Spring 2024

Ascend Broking Group
Business Insurance Solutions

Covernotes

Explaining issues that affect insurance

In this issue

AI: Friend or foe?

Artificial Intelligence (AI) may have various benefits, but its sudden rise up the table in one insurer's annual global risk survey is a warning sign to both the public and the insurance sector to beware some aspects of AI.[1]

AI and big data, as a named risk, has risen from 14th to 4th place in a table of 'future' threats to watch, according to global insurance experts. This may reflect the faster-than-expected growth in Chat GPT and artificial general intelligence, but 64% of experts, now believe there should be a break in research into AI and other disruptive technologies, with 55% seeing AI as a 'rapidly emerging risk', and 34% viewing it as an existential threat to mankind.[2]

The general public, however, have other concerns, with many still worried about the pandemic, ranking this as their second future risk[3], after climate change. The public only assigned 11th place to the risk posed by AI and big data, although this still constitutes an 8-place rise from 19th position last year.[4]

Half the general public believe AI presents more risk than opportunity. Both public and experts feel neither the public nor private sector is prepared for the risk that AI presents. Only 7% of experts feel the public sector is ready for AI's negative impacts and, slightly more positively, 16% feel this is true of the private sector.[5]

In just 12 months, the view on how public authorities should deal with the AI threat has shifted from 'collaboration with the private sector' to 'regulation' — now favoured by 48%, up 33% points.[5a]

Ensuring AI is equitable and free from biased decision-making is a clear goal. Achieving this in insurance claims handling has led to the launch on 31 January 2024 of a voluntary code of conduct, which will govern the development, implementation and use of artificial intelligence in claims handling.[6] The goal is to ensure that AI is implemented transparently, safely and securely.

Its creators recognise AI has the capacity to speed up and streamline the claims lifecycle, but equally want to avoid issues of bias in claims. They seek justification behind claims decisions and a form of redress, if the claimant believes they were short-changed.

[1] https://www.axa.co.uk/globalassets/pdfs/newsroom/reports-and-publications/axa-future-risks-report-2023.pdf
[2] https://www.axa.co.uk/globalassets/pdfs/newsroom/reports-and-publications/axa-future-risks-report-2023.pdf (page 28)
[3] https://www.axa.co.uk/globalassets/pdfs/newsroom/reports-and-publications/axa-future-risks-report-2023.pdf (page 6)
[4] https://www.axa.co.uk/globalassets/pdfs/newsroom/reports-and-publications/axa-future-risks-report-2023.pdf (page 13)
[5] https://www.axa.co.uk/globalassets/pdfs/newsroom/reports-and-publications/axa-future-risks-report-2023.pdf (page 27)
[5a] https://www.axa.co.uk/globalassets/pdfs/newsroom/reports-and-publications/axa-future-risks-report-2023.pdf (page 28)
[6] https://www.insurancebusinessmag.com/uk/news/technology/behind-the-scenes-of-the-newly-launched-code-of-conduct-for-the-use-of-ai-in-claims-475306.aspx?hsmemberId=79978&tu=9087FA01-87C1-4088-BFAF77724BFA7B5D&utm_campaign=&utm_medium=20240201&_hsmi=292348495&_hsenc=p2ANqtz-_5VxYwg-N4Jo4WSaPXA-
[7] https://www.axa.co.uk/globalassets/pdfs/newsroom/reports-and-publications/axa-future-risks-report-2023.pdf (page 29)

In-built bias could also lead to future legal issues. On the plus side, the capacity to rapidly analyse vast volumes of data could lead to more attractive insurance pricing and a more precise assessment and evaluation of risk. New insurance products could emerge, serving those who have struggled to access insurance support.

