CGU Insuring Ambition

THE STRIVE REPORT

Current trends in the macro-economic, social, and environmental landscape transforming insurance in Australia.

Third Edition
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Foreword

The only constant is change, and nothing is closer to the truth for the insurance industry. The goalposts are continually shifting, with global and local challenges testing our collective resilience.

Insurers and brokers are playing an increasingly important role in supporting their customers in understanding their specific risk environment amid a changing landscape. Increases in the frequency and severity of natural peril events, along with rising global temperatures are concerning changes impacting Australians' exposure to risk.

Building on previous STRIVE reports, this third iteration is intended to help deepen understanding of the complex and interconnected factors impacting the insurance industry.

We've interviewed industry and subject matter experts to gain insights on the major themes impacting our industry. Their collective knowledge, coupled with over 160 years of CGU data will help us navigate the challenges ahead.

We've collated these valuable insights to support general insurance brokers and their customers, covering the macro-economic, social, environmental, and political issues that are changing the insurance industry.

STRIVE 3.0 centres on the economy, insurance affordability, underinsurance, and the advancement of technology. It also addresses climate change, sustainability and growing intergenerational tension across the nation.

Conversations around boardrooms and businesses Australia-wide continue to be focused on economic uncertainty, cost of living pressures, natural disasters, climate change, sustainability adaptions, and the ever-changing technology landscape.

To keep pace, business models must continually evolve, including our own. We recognise the need to deliver real-time technology solutions that simplify processes and better support our brokers and customers, particularly as they face the increasing number of risks posed by extreme weather and environmental changes.

The future calls for strengthened operational resilience and preventative risk management from all industry players. Evolving is critical to our industry's ability to meet the needs of customers. We deliver this report as part of our ongoing commitment to equip our brokers, partners, and customers with the information needed to help prepare them for what lies ahead.

Let's all strive to be better together.

Damien Gallagher
Executive General Manager, CGU

INTRODUCTION

As we strive forward into the unknown, the insurance sector is grappling with persistent headwinds forcing rapid industry-wide change. Never have we seen such significant change impacting every aspect of insurance, resulting in uncertainty and upheaval for both brokers and customers as new challenges and opportunities are navigated.

Following on from a global pandemic which triggered monumental change, geo-political tensions, the growing number of scams, increasing cyber risk and supply chain pressures continue to impact Australians.

In this third STRIVE Report, clear themes have emerged, including the impact of ongoing economic uncertainty, and a cost-of-living crisis that is affecting people and businesses across the country.

Globally, geopolitical concerns[1] are persistent as instability and conflicts drag on into another year.

How the economic landscape will play out into 2025 is anyone's guess, with differing projections from the Reserve Bank, economists, investors, and companies.

Cost inflation has also led to insurance repricing which has been challenging for customers to absorb.

Meanwhile, the growing need to address climate change and evolve with the changing physical world around us, the constant need for technological change, and the increasing evidence of the intergenerational divide are critical themes impacting the insurance industry today and for the foreseeable future.

The insurance industry is evolving at a rapid rate[2], rolling out new systems and procedures that make interactions with brokers and customers more seamless and efficient.

All the key themes impacting insurance this year are inextricably linked. However you look at it, there's growing evidence of the interconnectedness of these issues causing a domino effect.

For insurers and brokers, translating this complexity and applying meaningful insights to our broader industry is what will help us stand the test of time and meet the needs of our customers into the future.

[1] *Economic outlook, March 2024 | McKinsey*

[2] *Insurance Banana Skins 2023: Global Report (pwc.com.au)*

PART 1

Economic strain

The flow-on effect from economic uncertainty is impacting everyone, as cost of living pressures strain every part of Australians' lives.

The new battleground is the supermarket checkout, where the cost of a basic basket of groceries has risen more than 17 per cent since March 2020[3].

But that's only just the start. Everything – from petrol, electricity, mortgage repayments, and insurance has risen in recent years, causing significant financial burden on Australians.

Admittedly, interest rate rises are a blunt instrument to curve inflation, but it's the primary tool that the Reserve Bank has at its disposal. Continued inflationary pressures against the backdrop of real wage growth has made it financially tough on households.

As interest rate rises stay higher than they have been for years, investment in the housing sector has weakened, with a backlog of housing projects and the growing realisation that the nation won't get anywhere near meeting the demand for new dwellings.

Unfortunately, a return to the economic strength our nation was in before the pandemic is unlikely in the near term, with growth and household buying power to remain low for the foreseeable future.

[3] *As food prices surge again, will this week's supermarket review make any difference to the cost of living? - ABC News*

GLOBAL ECONOMY WOES

Our neighbours over the ditch in New Zealand have also experienced aggressive interest rate rises, along with a similarly challenged cost of living crisis.

