DAC BEACHCROFT

Property Predictions 2020

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From renewables to riots, we offer our international experts' predictions on the opportunities and challenges that the property insurance market may face in the coming year and beyond.

1. Underwriting for the unknown in renewable energy

The Haliade-X wind turbine has a blade length longer than a football field. It is currently being tested but how can the engineers design for all the conditions this 260m offshore turbine is likely to encounter? A bladeless turbine is currently being developed and may come to market within 12-18 months. If more efficient than 'traditional' turbines, the oscillating rods will take underwriters back to square one as to the likely losses. Looking forward, insurers will need to be cautious while also enabling new renewable energy technologies to have access to affordable insurance and thereby lowering our dependency on fossil fuels.

2. Insuring lifestyle and the death of disclosure

Technological developments will pave the way for insurers to shift their focus onto insuring individuals rather than objects. On-demand functionality and better collection and use of data will allow individuals to update their cover from moment to moment, whether they are boarding a plane, leaving the house or being driven to work. This may then mean that all the recent Insurance Act and Consumer Insurance Act developments on disclosure will ultimately become redundant and be replaced by real-time automatic status updates. The ultimate goal is a completely frictionless future, where customer experience will be king.

3. To riot or not to riot?

Hard Brexit, or not hard Brexit? To Trump, or not to Trump? One way or another the unusual tensions and divisions brought into sharp focus in Western politics over the last few years are likely to become exacerbated. Inevitably, significant numbers will feel their side of the argument has been ignored by politicians and history teaches us that where social or political emotion runs high, then civil unrest should never be discounted. We saw it in London in 2011 where riots led to £200m in property losses and a further £50m in business interruption. More recently, Extinction Rebellion orchestrated various demonstrations with the potential to cause both property damage and business interruption losses. Further afield, Chile's social unrest, Bolivia's uncertainty over election results and the doubling of fuel prices in Ecuador have led to violent protests. Perhaps post Brexit, we will see the first test of the new laws and procedures under the Riot Compensation Act 2016 (supported by the 2019 CII Riot Claims Handling Best Practice Guide), designed to streamline and modernise riot-related claims.

4. Uncertainty over higher value disputes may spell more property insurance payouts

Insurers may see an increase in the number of payments under property policies following the increase in the Financial Ombudsman Service's (FOS) jurisdiction and award limit. For acts and omissions which took place after 1 April 2019, the maximum award has more than doubled, to £350,000 (subject to annual adjustment). Eligibility now also extends beyond micro-enterprises with fewer than ten employees and a turnover or annual balance sheet less than €2m (£1.72m) to SMEs with a turnover of under £6.5m and either an annual balance sheet of under £5m or fewer than 50 employees. A more cautious approach on policy coverage issues may be required given that the FOS ought to consider the law but is not bound to follow it. Rather, an ombudsman must consider what in their personal opinion is fair and reasonable in all the circumstances.

5. An Australasian Perspective: Silent cyber risks in smart homes and offices will become loud issues for insurers

Smart homes and offices create various data protection and privacy risks. Cybercriminals can potentially access voice-controlled command centres and use electricity surges to destroy appliances or breach physical security. Even online smart fridges sending delivery orders could be vulnerable to attack and expose insureds to personal data theft and identity fraud risks. The term 'silent cyber', the exposure to cyber incidents contained in traditional policies, will start to get a lot more attention as technology is increasingly relied on. In England and Wales, Lloyd's have already mandated that policies should expressly affirm or exclude cyber risk, starting with property policies by 1 January 2020. Australasian insurers should follow these developments as they too start to exclude silent cyber risks in traditional policies in the property and liability insurance markets.

6. An Australasian Perspective: Climate risks will have a growing impact in coastal areas

Climate change is impacting coastal property risks as a result of erosion, sea level rises and storm surges. Modelling, including timeframe projections, is being done around coastal properties that may be affected by these changing risks and this issue is being considered by governments at all levels. In Australasia, the insurance industries are calling on governments to help address the risks by strengthening building codes, planning practices and infrastructure that prevents further loss. The Insurance Council of Australia is also seeking to have tax disincentives on insurance products removed. In New Zealand, climate risk does not currently appear to be incorporated into the price of residential coastal properties. But it is expected that higher insurance premiums and insurance retreat in coastal areas will soon have a material impact on private decision making.