The world turned on its head – how is the insurance sector responding?

Rory Gibson, of forestry and woodland insurance specialist Lycetts, provides an overview of the insurance market and outlines some of the emerging risks and hurdles companies need to be aware of.

As 2020 comes to a close, it would be reasonable to say that the year has seen its fair share of trials and tribulations.

From the coronavirus outbreak and a shrinking market to unshifting Ogden rates, all-time low interest rates and the effects of Solvency II still bearing down, the insurance market has certainly felt the impact.

Climate change and its associated unpredictable weather patterns further compounded an already-difficult situation.

The most notable of these challenges was the blindsiding effect of the COVID-19 pandemic, having been dubbed 'the most expensive event ever to hit the insurance world'.

With zero precedent, great confusion resulted from the outbreak and insurers found themselves in a new 'grey area', particularly in the case of business interruption policies, which subsequently prompted an FCA Test Case.

In addition to the emergence of COVID-19, early 2020 saw severe widespread flooding across the UK. Three successive storm events – Storm Ciara, Storm Dennis and Storm Jorge – not only put immense pressure on emergency services, but also on the insurance market. Insurers struggled to get to grips with planning for unpredictable floods and offsetting the huge costs involved.

The Odgen discount rate changes for personal injury awards was a further blow, with insurers' expectation of it returning to positive or neutral territory not being met, resulting in the continuation of costly pay-outs.

The rise of reinsurance rates, combined with record low interest rates, has created a perfect storm, with policyholders bearing the brunt of the associated hike in costs.

With so many challenges facing the insurance market, premiums for end users are increasing.

With so many challenges facing the insurance market, the impact of the Solvency II EU directive adds another layer of complexity. Under Solvency II, insurers need enough capital to have 99.5% confidence they could cope with the worst expected losses over a year.

With spare capital requirements sharply increasing, a number of insurers were prompted to leave the market, whilst others have significantly reduced their capacity, impacting market flexibility and availability.

All this has manifested in increase premiums for the end users.

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Forestry and woodland insurance – a changing market

As with every industry, the forestry and woodland insurance market has had to adapt to meet the challenge of emerging risks and sector changes.

The risks associated with climate change are omnipresent – as are the threats of pests and disease - and it is prudent that the market continues to react and adjust to need, albeit at a slower rate than perhaps desired.

For example, in addition to the traditional fire, wind and perils cover, protection is now available against highly volatile carbon credit contracts.

Traditionally, carbon credit contracts have been high risk ventures, with no way for owners to protect themselves against their liability to re-pay or replace any lost carbon credits. With extreme weather events becoming increasingly more common, vulnerability to loss is climbing.

As demand grows, price are also pushed up, increasing the value of potential losses.

The enhanced woodlands cover from Lycetts can help woodland owners to mitigate against these risks, by offering them a degree of protection and allowing them to continue their operations, without the need for excessively large cash reserves.

Whilst products are being developed to support changes in the market, the availability of other insurance options has reduced.

For example, the market has seen options for ma-

Subcontractors - own your liability

The hiring of subcontractors can be an attractive and cost-effective option for short-term forestry projects.

However, the issues of subcontractors and having the right protection can often be a cause of confusion and companies can be left exposed to costly fines and protracted legal proceedings through lack of knowledge or gaps in cover.

The distinction between subcontractor types is important. Labour-only subcontractors work under the direction of the main contractor and will not have their own insurance, as they are regarded as employees. Bona-fide subcontractors differ in that they supply their own materials and work under their own control. As they are not deemed employees, they must possess their own insurance.

But in neither case is the company exonerated from liability, should an incident occur. In the case of labour-only subcontractors, businesses need to ensure that they are included on their employers' liability insurance and public liability insurance policy. The first protects businesses in the case of an employee claim and the second covers against third party claims.

Whilst employers' liability insurance is a legal obligation, and carries a fine for non-compliance, public liability is optional – but equally as vital. Claims in either case can be an extremely costly venture, no matter the out-

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