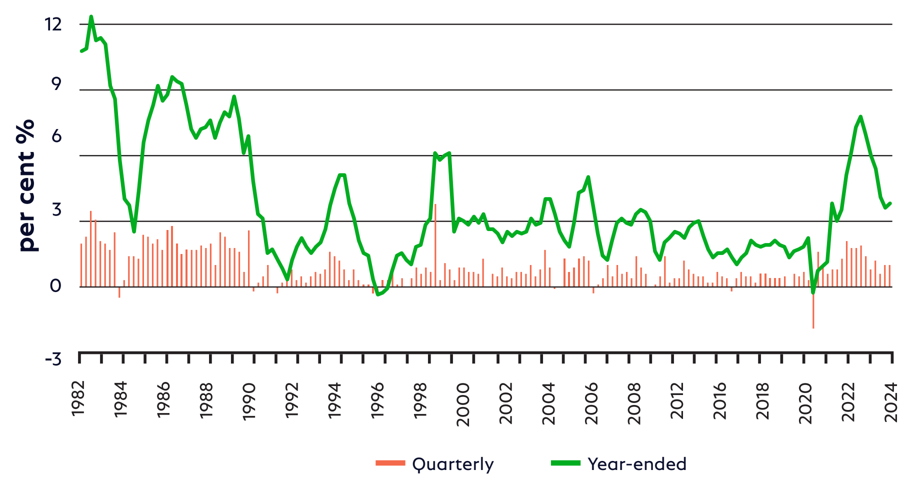
Globally, it has been remarkable to see China contending with much slower economic growth this year due to higher levels of unemployment, less global demand, the property crisis in the real estate sector, and ongoing trade tensions.

This impact could be significant in the coming year or beyond, particularly given that China is Australia's largest trade partner. Economic downturns overseas also play a critical role in Australia's economic health and stability, with experts so far sticking by their prediction of a soft landing, as opposed to a recession.

Post pandemic geopolitical jockeying has led to a persistent disruption in supply chains bottlenecks, driving up costs for everything from shampoo to insurance.

Over in the US, sky high debt levels among consumers, lower economic growth, and the Federal Reserve Bank of New York projecting that there is a 52 per cent chance of the US falling into a recession in the next 12 months.

Consumer Price Inflation



Source: ABS and RBA

Businesses struggling

The impact on businesses big and small is profound. Business failure rates reached a 15 year high[4] last year, with the transport, postal and warehousing industry the most vulnerable. Small businesses are also more at risk of collapse than large businesses, with the survival rate for new sole proprietors hovering at 41.5 per cent[5].

The pandemic taught us that none of us know what's around the corner. Annual insolvency data shows that more than 11,000 companies entered external administration for the first time in 2023/24. This is 39 per cent higher compared to 2022/23.

It appears likely that peak financial pain has been reached and interest rates will slowly start to recede, together with tax cuts and real wage growth bringing some future optimism. However, it will likely take a few years at least before real wages reach pre-pandemic levels.

[4] *Business failure rate reaches 15-year high, National Retail Association calls for government action - ABC News*

[5] *https://asic.gov.au/about-asic/news-centre/news-items/annual-asic-insolvency-data-reveals-increase-in-companies-failing/*

What brokers need to know

Brokers know only too well that economic pressures are impacting customers. The key is to navigate the challenges and opportunities presented by persistent economic headwinds.

Now is the time for lateral thinking, integrated business models, and cross-organisational effectiveness to serve customers more efficiently and ensure they get the best value policy in the market for their needs.

1. Brokers increasingly relevant

The often-mandated nature of insurance means it is not an expense that can be ignored. Now, more than ever, brokers are highly relevant, despite the growth of direct-to-customer models in the market. Customers can turn to brokers to evaluate risk management strategies, provide advice, and source suitable policy options.

2. Creating more value

Many brokers have focused on using technology to reduce operational costs. But there's a lot of room left in the market to create greater value for customers. Making sure new technology is implemented to enhance customer interactions with brokers and insurers is critical.

3. Uncertainty grows

As climate change causes more wild weather events, trusted brokers who are able to work with insurers on behalf of households will be in greater demand. Not all customers are aware they can engage the services of a general insurance broker to compare multiple policies, coverage, and exclusions. This can help to alleviate uncertainty by ensuring they have appropriate cover for their circumstances.

4. Pricing matters

Australian customers are sharpening their pencils and looking for better value as insurance costs continue to rise. Brokers are being sought out to ensure that customers are getting the best value policy for their needs.

5. Advocating for customers

Brokers have an important role to play in helping their customers interpret insurance policy details and benefits, and are a primary liaison point to advocate on their customers' behalf when needing to lodge and manage claims.

PART 2

Affordability and underinsurance challenges

As more Australians experience mortgage hardship, closer scrutiny of household costs has put the price of insurance under the spotlight, prompting more policyholders to negotiate for a better deal. Some households, for example, are raising their insurance excess to reduce insurance policy costs[6].

Insurance cover is already proving unaffordable for some households, which coincides with more frequent and severe weather events, putting significant pressure on consumers and the government to address the crisis.

...home insurance affordability stress has increased to 15 per cent in March 2024, up from 12 per cent in March 2023 and 10 per cent in March 2022.

Affordability and cost of living challenges has resulted in more households falling into underinsurance territory. While 13.1 million households hold a general insurance policy, new analysis suggests that 18 per cent of residential homes are underinsured. For a home that has a total insurance value of $650,000, the industry average suggests that would leave the homeowner with a shortfall of up to $117,000 to repair the damage[7]. Furthermore, home insurance affordability stress has increased to 15 per cent in March 2024, up from 12 per cent in March 2023 and 10 per cent in March 2022. This translates to over 1.61 million households grappling with insurance affordability stress, compared to 1.24 million a year ago - a growth of 30 per cent in one year[8].

