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PFA Masterclass

Melbourne – 09/08/2022

Sydney – 17/08/2022

Presented by Ryan Neary



About us

GSA was established in 1990 to provide Insurance and Risk Management services for large corporate businesses and ASX listed companies. Recently we became part of the Steadfast Group, the largest general insurance broker and underwriting agency network in Australasia with fast-growing operations in Asia, UK and Europe.

With a staff of 70, we operate from our CBD offices in Sydney, Melbourne and Brisbane to provide service to clients throughout Australia. Our company is led by a stable, cohesive **leadership team** committed to delivering excellence for our customers.

Our global network



Our Australian network



Our chosen charities



Our Sydney office



Our leadership team



PAUL HINES
Executive Chairman



JAMES TELFORD
Chief Executive Officer



CARLO GENTILI
Head of General Insurance



CHARLES GALAYINI
Head of Business Development



DIANNE THOMAS
Head of Workers Compensation



HELEN LI
Head of Finance



RYAN NEARY
Head of Financial and Professional Lines



ROCCO PIRRELLO
Head of Operations



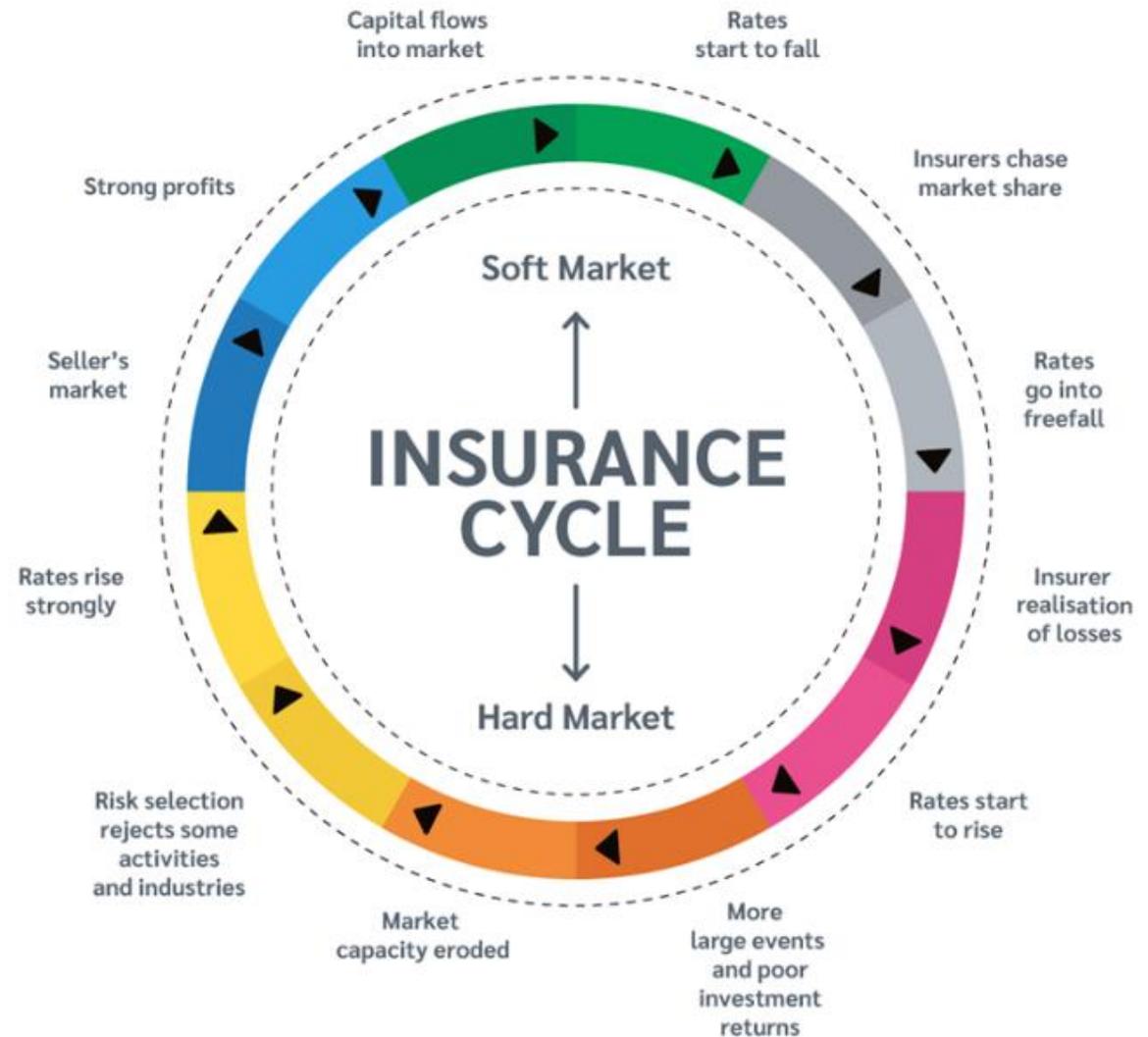
Overview

- ❖ Insurance Market Cycle
- ❖ The Role of a Broker
- ❖ Compliance Framework
- ❖ Directors and Officers Liability
- ❖ Professional Indemnity Insurance
- ❖ Cyber Liability Insurance
- ❖ Climate Risk
- ❖ General Insurance
- ❖ Natural Disasters and Catastrophic Weather Events
- ❖ Building Costs and Construction Periods
- ❖ Covid 19

