



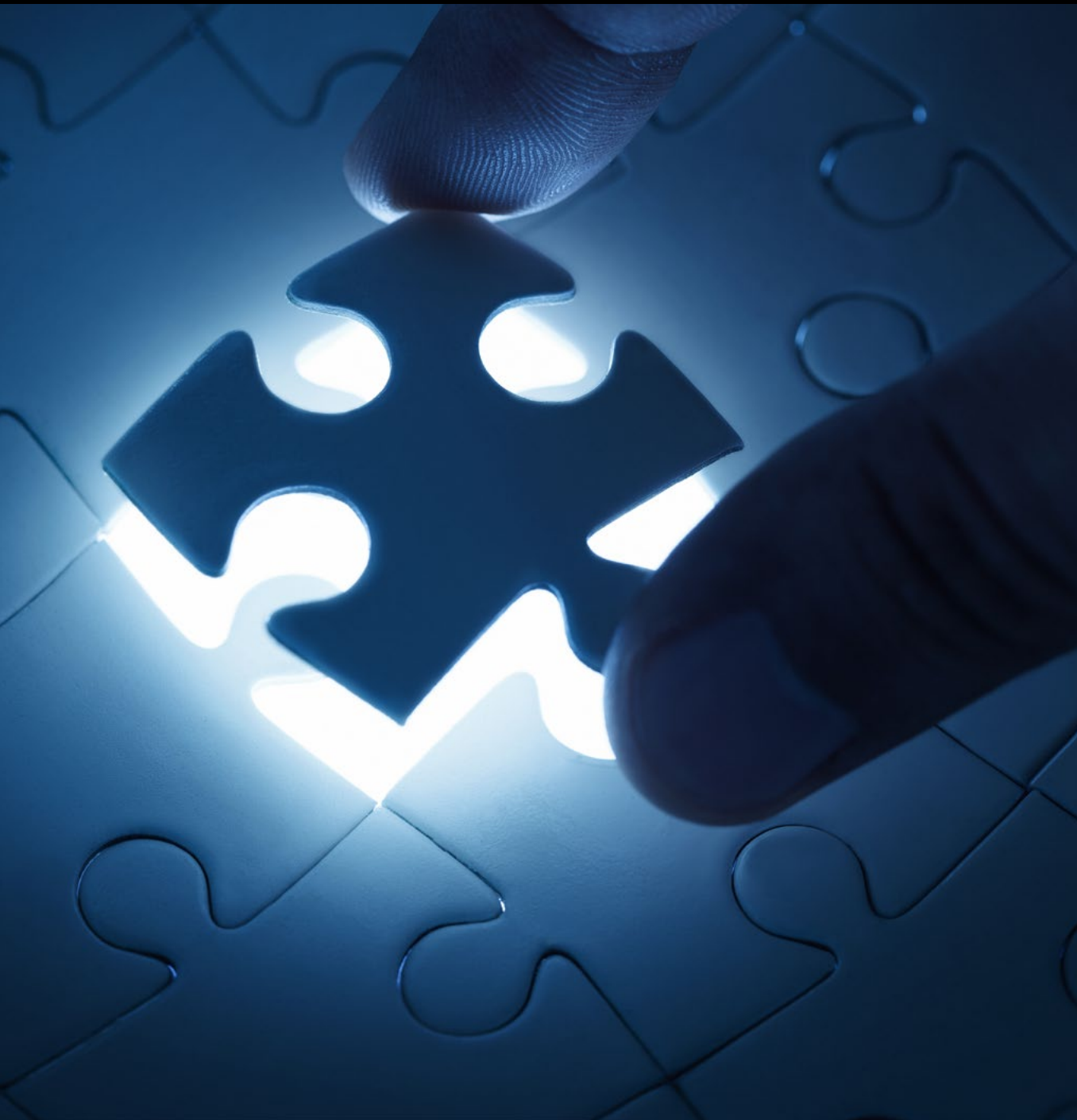
Excess of Loss (XOL) Insurance

Renewal Guide

How to get the best possible outcome this renewal.

2024





Why read this report

The workers' compensation XOL reinsurance market has undergone significant changes in recent years, which has led to challenging renewal processes for many self-insurers.

With a limited selection of XOL reinsurers remaining, coupled with ongoing underperformance in the market, this year's XOL renewal cycle is likely to be just as challenging as the preceding couple of years.

To ensure your upcoming XOL renewal runs as smoothly as possible, and to help you achieve an optimal outcome, Lockton's specialist XOL placement team have shared some of their key insights into the current market conditions as well as strategies and tips for self-insurers to obtain the best possible renewal outcome.

UNDERSTANDING XOL INSURANCE

XOL insurance is a mandatory requirement for all self-insurers of workers' compensation. It provides a financial safeguard for self-insurers against significant losses or events that exceed a specified threshold.

Unlike standard workers' compensation insurance, self-insurers have the flexibility to choose from a range of excesses, known as a Self-Insured Retention (SIR).