Underinsurance remains common in Australia[9], making it difficult for those underinsured to resume their standard of living in the event of a claim – whether it's rebuilding their home or replacing belongings to the same standard.

Insurance calculators help customers estimate how much insurance they need, but as insurance becomes unaffordable for some people, there is increasing pressure on the government to intervene to reduce the cost of insurance.

Meanwhile, businesses are reimagining a new way of working to insulate against the skyrocketing cost of doing business just to keep afloat. It's been tough for everyone to watch international businesses enter the market with cut-price models, that continue to create challenges for the local economy.

As consumers continue to favour online interactions over heading in-store, bricks and mortar businesses are acutely aware this is now the new norm. Those adopting new operating models are remaining financially viable in this challenging economy, while others are hanging on by a thread.

WORKING SMARTER, NOT HARDER

While there is no silver bullet solution, insurers are contemplating how to tackle affordability pressures by addressing internal service models. In late 2023, CGU reconfigured internal claims teams, initiating the RAPID Claims framework, focusing on speeding up the lodgement and settlement process for low-value, high volume property claims. With increased specialisation, consultants became more familiar with certain claim types, resulting in better and faster outcomes for brokers and their clients. The key, of course, is to evolve to ensure that insurance remains affordable for the foreseeable future.

[6] *https://actuaries.logicaldoc.cloud/download-ticket?ticketId=4067fe6c-efe6-4cad-a4b9-f86585206ca1*

[7] *Cost of living: underinsurance effects 200,000 Aussies - realestate.com.au*

[8] *https://actuaries.logicaldoc.cloud/download-ticket?ticketId=4067fe6c-efe6-4cad-a4b9-f86585206ca1*

[9] *The risk of underinsurance - Insurance Council of Australia*

A costly problem

Rising costs for insurers is challenging, but so is the time it takes to have repairs completed amid a construction industry crisis. But years of unprecedented, accelerated growth have now finally slowed, resulting in residential construction costs stabilising, growing at the slowest annual rate in 22 years. Figures show[10] that costs to build a typical new dwelling recorded a 0.5 per cent rise, a further slowing from the 0.8 per cent increase recorded in Q1.

CASE STUDY: CALLS FOR DISASTER RISK TO BE MADE TRANSPARENT

As one of Australia's largest general insurers, IAG is calling for disaster resilience to be a greater consideration in all land planning decisions to reduce disaster risk and keep insurance affordable.

The 'Addressing Resilience in Land Planning'[11] report released by IAG in December 2023 makes 10 recommendations to support decision makers in developing more robust and resilient land use strategies. It highlights that the current land planning system doesn't adequately consider natural disaster risk or future climate risk and recommends that needs to change to protect communities in the future.

Consolidating expert viewpoints from across the land planning system, including all levels of government, industry, and property developers, the report says Australia is reaching a tipping point where the capacity of communities and systems to be resilient to the level of risk they face is diminished.

The report forms part of a trilogy of key research reports published by IAG as it seeks a pathway forward to reduce natural disaster risk and ensure the ongoing availability and affordability of insurance.

[10] *Residential construction costs rising at the slowest annual pace in over 20 years | CoreLogic Australia*

[11] *IAG report calls for disaster risk to be included in land planning decisions across all states and territories | IAG Limited*

CASE STUDY: NAVIGATING COMPLEX CLAIMS WITH PROFESSIONAL GUIDANCE

A customer noticed tiles lifting on their bathroom floor. Upon investigation, it was found that the issue stemmed from faulty workmanship during an extension added to the property where no waterproofing was installed in the shower base, contributing to the damage.

They lodged a claim with their insurer, who initially denied the claim, citing the faulty workmanship and lack of waterproofing as the reasons for the damage. The customer then unsuccessfully tried to resolve the matter with the original builder.

The customer then lodged a claim with the Victorian Building Authority. Unfortunately, the timeframe for such claims had expired, leaving them without a clear path to resolution.

Recognising the complexity of the situation, the broker approached the insurer's claims team to consider the claim under Section 46 of the Insurance Contracts Act. This section allows for claims to be considered even when there are issues related to faulty workmanship, provided certain conditions are met.

A direct customer might not be aware of the provisions under Section 46 of the Insurance Contracts Act or how to effectively navigate the claims process. Without the guidance of a broker, they could miss out on potential avenues for claim resolution.

This case highlights the critical role that brokers play to help their clients navigate complex insurance claims. By leveraging their understanding of the Insurance Contracts Act, the broker was able to secure a favourable outcome for their client.

What brokers need to know

Insurers are contemplating how they can best support customers experiencing insurance affordability and accessibility issues. Finding ways to engage with customers about cost effective insurance gives brokers the opportunity to provide greater value to customers.

1. Risky business

Insurance is top of mind for many as Australians contemplate if their policy is the right fit for their needs amid rising costs. This presents an opportunity for brokers to have engaged conversations about risk and demonstrate how the right policy can give customers peace of mind amid financially challenging times.

2. Products evolve

Insurers are continually updating their product suite to better support customers around affordability, availability, and accessibility. Deeply considered risk selection and awareness of the unique risk circumstances of each customer purchasing the product from the broker is more important than ever.

