, which has been in force since March 1, 2020, are deceiving companies about their actual situation. With the abolition of these instruments, a drastic increase in corporate insolvencies must therefore be expected in the 4th quarter of 2021, at the latest after the German parliamentary elections. Credit insurers are already preparing for this situation in advance and are successively increasing the premiums in their policies.

A sharp rise in the number of insolvencies is expected by the end of 2021.

Insurers are already preparing for the rising number of insolvencies due to rising premiums.

# **D&O** insurance

The D&O market has already hardened drastically in 2020 in terms of premiums, coverage amounts and conditions due to the very high and further increasing claims burden and the impact of the coronavirus pandemic on the financial situation of companies. The year 2021 will also be characterized by a further hardening of the D&O market: falling sums insured, further increases in premiums, a significant deterioration in terms and conditions, and increasing difficulty in obtaining coverage. This applies above all without restriction to contracts with a sum insured of €10 million or more, but only to a lesser extent to contracts with smaller sums insured.

The original standard capacity of €25 million is no longer offered on the market. Depending on the risk, insurers are now only prepared to underwrite a maximum coverage amount of €15 million in basic and excess policies. For certain risk sectors, only €10 million is now offered. Coverage capacities are being reduced again, among other things by eliminating double maximization and defense cost supplementary limits. Some insurers have already withdrawn from the D&O market, while others are still not writing any new D&O business.

The coronavirus pandemic is hitting some industries very hard and the fear of a large wave of insolvencies and claims is driving D&O insurers to react drastically. The D&O market will therefore have to live with significant price increases. We expect the current premium increase to continue, even at already adjusted premiums.

On the terms and conditions side, contract content is further reduced (among other things, reduction of subsequent notification periods, deletion of inventory guarantees and retroactive coverage as well as coinsurance of own damage, inclusion of exclusions such as the insolvency exclusion).

"Insurers' information needs have greatly increased regarding the financial and business implications of the coronavirus pandemic on companies. This increased need for information will continue over the next few years."

Premiums are expected to rise sharply.

The original standard capacity of €25 million has now been reduced to just €15 million maximum coverage.

# **Cyber** insurance

Cyber attacks due to ransomware and the associated losses such as loss of earnings due to business interruption, ransom demands as well as data protection breaches have again increased significantly in 2020. Companies are thus facing ever-changing cyber security threats. This trend will continue in 2021, as hackers will continue to target corporate IT with newer ransomware.

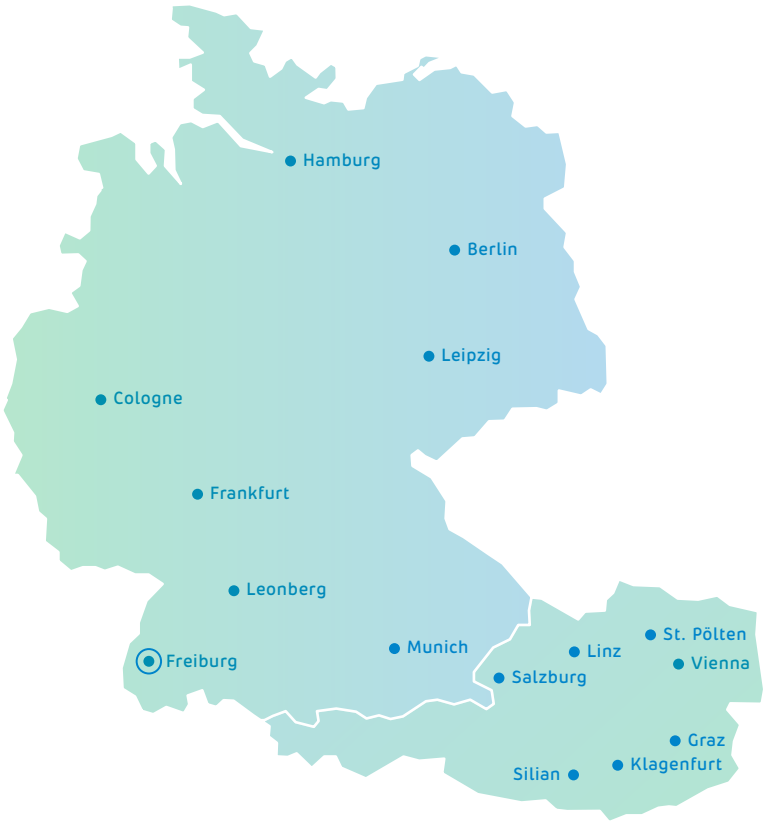
Cyber risk management is thus a critical component of the governance task of corporate management. Here too, the coronavirus pandemic plays a reinforcing role: working from home impacts security vulnerabilites and as such, the potential for cyber attacks to occur is increased. There will therefore be a further significant increase in premiums in the cyber market in 2021. It will hardly be possible to enforce coverage extensions any longer.

In addition, higher coverage amounts will lead to capacity reductions, as no insurer in the market writes higher coverage amounts than €15 million, especially in new business. Some insurers have already withdrawn from the cyber market completely or with regard to key sectors. As a result, insurers' need for information on IT security has increased significantly in new business and in policy renewals.

More than **50%** of German SMEs do not have an IT contingency plan in their drawer for emergencies.

Premiums are expected to rise sharply.

# Trust through proximity
## Our locations in Germany and Austria

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