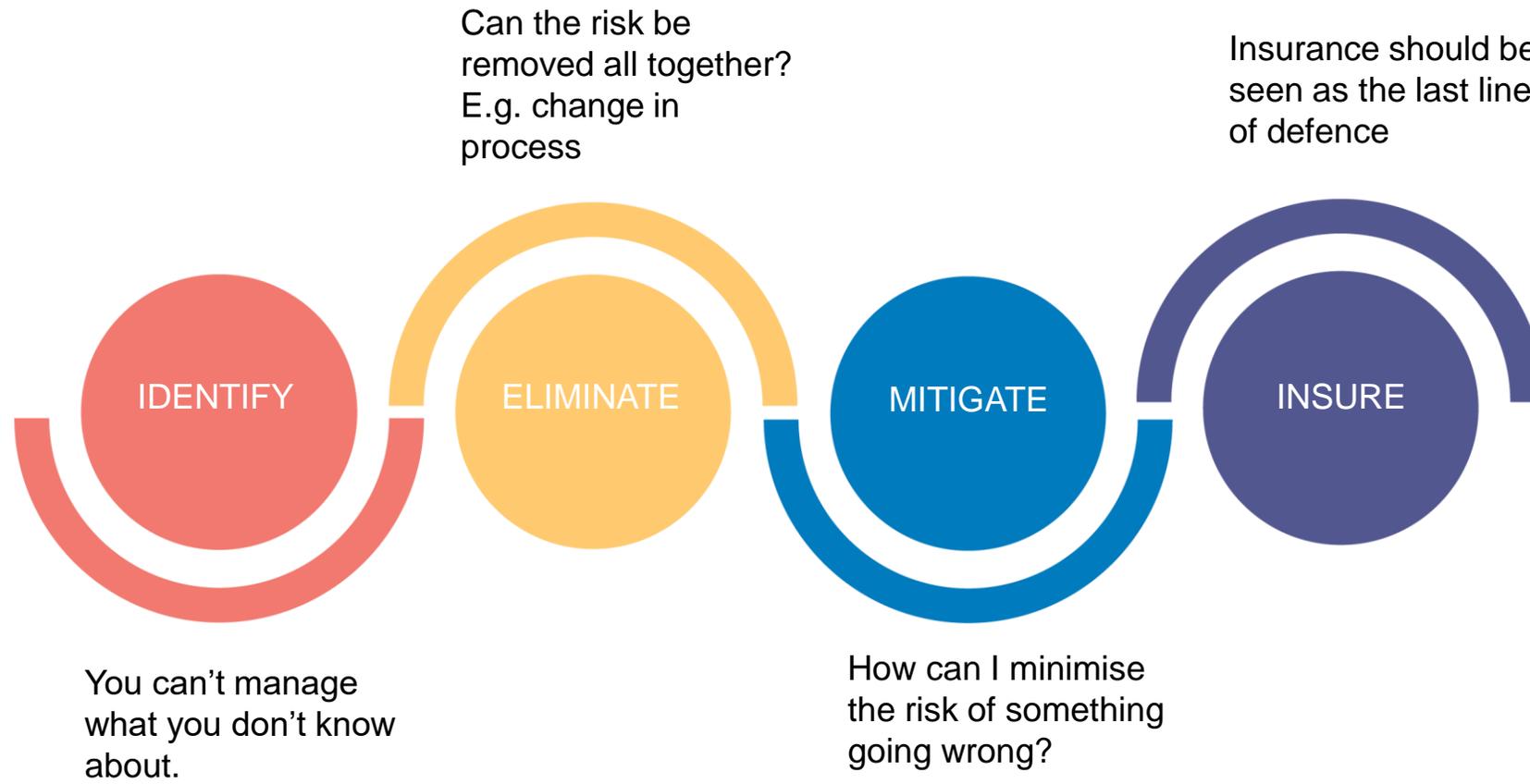


Insurance Market Cycle

- Number of Insurers exiting market
- Heightened Operational and Insolvency Risk Factors
- Refined risk selection from Underwriters