3. Simple is best

It's clear that the market is demanding a change to how insurance products are designed to ensure it better meets needs and budgets. Simplified insurance products are being considered by some sectors of the insurance industry. The challenge remains being able to access the right coverage for an insurable event, while also balancing the cost of premiums.

4. Underinsurance could rise

Price rises have prompted many Australians to review their insurance policies in the search for a better deal, increasing the issue of underinsurance. There is also a worrying trend where people are cancelling their policies altogether.

5. The rising value of broker advice

Brokers help customers to negotiate the best deal, advise on policy inclusions and exclusions, and risk mitigation strategies, which are all key areas of interest for customers. Brokers are expected to have all the answers to questions that customers don't even know they need to ask and to increasingly adopt an educational role[12].

[12] *Insurance brokers step up for Aussie families combating cost of living pressures | National Insurance Brokers Association of Australia (niba.com.au)*

PART 3

AI, cyber risks, and the metaverse

Artificial intelligence (AI) tools are touching every part of our lives, and insurance is no exception. AI and Generative AI is the new digital frontier, set to revolutionise customer experiences and backend processes.

In the face of increasing risk and threats, AI is helping[13] to transform risk management, taking some of the gamble out of the insurance sector.

Mostly used for claims processing, risk assessment, and customer service, AI technology will continue to transform the way that brokers interact with their customers. A growing acceptance of AI[14] has seen insurers implement generative AI or chatbots for claims resolutions for speed and efficiency. AI is also deployed to audit intermediated claims.

The rapid rise of AI and machine learning[15] has resulted in significant changes in the way that customers interact with the world around them. While these technological advancements present opportunities, they also introduce new risks around data privacy, security, and accuracy. The ethical use of AI is also top of mind.

While the potential risks of AI are governed by both general regulations and sector specific regulations, emerging risks around privacy and security persist. The sheer volume of data[16] across the broader insurance market gives rise to data and cyber protection being high on the agenda.

As technology continues to evolve[17] and mainstream adoption appears ever closer, the insurance industry is poised to be a part of the journey, knowing that laws may need to be adapted along the way.

The rapid rise of AI and machine learning has resulted in significant changes in the way that customers interact with the world around them.

The metaverse

The metaverse is[18] also well and truly part of the digital landscape. Described as a virtual space where people can interact with each other and digital content in a shared immersive environment, this means customers can engage with digital content in real time.

This is a space that insurers are venturing into with gusto in search of opportunities to expand their offerings and cater to the needs of users within the digital realm. Insurers can use the metaverse to bridge the digital and physical worlds, including customer and employee engagement, underwriting, and claims.

Leading global broking firm Aon estimates gross written premium potential related to the metaverse may be in excess of $20 billion by 2030.

The metaverse[19] will create opportunities to improve customer experience, product design, distribution, customer service, and operations. Leading global broking firm Aon estimates gross written premium potential related to the metaverse may be in excess of $20 billion by 2030[20].

Insurers also need to be prepared[21] to do business in this 'phygital' environment and take advantage of its full potential. This means looking at how to invest in the metaverse to utilise its unique capabilities, which can help insurers enhance their operations, improve customer experience, and address emerging risks.

Some of the more interesting options for utilising the metaverse include using avatars for training and customer support, creating digital twins for property underwriting, or offering coverage for digital assets.

Of course, there are risks on the horizon, including a pronounced protection gap and a resulting need for insurance coverage. Metaverse investors and creators will need effective protection from potential financial loss, liability, and loss of use, which could also create new revenue streams.

The key will be avoiding the potential to get caught up in the hype in the bid to be first to market. Instead, analysing the market and developing a solid understanding of what will work, could mean the difference between becoming the next MySpace.

[13]*Marsh McLennan unveils new AI tool | Insurance Business Australia (insurancebusinessmag.com)*

[14]*'Growing acceptance': insurers embrace AI to resolve claims - Insurance News - insuranceNEWS.com.au*

[15]*https://www.suncorpgroup.com.au/uploads/2024-Vero-SME-Insurance-Index-Report.pdf*

[16]*What are the pain points impacting insurers today? | Insurance Business Australia (insurancebusinessmag.com)*

[17]*insurance-in-the-metaverse-1.pdf (kpmg.com)*

[18]*Metaverse: Revolution or evolution? And where does insurance come in? | Swiss Re*

[19]*Metaverse: Revolution or evolution? And where does insurance come in? | Swiss Re*

[20]*Transformative Trends | Aon*

How a digital Gucci bag sold for over $US4,000 on gaming platform Roblox

A digital version of a Gucci bag sold for real US dollars in what many predict may be a sign of the future.

The virtual bag was sold for a price that exceeded the price of the physical accessory in the real world[22], enabling visitors to meet up, have their avatars try on various branded items, and make a purchase.

Some predictions in the media suggest that the revenue from virtual worlds could approach $US400 billion by 2025 as the demand for virtual fashion grows.

It shows that clothing choices are an integral part of our identity, whether online or offline.

The million-dollar question for insurers is: how do you design a product for a virtual item that only exists in the digital world? Watch this space.