This flexibility allows self-insurers to tailor their coverage according to their risk appetite and financial capabilities, with the extent of the risk transfer from the self-insurer to the reinsurer directly influencing the XOL premium.



THE CURRENT XOL MARKET

In recent years, the XOL reinsurance market has experienced increasing pressure, largely due to sustained significant losses, leading to underperformance within this insurance category for reinsurers.

Prior to April 2021, there were four reinsurers in the Australian XOL market – an already limited number of providers.

Since 2021, two out of the four participants, Vero and QBE, have both withdrawn from the market primarily due to unprofitable portfolios. Consequently, only Allianz and Liberty Specialty Markets (Liberty) remain as the sole reinsurers in the XOL market.

As a result, over the past two years, self-insurers have had to transfer their XOL programs to one of these remaining two reinsurers.

REINSURERS FACING ONGOING CHALLENGES

Despite the exit of Vero and QBE, the XOL reinsurance market remains challenging for Allianz and Liberty.

How self-insurers are contributing to the distressed market:

- 1. Late-reporting of claims**
The late reporting of claims by workers' compensation self-insurers has persistently plagued XOL reinsurers, significantly impacting the profitability of this class.
- 2. Delayed settling of claims**
Reinsurers are facing difficulties with self-insurers that may be reluctant to settle claims in jurisdictions where it is permissible to do so, thereby exacerbating strain on their portfolios.

How reinsurers are responding

The declining performance of the XOL reinsurance market has presented numerous challenges for self-insurers, compelling them to employ proactive navigation strategies.

As part of their XOL portfolio remediation efforts, Allianz and Liberty have made significant changes to the way they manage claims reporting by clients, as well as to their XOL policy wordings and renewal processes. Over the last two renewal cycles, Lockton has observed the following:

01

INCREASED FOCUS ON MITIGATION OF LATE-REPORTING OF CLAIMS

Recognising the detrimental impact of delayed reporting on their portfolios, both reinsurers have made substantial investments in additional resources to address the issue of late-reported claims. These investments are aimed at managing larger portfolios more effectively, while also fostering closer collaboration with clients.

02

REQUESTING MORE INFORMATION AT RENEWAL

There has been a shift towards requesting additional information during the renewal process. This includes a concerted effort to gather comprehensive claims history data and gain a deeper understanding of how self-insurers estimate claims.

03

PUSHING FOR HIGHER SELF-INSURED RETENTIONS

There is a notable trend towards pushing for higher SIR. Both Allianz and Liberty are anticipated to propose a minimum SIR of \$1 million for all future renewals, with the possibility of even higher thresholds for Comcare arrangements.

04

REVISED POLICY WORDINGS, PRIMARILY AIMED AT ENHANCING NOTIFICATION OBLIGATIONS

Both reinsurers have recently introduced revised policy wordings, with a primary focus on enhancing notification obligations.

5 key actionable takeaways to achieve an optimal renewal outcome

As we near the commencement of the renewal cycle, it is imperative to ensure that you are well-prepared to secure the best possible outcome for your upcoming XOL renewal.

To support you in this endeavour, we have compiled the following key insights to help guide you through the renewal process:

01

Start the renewal process early



It is essential that your broker initiates the renewal process well in advance of the renewal date to adequately review your existing program and understand your specific circumstances leading up to renewal. This proactive approach has become even more critical due to increased reinsurer information requirements.

02

Conduct a thorough analysis of your XOL program



Prior to initiating the renewal process, your brokers should conduct a thorough analysis of your XOL program to enable an informed decision regarding the most suitable Self-Insured Retention (SIR) level. By evaluating a range of factors such as claims data, risk tolerance, and financial capacity, your broker can provide valuable insights to help you determine your organisation's optimal SIR level.

03

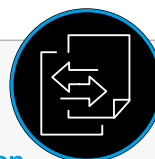
Provide complete information



Self-insurers are strongly advised to provide comprehensive information to their reinsurer, ensuring thorough addressing of all aspects of the questionnaire. By doing so, self-insurers provide time for the reinsurer to evaluate the renewal information thoroughly, while also allowing time for the reinsurer to respond should additional information be required.

04

Implement robust claims estimation and notification processes



Reinsurers typically favour clients with robust practices for estimating claims, as well as efficient notification processes. If your organisation has yet to implement such processes, there may still be time to do so and potentially have a positive impact on this year's renewal.

05

Develop a strong relationship with your reinsurer



Your broker plays a crucial role in facilitating introductions between self-insurers and reinsurers, especially in cases where such relationships do not yet exist. Established connections with reinsurers can offer significant advantages during the renewal process.

How Lockton can help

Lockton's experienced XOL placement specialists oversee the marketing and placement of a substantial number of XOL policies. Their expertise ensures that clients receive tailored solutions that align with their risk management objectives.

If you require advice or a second opinion regarding the effectiveness of your XOL program renewal, Lockton's specialists stand ready to provide guidance and support.



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