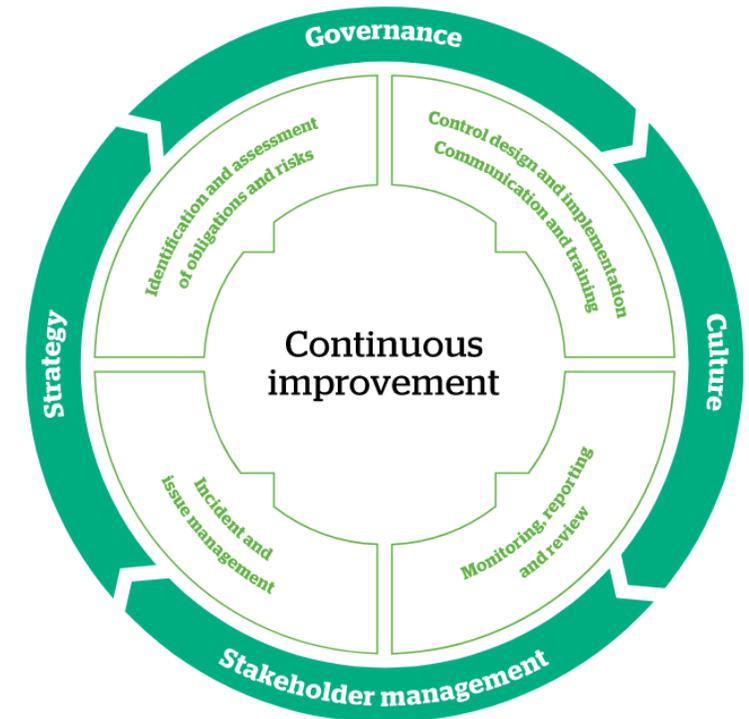


The Role of a Broker?



Compliance Framework

- Compliance culture, formalized into regular (quarterly) compliance meetings
- Third party compliance support recommended
- Demonstrate keeping up to date with regulation
- Demonstrate maintenance of compliance framework
- AFSL policy framework in place
- Regular audit schedule



Directors & Officers Liability

KEY INSURER INDUSTRY CONCERNS

- Regulatory Investigation (inquiry costs)
- Firm and/or Management misleading or unconscionable conduct
- Employment relations
- Audit outcomes highlighting improper or inadequate operational risk management
- ASIC – governance failures, cyber governance failures, misconduct

MARKET SITUATION

- ❖ Market stabilization – lower premium increases
- ❖ ESG is at the forefront of Insurer's minds
- ❖ Listed companies often removing Side C Cover

Professional Indemnity

KEY INSURER INDUSTRY CONCERNS

- Fraudulent conduct
- Breach of Mandate (Misleading information contained within disclosure documents)
- Factors outside of the business such as
 - Rising Interest Rates
 - Inflation
 - Value of Assets (re-valuations)
- **Assets of Concern**
 - Development Property Funds (Both Residential and Wholesale)
 - Debt / Mortgage Funds
 - Single Asset Property Funds (Lack of Diversification)

Cyber Liability

ASIC vs RI Advice

- Federal Court found that a failure to adequately manage Cyber Risk constitutes a breach of AFSL obligations.
- RI Advice (Authorised Rep network of 119) – 9 cyber security incidents in 6 years
- RI Advice aware of deficiency, took 3 years to make improvements
- Fined \$750,000 towards ASIC's costs

The Federal Court's ruling that RI Advice failed to have adequate cybersecurity risk management systems is a sign of things to come, according to the Cyber Security Research Centre.

In May, RI Advice was found to have breached its Australian Financial Services license obligations on multiple occasions over a six-year period between June 2014 and May 2020 as it failed to have adequate risk management systems to manage cybersecurity risks. RI Advice was ordered to pay \$750,000 in court costs but did not receive a fine as the breaches occurred before 2018

However, for breaches later than 2018, fines could be as much as \$525 million following changes to legislation.

Cyber Liability

WHAT WE ARE SEEING



**Ransomware /
Malware**



**Network Interruption /
DDOS**



**Social
Engineering**



**Cybercrime /
Scams**



**Data Breaches /
Insider Threats**



**Physical Realm /
Non Electronic
Records**



**Business
Interruption**



**Supply
Chain Risk**

Cyber Liability

MARKET UPDATE

- Premiums skyrocketing (up to 150%)
- Increased data collection
- Expectation to follow security measures
- Insurer capacity reduced to \$5m (previously \$10m) or withdrawal
- Coverage restrictions:
 - Increased deductibles
 - Increased waiting periods
 - Limited ransomware exposure
 - Addition of “co-insurance” clauses



Getting the best Cover/Premium

- Have a strong compliance framework
- Start the renewal process early
- Make your underwriting submission stand out
- Engagement with Insurers
- Partner with a Broker who knows the Property Funds industry



Climate Risk

Growing exposure for Directors & Officers

- Boardroom accountability
- Mandatory disclosure of climate related financial risks
- Increased focus by Australian regulators
- Increased litigation, activist or investor driven
- Shift in investor/shareholder/client expectations