Cyber risks a growing concern

It's understandable that many lack trust in new technology given that Australians unwittingly handed over $2.74 billion to scammers in 2023[23].

Financial criminals through acts like phishing, fraudulently impersonate and facilitate payments to unauthorised accounts. These acts, commonly referred to as acts of Social Engineering, increasingly impact SMEs. Phishing scams accounted for 22 per cent of cyber-attacks in 2023[24]. Outside of Social Engineering, threat actors are increasingly utilising avenues such as hacking to access systems for the purpose of extracting data for financial gain and/or causing damage to systems, rendering them inoperable.

The average cost of cybercrime rose by 14 per cent from 2021 to 2022, costing up to $46,000 for small businesses or up to $97,200 for mid-size businesses[25].

So, it's not surprising that the number one problem keeping CEOs up at night is trying to figure out where the weak spot in their cyber defence lies. Maintaining control over their own systems is one thing but knowing that third parties could be the weak spot in their cyber defence raises a myriad of questions around which data to share, and whether the right security controls are in place.

The threat of cyber-attacks is a constant challenge for brokers with cyber threats extending to large corporations. Everyday customers can fall victim to increasingly sophisticated cyber breaches[26]. Technology will give rise to the risk that customers can't tell the difference between what's real and what's fake[27], requiring brokers to help customers navigate this strange new world that lies ahead by building trust.

To help SMEs better identify their cyber risk and minimise the chances of experiencing a damaging cyber-attack, CGU has launched CYLO, a specialist underwriting agency that offers a holistic approach to addressing cyber risk.

CYLO aims to help small businesses to *Resist, Respond and Recover* by blending proprietary cybersecurity technology **(Resist)** with insurance know-how **(Recover)** and an end-to-end incident response and claims management service **(Respond)**.

CYLO has joined forces with UpGuard to help businesses manage cyber security risks more effectively. By simply providing a URL, UpGuard's outside-in scan can instantly detect a business's cyber security risk profile. This, combined with CYLOs inside-out risk questionnaire, provides the necessary information to assess, price, and offer a cyber insurance policy. Insured businesses receive a comprehensive UpGuard report highlighting any vulnerabilities and how to address them in addition to a monitoring service that offers year-round support to keep their business *CyberStrong*.

[21]*The metaverse presents opportunities for insurers: PwC*

[22]*Opinion | A digital Gucci bag sold for US$4,000 on gaming platform Roblox – will virtual fashion really become a US$400 billion industry by 2025? | South China Morning Post (scmp.com)*

[23]*Scam losses decline, but more work to do as Australians lose $2.7 billion | ACCC*

[24]*Cost of a data breach 2024 | IBM*

CASE STUDY: HOW CASI IS EXPEDITING CLAIMS

IAG recently launched its first Generative AI tool to help frontline consultants assess claims faster. Known as the *Claims Assistant Supporting Intermediated* tool, or CASI for short, it has ingested IAGs product disclosure statement and policy wordings, enabling claims staff to type in a question and receive accurate answers with references to the relevant section of the policy document.

CASI has reduced the time it takes to find all required documents and interpret relevant sections from 20 minutes to just a few seconds. Feedback is being continuously monitored, with a strong backlog of additional features being prioritised for next releases, including functionality for commercial claims.

Gen AI is a fast-moving area, and insurers are now considering other applications that bring greater efficiency to the job. Other digital tools being deployed include CGUs Claims Portal that allows brokers to self-allocate repairs for personal motor and personal property claims without needing to speak to anyone on the phone.

While technology can make the job faster, it has shortcomings. The democratisation of AI has meant that insurers and brokers need to spend time verifying that data is secure and that claims don't include fraudulent photos using AI as part of an insurance claim.

[25]*ASD Cyber Threat Report 2022-2023 | Cyber.gov.au*

[26]*Cyber Cover: Essential Protection for Today's Digital Business Landscape - Wayne Cooney, New Zealand Insurance Broker | infonews.co.nz New Zealand News*

[27]*https://www.macquarieinsights.com/*

What brokers need to know

The prevalence of social media[28] and the ongoing proliferation of technology raises questions about trust, authenticity, and misinformation. What's real and what's fake in a world where our biggest stars are being replicated using AI to sell us everything from Teslas to toothpaste.

Digital evolution is changing the way that insurance is transacted. Brokers will need to be educated on the future of technology and understand the risks.

1. Less conversations, more tech

How insurance is transacted is becoming more complex as clients increasingly take a hybrid approach - blending the use of brokers, technology and direct channels to purchase or change their policy. Brokers are being directed to insurance portals to log in and allocate repairers and suppliers on claims to reduce touch points throughout the claims process.

2. Insuring virtual items

A challenge will be understanding how to insure invisible assets. As the metaverse takes over, this new frontier is riddled with risks and undefined regulatory hurdles that need to be addressed before firms can begin to pilot associated programs. A challenge for insurers is how can a policy possibly provide protection for a $4,000 Gucci bag that only exists in the metaverse?

3. Tech to measure risk

Brokers need to consider how to use technology to better gauge risk and find the right products for clients. Insurers are already contemplating how to use technology to detect the risk of a fire and how to alert the property owner before it takes hold, for example. This is about proactively identifying risks before they emerge.