Another possible positive impact could result from AI's ability to identify fraudulent claims – for which all insureds ultimately pay a price in terms of higher premiums[7]. It can also quickly assess whether quotes for repairs are inflated, or if they're accurate damage reparation calculations.[8]

However, AI requires big volumes of data and with that comes a risk of data breaches. The National Cyber Security Centre (NCSC) is definitely not underplaying the risks presented by AI. It states that AI will "almost certainly increase the volume and heighten the impact of cyber attacks over the next two years", although impacts will be uneven.[9] This will be through an evolution and enhancement of existing tactics, technologies and procedures.

It highlights how AI offers a capability uplift in reconnaissance and social engineering, making both harder to detect. The NCSC also talks of AI "lowering the barrier" for a novice cyber criminal, hacker or hacktivist, simplifying their 'job' for them. It can certainly remove the grammatical mistakes, translation errors and spelling gaffes that currently allow many phishing attempts to be foiled.

A recent BBC News investigation discovered that a new OpenAI product enabled users to build a customised version of Chat GPT "for almost anything", with this including highly convincing email, texts and social media posts for use in scams and hacks. The BBC easily constructed its own bot, which could have effectively operated, in multiple languages, as a scam or hacking tool; OpenAI has said it will investigate.[10]

With other warnings about AI's ability to generate malware that can pass through filters, and to also identify vulnerable devices with out-of-date software, it is time for the UK, and for British businesses, to increase cyber-resilience. AI's risks will have to be offset by enhanced cyber hygiene, more comprehensive staff training and tech company support. The prediction is, however, for a raised global ransomware threat over the next two years.

[8] https://www.insurancebusinessmag.com/uk/news/breaking-news/new-ai-technology-seen-to-transform-motor-claims-handling-58931.aspx
[9] https://www.ncsc.gov.uk/report/impact-of-ai-on-cyber-threat
[10] https://www.bbc.co.uk/news/technology-67614065

Concrete issues but little chance of a concrete claim

Reinforced Autoclaved Aerated Concrete (RAAC) may not mean much to you. However, you have probably heard how concrete used in building construction works from the 1950s to 1990s is now deemed so dangerous that it has led to schools having to evacuate buildings, leaving pupils working from prefabs. This concrete is RAAC.

This was a lightweight, bubbly textured concrete, containing no coarse aggregate, with a lifespan of 30 years. With this period having passed, alerts have been raised. It follows some sudden collapses of buildings, without warning, where this relatively weak material was used within masonry blocks and structural units, such as roof planks, walls and floors, and often coated with a bituminous or cement latex coating, to prevent corrosion.

Flat-roofed buildings, on which rainwater can pool, are seemingly particularly susceptible to cracking and failure. However, RAAC's air bubbles encourage water ingress, causing decay and structural instability in any building.[1] RAAC issues can also be greater in air-polluted areas.[2]

Whilst schools' issues have dominated media headlines, many other types of buildings used RAAC as a quick-build solution. This includes public buildings, hospitals, private high-rises with flat roofing, retail units, offices and even hotels. Many buildings now urgently require surveys by qualified experts, but also swift remediation works. Some insurers are identifying buildings requiring RAAC works using an AI tool that has speedily analysed risk engineers' previous documentation.[3]

Therein lies the issue. Who will pay? In itself, RAAC was not a defective product; it was just a material with a limited lifespan. On that basis alone, trying to lodge a claim against the original construction company would be difficult. They might well also no longer exist.

The limitation period in which to lodge any claims against a construction company has also long passed by, in most instances. Even though the new Building Safety Act 2022 (BSA) introduced an extended 30-year period for retrospective claims, RAAC was not inherently unsafe. It has simply passed its end-of-life cut-off date.

This problem could impact on a variety of stakeholders – landlords, tenants, employers, property owners and local councils – being just a few. The only action anyone with responsibility can really take is to review contracts and leases, and also assess where obligations for remediation may lay.

A chink of light may exist for any building that underwent renovation or repairs, as it may be possible to claim the contractor should have highlighted the issue. The same might be true if a surveyor surveyed the property for a valuation or sale. Here, a claim on a Professional Indemnity insurance policy might be considered.[4]

A Property Insurance policy will not pay for the remediation works now required to make buildings safe.

