MercerMarsh Benefits

ASIEQ Quarterly Forum & General Meeting

Excess of Loss

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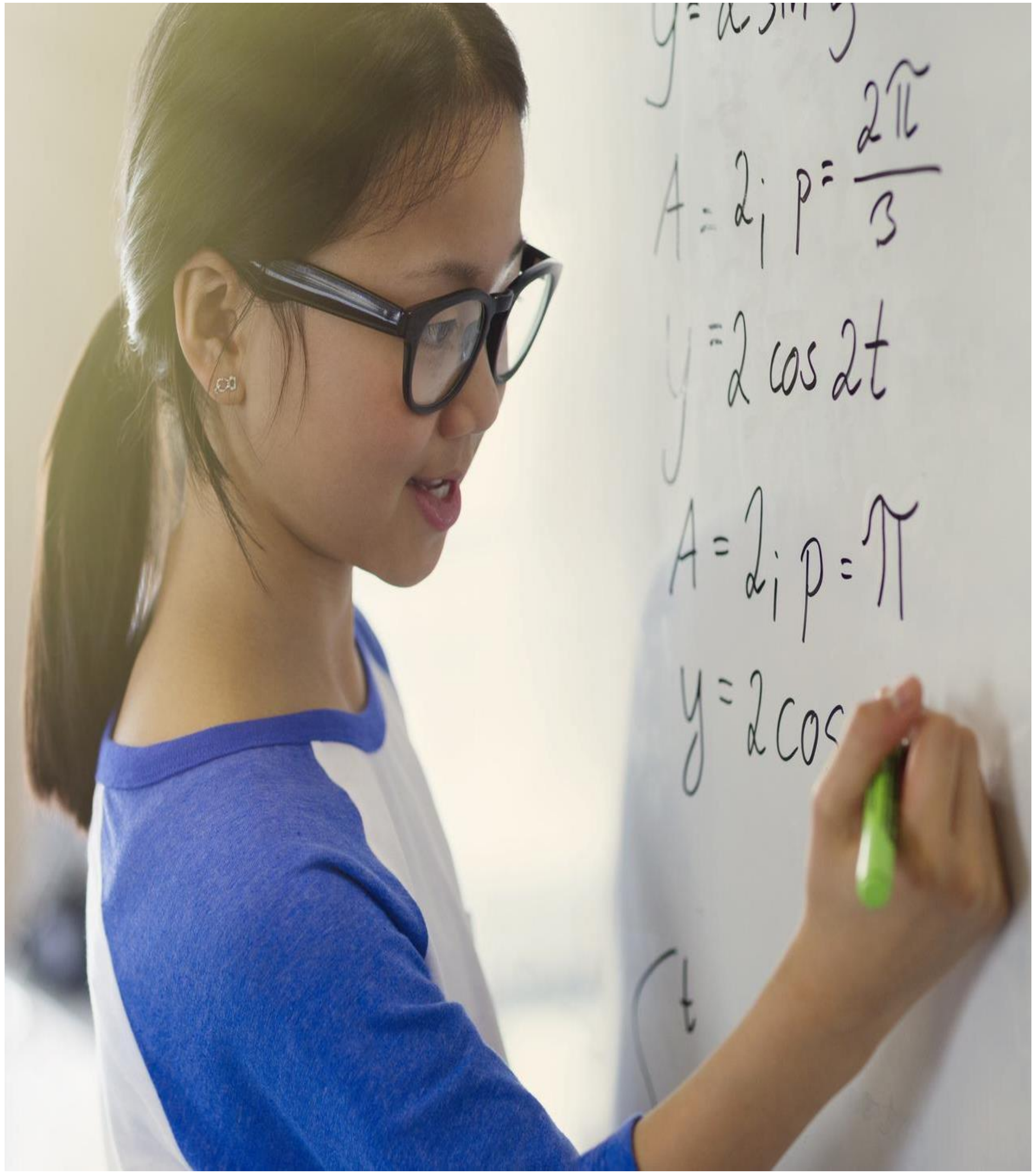
1. What is Excess of Loss (XOL) Insurance?
2. Insurance Market Overview
3. Current State
4. Where to from here?
5. Enablers

Agenda

What is XOL Insurance?

- Excess of Loss (XOL) is an insurance product that provides Self Insurance Licence Holders with protection to mitigate the costs of large value claims
- XOL insurance is a requirement for Self Insurance licence holders providing unlimited reinsurance to restrict liability to a maximum amount for any one event
- This maximum amount is known as the self-insured retention limit (SIR). This amount is determined by the Insurance Policy and is indexed/un-indexed
- An XOL policy will only respond once each event has breached the retention limit



Market Overview

- XOL is an insurance product for Self Insured licence holders
- It isn't a large class of insurance, $31m v $1.6b WorkCover Queensland scheme premium
- Traditionally an ancillary product for major Workers' Compensation Insurers
- Problems arising as insurers have been alerted to large losses which weren't factored into underwriting models when charging premiums
- Issues created from lack of reporting claims but also insurers not being proactive
- Insurers have become tougher on policy wording compliance
- Number of available insurers has shrunk meaning
  - Less capacity and appetite
  - Premiums more expensive
  - Increased retention limits
  - Focus on policy wording compliance

Current State

- Vero withdrew in 2021 and QBE announced their exit in 2022
- Allianz and Liberty are the remaining insurers
  - Allianz traditionally sought de-risked business
    - Minimal risk exposure
    - High retention limit
    - High premium
    - ESG review
  - Liberty were remediating their portfolio and have become increasingly selective based on risk, accumulation and claims management
- With limited markets, there is a potential that licence holders are left wearing increased retention limits (**$2m**), premiums or potentially no cover
- If the scheme keeps performing poorly, it could result in Allianz or Liberty withdrawing, or both
- Current conditions do not welcome new entrants

Where to from here?

- With the potential for complete market failure, Marsh has engaged a number of regulators including WCRS
- XOL policy requirements are legislated and it would take time to change legislation
- Marsh positioned a number of options which included:
  - XOL policies written by non APRA regulated insurers
  - Accessing global markets such as Lloyds
  - Utilising surety as a form of XOL
  - Removing XOL requirements
  - Removing the unlimited liability on a policy
  - Obtaining XOL through a captive arrangement
- Some of these options are not feasible due to legislative requirements however we are pursuing some options to ensure that a solution exists
- Get your support in flagging your concerns with WCRS that you are having challenges in the market and pushing that they make the Minister aware, create a working group as other regulators have
- Putting pressure on them to speed up the retention limit review process

Enablers

With challenging conditions in the market, it is extremely difficult to find cover.

In light of the challenges, there is still some poor behaviours however the market has stepped up. What does good look like?

- Clear understanding of policy obligations
- Strong reporting culture
- Proactive and collaborative engagement with Insurer
- Robust claims and injury management principles
- Appropriate estimating on claims
- Ensuring legal providers are across policy requirements

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