4. Virtual engagement

As the line between the physical and digital worlds continue to blur[29], brokers need to consider new ways to engage with customers. The metaverse presents new opportunities to interact with customers and will require brokers to adopt a specific engagement strategy.

5. Tech for prevention

Brokers also need to consider what role they play in the prevention space. There are a growing number of technologies out there, including the Internet of Things, sensors, and telematics, to lower the cost of insuring an asset and to prevent something from occurring in the first place.

[28] *2024 Future Forecast (benhamer.space)*
[29] *The metaverse presents opportunities for insurers: PwC*

PART 4

Our changing climate

Insurance products have perhaps never been so critical as Australia is battered by more frequent and severe weather events. Concern about natural disasters is increasing as the consequences of climate change creates new direct and indirect costs for all Australians. These costs will only increase in years to come.

Analysis by the McKell Institute[30] found economy-wide costs from extreme weather events are expected to grow by 5 per cent each year (before inflation), reaching $35 billion annually by 2050. As our climate changes, the impact on our health, livelihoods, food and water supply and national security is not yet understood. The World Health Organisation warns that climate change is expected to cause approximately 250,000 deaths per year from malnutrition, malaria, and heat stress alone.

Right now, there are 1.2 million properties at risk of flooding in Australia, while 230,000 properties face a 1 in 20 risk of flooding each year.

CGU has been part of the Australian Business Roundtable for Disaster Resilience and Safer Communities and supported the delivery six research reports to help the country be better equipped to handle disasters caused by natural hazards and extreme weather events[31].

The analysis shows that two thirds of the costs from natural disasters will be incurred in QLD and NSW over the next 40 years as they become more exposed to tropical cyclones and floods, as warming oceans enable tropical cyclones to move further south.

Costs in Melbourne and Brisbane will increase significantly, as major rivers in these cities alongside growing populations will lead to greater costs associated with flooding for Melbourne, and tropical cyclones and floods for Brisbane.

The insurance industry has invested heavily to better understand the challenges thrown at it by a changing climate. While no one has a crystal ball, rainfall patterns and bushfire risk are being quantified by utilising new tools. While some areas need more work, other areas remain uncertain, including the geographical distribution and severity of thunderstorms and what will change in the future.

Bushfires, floods[32], storms and tropical cyclones have always been part of the Australian experience and are changing in their frequency and severity. Right now, there are 1.2 million properties at risk of flooding in Australia, while 230,000 properties face a 1 in 20 risk of flooding each year.

The impact of these severe weather phenomena[33] on regional communities is particularly significant given that smaller and regional communities often have limited ability to adequately protect against natural hazards. Underinsurance or incomplete coverage is also particularly evident in regional communities.

Natural disasters can have a devastating and prolonged impact, stretching many years or even decades beyond the initial event. This makes small businesses particularly vulnerable and highlights the role insurance plays in helping these communities to identify, prepare for and mitigate their disaster risk and of course to re-build when disaster strikes.

But these risks are only just the beginning. Flood, fire, and drought will continue to be a major threat amid global warming, though there's no consensus yet around whether climate change will further influence wind perils.

[30] *The-Cost-of-Extreme-Weather-2022.pdf (mckellinstitute.org.au)*
[31] *Severe weather in a changing climate - 2nd edition | IAG Limited*
[32] *https://www.iag.com.au/sites/default/files/Report%20-*
[33] *What next for Florida insurance rates? | Insurance Business Australia (insurancebusinessmag.com)*

Climate scientists bridge the gap

Storms drive significant annual losses in insurance. Behind the scenes, a lot of research has been occurring in the climate science space to study how hail and general thunderstorm risk will change in the future.

The data and information used by insurers is constantly evolving to better understand the potential risk for homes and businesses insured across the nation. Pricing and modelling teams work closely with climate scientists to create technical models to better understand the limitations and risks that exist in the future.

Engineers are also doing a deep dive into historical events to learn and identify common failure points, which will drive changes in better building material, manufacturing, and building design and standards.

Considering how to reduce natural disaster risk to ensure the ongoing availability and affordability of insurance is top of mind. Large insurers are advocating for an enhanced consideration of disaster resilience in all land planning decisions to mitigate disaster risks in communities and maintain insurance affordability.

In response to an increase in peril events, insurers are progressively migrating to much more sophisticated pricing systems. Evolving pricing engines will provide insurers and brokers with a far more granular picture of costings than has been possible in the past.

Water damage on the rise

When it comes to insurance claim types, a significant inflationary pressure for insurers is water damage with the resultant damage varying depending on the type of claimable event. Water damage claims can occur as a result of cyclones and storms during intense seasonal weather activity, or at any time of the year resulting from burst pipes and overflow of apparatus. Being able to predict recurring storm events so that insurers can better prepare will be critical in the future.

As insurers roll out new technology including drones and custom mobile apps to assess disasters and resolve claims following severe weather events, the role of brokers as the critical intermediary will be increasingly evident.

Weather: The government response

The Federal Government has channelled far more money and resources into recovery and providing relief in the aftermath of a severe weather event than it has in building better prevention methods.

But that's changing as building resilience in the face of disaster becomes increasingly critical[34].

The insurance industry is clear that it's time for a radical rethink, hoping that the government push to develop an integrated approach to minimising the impacts of climate change will ultimately help address rising insurance costs driven by more frequent and intense weather events.