What to start thinking about

- Identifying and understanding risk
- Adhering to best practice guidelines
- Consider, manage and mitigate the impact of climate risks
- Risk of “greenwashing”



General Insurance

The trends that we have experienced over the past 12 months are due to continue into 2022, with local and global conditions posing substantial problems to the insurers. 2021 was yet another challenging year for insurer with the following key factors all impacting the overall market;

- Natural disasters and catastrophic weather events
- Claims inflation
- The ongoing effects of COVID-19
- Cyber-attacks and more sophisticated criminal activity.
- Political unrest including changes in government
- Insurer's profitability and ongoing remediation
- Environmental, Social and Governance (ESG)



Natural Disasters and Catastrophic Weather Events:



A heightened frequency and severity of natural disasters has had a pronounced impact on the property market across the Australian and Lloyd's markets.

Key examples include;

1. Catastrophe 221: South East Queensland and New South Wales Floods (Claims Incurred: \$4.83bn),
2. Catastrophe 216: Severe Storms in South Australia, Victoria, and Tasmania (Claims Incurred: \$832m)
3. Catastrophe: 214: Victorian Severe Storms and Flooding (Claims Incurred: \$308m)
4. Catastrophe 213: Cyclone Seroja (Claims Incurred: \$365m).

Obtaining affordable coverage for risks such as Storm, Cyclone & Flood is becoming increasingly difficult with insurers limiting cover for property situated in impacted areas

Building Costs and Construction Periods.

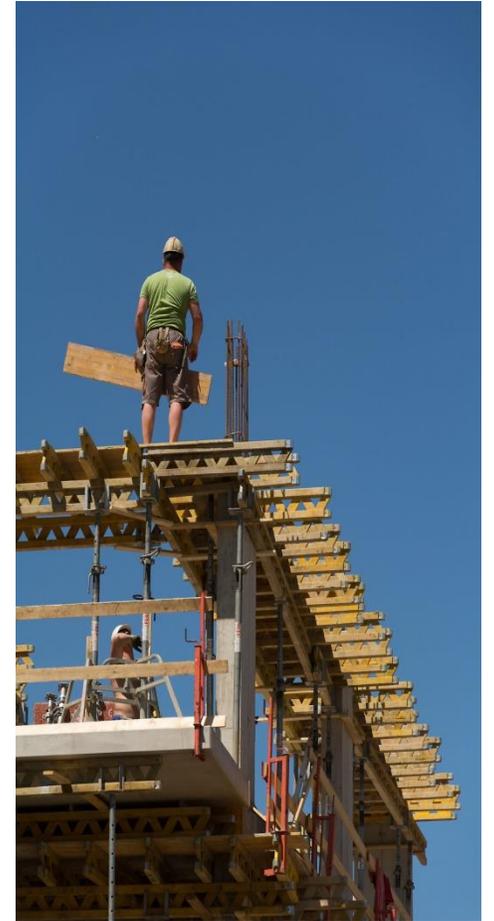
Building costs across Australia are being **heavily impacted by inflation**, a trend that looks set to continue as construction demand outstrips supply for both labour and materials.

Material costs, labour shortages, and **longer construction times** are major issues arising from the pandemic.

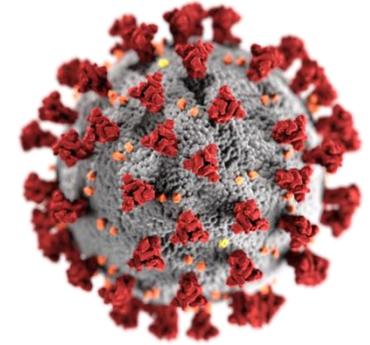
The unprecedented **increase in the cost of building materials** has been compounded by major labour shortages and as a result, reinstatement works over the last 12-months have been delayed, all of which are exacerbating replacement costs.

As a substantial amount of Australia's equipment and materials are sourced from overseas, international events can have knock-on effects in Australia.

This highlights the importance of obtaining updated building valuations and reviewing insured values and indemnity periods each year.



COVID-19



COVID-19 – COVID-19 has had a direct impact on the supply chain, including the availability and pricing of building materials as well as labour shortages. This has caused the cost of rebuilding to increase. In-turn declared values and indemnity periods have increased.

COVID-19 Exclusions are continuing to be applied across most policies as outlined below:

- Property policies by way of a broad Infectious Disease Exclusion;
- General Liability policies to remove cover for potential negligence (visitors), product liability (e.g. air-filtration systems) or personal injury (e.g. wrongful eviction /imprisonment) claims;
- Corporate Travel policies now provide limited coverage as it is a known event;
- Directors & Officers Liability policies to remove cover for alleged mismanagement and breach of duty claims.



Q&A





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Thank you