Property insurance does not cover wear and tear and anticipated deterioration in properties over time, just unexpected events that cause damage, so the deterioration of a product with a 30-year life was easy to predict.

In AXA UK Plc's opinion, nearly all UK commercial property policies also contain a standard exclusion for cracking and collapse. There is no material damage cover within these insurance policies for RAAC-related issues, and that same material damage exclusion means that most Business Interruption (BI) policies will not offer any cover.

The only exception may be a claim under a non-damage denial of access clause, if this optional cover were added to a BI policy, where a recognised authority has stated the occupancy of the building is not possible, forcing a move elsewhere. The additional costs of working in the new location, and possibly some business interruption costs, might potentially be included in a valid claim, according to the policy wording.

For help with this, it would be prudent to talk to your insurance broker and have them examine your situation and individual policy. Otherwise, unfortunately, it will be hard to find any other means of recouping the costs of now necessary remediation works.

[1] https://www.fenchurchlaw.co.uk/bubble-trouble-aerated-concrete-claims-and-coverage/
[2] https://www.womblebonddickinson.com/uk/insights/articles-and-briefings/racking-your-brain-over-raac-crucial-steps-and-potential-claims#:~:text=Even%20if%20it%20is%20established,hand%20or%20as%20a%20deed
[3] https://www.axa.co.uk/newsroom/media-releases/2023/ai-tool-accelerates-axa-commercials-response-to-raac-issue/
[4] https://kennedyslaw.com/en/thought-leadership/article/2023/raac-and-its-impact-upon-construction-professional-indemnity-claims/

Lithium-ion batteries: a different kind of workplace risk

Whether we are aware of it or not, lithium-ion batteries now power many gadgets used in daily life. This includes e-bikes, around which videos circulate online, demonstrating their severe fire risk. Transfer the same logic to the world of work, and it is easy to see there are some workplaces in which the same severe risk exists.

Such batteries are found in motor trade repair shops that work on electric and hybrid cars; in other sectors, they power forklifts, power tools and various work vehicles.

Wherever they are present, the handling of lithium-ion batteries, their storage and the procedures to accompany any fire incident relating to them, need to be embedded in the business's fire risk assessment and health and safety training programmes.

This is particularly true because a lithium-ion fire does not behave like a standard one. It cannot be tackled with traditional fire extinguishers and nobody should attempt to extinguish one, unless they have undergone specific training.

The main issue is that of thermal runaway — an irreversible and uncontrollable self-heating state a battery can enter, often when overcharged or damaged. In just seconds, this can lead to the breakout of a high-temperature fire, accompanied by smoke and vapours. An exploding battery can shatter fragments widely but also emit hazardous, toxic and potentially fatal fumes.[1]

If there is no ignition source, a cloud of toxic and explosive gases can pool at ground level — precisely where those trained in traditional fire practice keep low, trying to avoid fume inhalation.

With a lethal combination of substances, such as hydrogen fluoride, carbon monoxide, cobalt, nickel, copper and aluminium powder, the dangers to health include everything from death through inhalation, irreparable eye and skin damage, severe vomiting, ulceration of the mouth and throat, and organ damage.

Creating a safety plan around the use of such batteries is imperative. Identifying suitable local exhaust ventilation of a segregated battery charging area may be one action.

Keeping this area as a restricted access zone for only essential staff, issued with appropriate PPE, may be another, but locating the area away from the main building is highly advisable. Building in safety procedures, such as banning staff from having metal objects in pockets, or wearing or carrying anything that could fall onto a battery or bridge its terminals, is another good practice.

Vermiculate extinguishers will help prevent a fire spread but professional assistance is vital, as a lithium-ion fire can reignite hours, days or weeks later. Having robust and well-practiced evacuation procedures, and an emergency response plan, is essential for any business in which such batteries are used.

Fire prevention measures include not exposing the batteries to excessive heat, cold or humidity, and never stacking them under heavy items. No batteries should be charged overnight, and any found to be swollen, damaged or dented should never be used and carefully disposed of by a qualified company.