Among other topics, plans to help the most flood-exposed households, along with solutions to improve affordability and better prepare for future disasters are on the table for discussion.

There is also a clear commitment to foster better disaster resilience measures as state governments look set to support voluntary buybacks, repairs, and retrofits to homes as part of a government commitment to help communities recover from multiple years of devastating floods.

In the future, uninsured losses from extreme weather events are likely to result in heavy losses for banks and financiers and cause severe disruption to supply chains, potentially altering demand for some products.

[34] *https://mckellinstitute.org.au/wp-content/uploads/2022/09/The-Cost-of-Extreme-Weather-2022.pdf*

Sustainability reporting on the way

There are a range of environmental, social, and governance considerations impacting the insurance industry. New reporting requirements are on the way, and insurers and brokers will be pushing ahead with new ways of operating to ensure their approach is consistent, transparent, and compliant.

New standards introduced by the International Sustainability Standards Board will see more standardised sustainability disclosures introduced. While currently being considered by authorities, this is likely to drive new regulation in Australia. Growing societal demands are also driving the push for the insurance industry and brokers to take meaningful action.

It will be critical for insurers to deeply understand the climate risks and opportunities that impact their business model to ensure long-term sustainability. Many insurers are well progressed on this pathway and have been voluntarily reporting on climate risks and opportunities for many years while working to formulate more detailed net zero transition plans in preparation for mandatory reporting.

Under the mandatory regime, currently expected to be effective from 1 January 2025, insurers will be required to disclose and set targets to reduce greenhouse gas (GHG) emissions across their entire value chain, including supply chain, investments, and customer emissions.

This will mean a significant uplift in access to detailed and high-quality data from brokers, customers, and downstream partners.

The insurance industry understands the key role they play in the transition to net zero and a low carbon economy due to their knowledge, the data they hold, and their ability to influence change across their value chain. How best to utilise this collective influence is currently being explored and collaboration between insurers and brokers will be critical to ensure clients understand requirements and are supported in their own transition.

CASE STUDY: HOW WIND, RAIN, AND HAIL IMPACTS BUILDINGS

IAG has forged a partnership with wind engineers from the James Cook University's Cyclone Testing Station in a bid to improve its understanding of how extreme weather affect buildings.

As part of the partnership, IAG and Suncorp shared cyclone claims data with JCU to study the impacts of wind-driven rain, which has a costly and damaging impact on houses.

A subsequent study explored the performance of various roof materials during thunderstorms with hail and intense rainfall, the role of roof sarking in thunderstorm events, and the impact of hail on solar panels.

This has led CGU to improving its recommendations for homeowners' preparedness before cyclone events. It has also improved its understanding of roof cladding design as part of National Construction Codes.

CASE STUDY: CULTURAL BURNINGS INSURED

The Bega Local Aboriginal Land Council sought liability coverage for their Indigenous cultural burning activities, which historically had been difficult to insure.

Cultural burnings support the preservation of flora and fauna, unlike the damage that can be caused by backburning or extreme bushfire attacks. They also offer ongoing sustainable employment for Indigenous rangers.

Through the efforts of a broker and CGUs liability underwriting team, a pathway was paved for greater understanding and acceptance of these traditional practices by the insurance industry.

In the past, the only available option to provide liability cover for cultural burning activities was to add the risk as an adjunct to the local land council's general liability program. When the Bega Land Council sought to add these activities to their policy, the holding insurer declined to offer cover, citing the proximity of the activities to town assets and the holding broker did not pursue the matter further.

Undeterred, the client approached a different broker to explore alternative options for securing liability coverage. The broker took the time to witness a cultural burn and was convinced that insurers did not fully understand the tightly controlled process and the range of benefits these practices offer to communities and the native environment.

Senior broking and CGU leaders commenced discussions about insuring the Batemans Bay and Bega Land Councils with the belief that with careful underwriting consideration, CGU could accept the risk.

The broker was introduced to CGUs liability underwriter, where all aspects of cultural burning practices were explored, and it was agreed that CGU could underwrite the risk.

By accepting this risk, CGU helped the insurance industry take its first steps towards understanding and protecting a traditional Indigenous practice that had been successfully utilised throughout its history. This demonstrates the value of open-mindedness, stakeholder engagement, and a willingness to explore tried and tested risk management solutions.

What brokers need to know

No one has all the answers when it comes to addressing climate change but with mandatory climate disclosures on the near-term horizon, it will pay to be informed and to stay abreast of fast-evolving regulation. But ESG data and insights could help support insurance risk understanding over time.

Brokers will need to consider their own transition plans and what role they can play in educating and preparing their customers for the transition to net zero and the benefits of doing so.

For insurers and brokers, the ongoing challenge will be ensuring that insurance products are available, affordable, and meet the needs of customers by providing cover for an insurable event while also balancing the pressure of rising costs.

1. Data collection paramount

Brokers need to prepare to collate data and information from customers as part of mandatory reporting requirements because insurers will soon be required to disclose this data annually. This will include operational emissions, energy data, use of refrigerants, electric vehicle use, and distances travelled, among other data points. Brokers should look for next generation tools to help customers understand their risk. Larger broker groups will also need to consider if they have their own climate transition plan, and what goals or targets they have.

