W+K APIG SCHOLARSHIP

2020 WINNER'S SUBMISSION

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Financial institutions have faced their fair share of challenges in recent times with many of them on national show during the Financial Services Royal Commission. Add to this the increasingly favourable litigation environment in Australia and a hard financial lines insurance market, we arrive to a major issue. Specifically, small to medium sized diversified financial services businesses such as but not limited to financial planners and mortgage brokers are struggling to procure professional liability insurance, for many, a requirement to hold an Australian Financial Services License.

Daily articles of regulatory investigations and other litigation has seen the insurance underwriting market respond to the increase in both frequency and severity of losses attributable to this sector in many ways, from decreasing limits, increasing retentions and increasing pricing, to amending their risk appetite for specific occupations through to complete withdrawal of underwriting capacity.

One effect is larger listed organisations, often have much larger robust balance sheets and while insurance capacity has withdrawn from the market and premium costs have increased, they are still able to purchase a tower of insurance. On the other hand, smaller businesses often looking for relatively small two million-dollar limits of liability are looking at either exorbitant pricing or what I am seeing, an inability to even have an offer tabled by an insurer given current insurer appetite.

Insurers' are often at different stages, what I mean by this is a longstanding insurer may have decades of claims loss data, whereas a new entrant does not have the same access to this data and is more unlikely to start writing professional liability for diversified financial services business which may be perceived in the market as higher risk, such as financial planners. The key I believe is data. I propose industry bodies and associations should collate claims data and not just the size of the losses available through APRA, but rather directly from their members including details of the claims, consolidating and then sharing this information with insurers.

I see this as having two key benefits, firstly, insurers are then able to drill-down and together with their Actuaries feed this information into their rating models that assists in increasing confidence levels of underwriters' to adequately price the risk. Secondly, this exercise can identify control failures common to losses, lead to implementation of better risk management, decreasing losses, improving the perception of the sector as a risk, enticing other insurance companies to re-open their risk appetite and ultimately improving the ability of small to medium diversified financial services to attain adequate professional liability insurance.

SMEs are the lifeblood of the Australian economy – let's not leave them in the lurch.

I like to sleep well at night and so I'm lucky enough to work with many people in my current team that first and foremost treat each other, brokers and customers with respect and operate in a way of doing the right thing. Which I believe stands across what is our financial lines industry.

Nikolce Stojcevski