Talk to a broker about how to manage this workplace risk and put a robust emergency plan together. With the unpredictability of such batteries, you could need this at any time.

[1] https://www.cirmagazine.com/cir/images/QBE-Focus-CIRQ4-2023_online.pdf

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How private healthcare can tackle the malaise of workplace sickness

An estimated 185.6m working days were lost due to worker sickness in 2022, a record high. This was an increase of 35.8m on 2021's figures and 47.4m up on those pre-pandemic[1]; nearly three-in-ten instances related to minor illness.

The year also saw the sickness absence rate reach its highest since 2004, at 2.6%. The absence rates of those who are long-term sick, but still in work, increased. Record numbers have exited the labour market, and become economically inactive, due to long-term sickness.

Lost output amongst working age people due to ill health is said to equate to £150bn per year and the estimated additional cost to the Government is £70bn per year.[2]

Against this gloomy backdrop, employers may wonder what the answer is. Some, however, are already bucking the trend, having provided their employees with access to private medical treatment through a company scheme.

In 2021, the equivalent of 1 in 3 people in the UK (21.9 million) had access to insurer provided health services to prevent, diagnose and treat illness. The number has risen consistently year on year between 2019-2021, by 2.8 million people in total. That's an increase of 15%, equivalent to more than the combined populations of Birmingham, Liverpool and Sheffield (2.5m)[3]. For all recorded outcomes, nearly 9 in 10 (86%) were supported to stay in work or return to work following absence. Of the total, more than 1 in 5 (21%) people in stayed in work. Nearly two-thirds (65%) returned to work after absence, while non-return to work outcomes were reported in 14% of cases. Non-return to work outcomes are recorded in the event of death, as well as someone being unable to return to work at that time.[3a]

These figures demonstrate the great value of health and protection insurance, which can provide employees with speedier treatment and potentially prevent any health condition they are encountering from getting worse. With access to virtual GPs and the offer of flexible appointments, access to healthcare can fit into both workplace and family schedules.

With mental health having huge impacts on the workplace — and often being something employers struggle to handle – it is also interesting that over half of people who accessed rehabilitation services through their health insurance policy did so to gain help with a mental health condition. Notably, in July 2022, 52% of British workers said they felt stressed at work.[4]

The medical support provided can also help tackle other issues in the workplace, such as presenteeism — part of our new 'always on' culture, but a path that can lead to burnout.

There is huge benefit to be gained from getting employees back to a place in which they can better focus and concentrate on their job, contribute ideas and creativity, and make better decisions. It can raise morale within teams and help avoid friction and disputes between employees. All of these areas are key to workplace productivity and innovation.

As well as providing consultations, diagnostic services and treatments, a health and protection insurance policy can provide employees with talking therapies, CBT, counselling support and methods to tackle stress and anxiety. At a physical level, it can offer physiotherapy services and occupational health therapies. Even fitness and nutrition support can be provided.

With so many practical reasons to cut absenteeism and boost productivity, the costs of setting up a scheme could be soon offset. Talk to us today about how to get your workforce back to work through private healthcare.

[1] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/sicknessabsenceinthelabourmarket/2022
[2] https://www.abi.org.uk/globalassets/files/publications/public/health/abi-closing-the-evidence-gap---how-insurance-supports-good-health-and-productivity.pdf (page 5)
[3] https://www.abi.org.uk/globalassets/files/publications/public/health/abi-closing-the-evidence-gap---how-insurance-supports-good-health-and-productivity.pdf (page 14)
[3a] https://www.abi.org.uk/globalassets/files/publications/public/health/abi-closing-the-evidence-gap---how-insurance-supports-good-health-and-productivity.pdf (page 36)
[4] https://yougov.co.uk/society/articles/43172-half-british-workers-say-they-feel-stressed-work

Key challenges for business owners in 2024

Across the board, we are seeing a rising tide of insurance premiums in an ever-hardening market. Last year, insurance premiums rose 25% and are predicted to rise an additional 10% in 2024.

The insurance industry is also experiencing a wave in claims inflation across many sectors, with the motor industry being no exception. Motor claims are continuing to inflate to a quite staggering degree, with an average claim now costing £5,349. The pandemic, the war in Ukraine, an increase in car part theft and the fact the number of employees in the motor trade is declining are all influencing motor claims inflation and impacting both the insurance industry and, consequently, the client.

There has been a significant swell in the number of claims made against directors and officers. They, as well as others in key management roles within public and private companies, are increasingly becoming targets for civil litigation, government investigations and enforcement actions. 85% of insurers believe D&O is a rapidly increasing risk, globally.

Directors and officers are being cited as defendants and, with regulatory bodies increasingly willing to take action against individuals in positions of authority, their reputations and personal assets are becoming increasingly at risk. Heightened interest rates married with inflation mean we are likely to see more and more claims against insolvent directors in the future.

Directors' and Officers' Insurance (D&O insurance) can provide protection. D&O insurance protects individual directors and officers from civil claims and regulatory investigations, as well as indemnity for damages payable to third parties.

In 2024, a storm of cyber security breaches continues to gather, with a record number of ransomware incidents and business email compromises continually being reported. Indeed, statistics suggest there are a whopping 2,200 cyber attacks every day. The hacking of account details remains a common entry point and, whilst no defences are entirely watertight, some relatively basic security measures can be implemented to greatly lessen the risk of this type of infiltration.

One such measure is to enforce multi-factor authentication for employee' accounts and login processes, to help protect against the consequences of credential stuffing, phishing and brute force attacks.

Before offering appropriate cover, cyber insurance underwriters have been focusing on what security defences an insured has in place. Some insurers are indeed insisting on specific security protocols as a pre-condition of providing cyber insurance at all. An increase in the baseline tide of security across a wide range of organisations is therefore expected this year.

Changes are on the horizon in 2024 when it comes to liability claims, and discount rate changes are due for a formal review in England and Wales by July. The Discount Rate is a figure used to help calculate lump sum compensation payments for high value personal injury claims (liability/motor injury).

It reflects the likelihood of someone getting a lump sum payment from an insurer, investing it and expect to get a return. The Discount Rate was last reviewed in 2017 and had a major impact on how the courts - and, subsequently, insurance companies - calculate large injury claim settlements.

It is not yet known what the rate will be. Recently, The Isle of Man raised its discount rate from -0.25% to +1.00% per annum and personal injury lawyers in England and Wales – and insurers, of course - wait to see whether the Lord Chancellor will follow in its wake.

"Economic waters continue to be choppy in 2024, with businesses large and small finding they struggle to keep afloat in the year's tumultuous swells and currents, but what specific challenges are on the horizon, and how can businesses anticipate and prepare for them? Matthew Collins, Director at Chelmsford-based Ascend Broking Group, offers some answers."

Business Time in Essex in association with Essex Chambers of Commerce

Download the Business Time article by clicking the link below:

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Nine out of ten properties, including business premises, are currently underinsured, with underinsured buildings covered for just 63% of the amount they should be. The problem arises when the insured value of a property is lower than its actual replacement cost or market value, and the owner unaware.

In the event of a covered peril such as fire, flood or natural disaster, the insurance payout may not be sufficient to cover the cost of rebuilding or repairing the property to its pre-loss condition. This shortfall can force businesses way off course – meaning they have to dip into their reserves, take on loans or even declare bankruptcy, causing long-term damage to the smooth sailing of their operations.
If it's going to be a tough year, you need a liferaft - and someone by your side. Ascend's expert team can guide you through all of 2024's challenges and make sure all of your business's risks are thoroughly reviewed and covered.

We can help steer you to calmer waters, less uncertainty and a brighter 2024.


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Ascend News

The importance of Business Interruption

The Essential Guide to SME Insurance

The Importance of a Cyber Security policy

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