2. Think before you leap

Being first to market isn't always best. Take caution as the deadline for mandatory reporting regime approaches. There is a growing pool of startups in the market looking to grow on the back of the mandatory reporting requirements, but before jumping, consider what systems are already in place to collate and report on in-house data. If you do use an external system to collect ESG data, undertake a rigorous process to understand how mature these startups actually are, as some are still in infancy stage.

3. Educating customers

As governments continue to allow people to build and operate in high flood risk areas, it's critical to contemplate the role that brokers play in combating financial impacts of peril events. There is a significant need for insurers and brokers to provide greater education to customers around flood areas.

4. Sustainable leaders

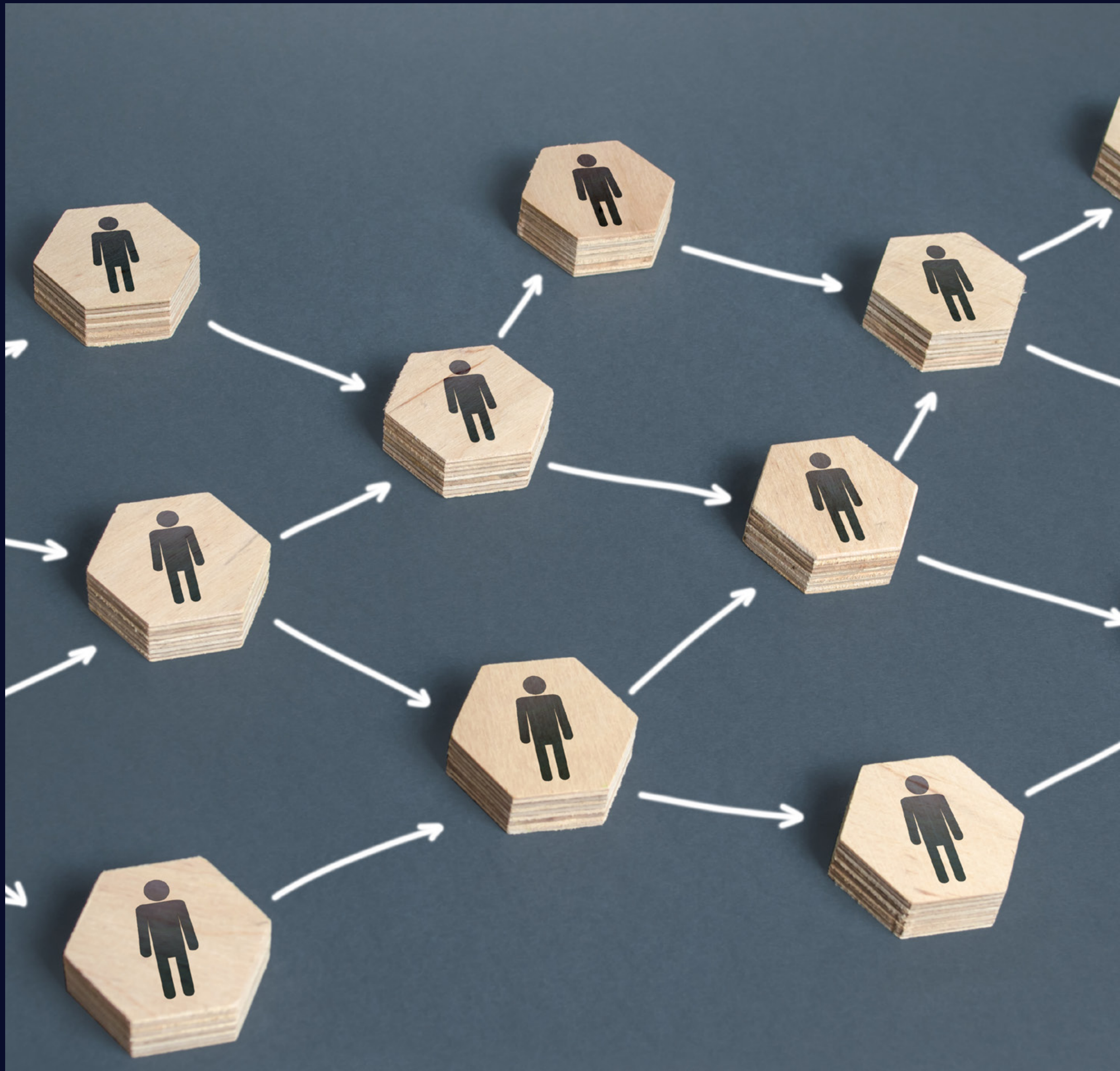
The insurance industry is pivoting to that of a sustainability ambassador, expected to have a sustainability and risk mitigation focus. Brokers will need to be part of this journey, ready to provide answers to questions about how to be more sustainable and how insurance can be part of the solution, rather than the problem.

5. Look for opportunities

With their deep understanding of their customers' needs, brokers are uniquely placed to help identify product or service solutions that will assist their customers in their net zero transition. Insurers will be looking to collaborate and potentially invest in solutions that help achieve shared outcomes.

PART 5

The widening intergenerational gap



The catch-call 'OK, Boomer' has emerged as an internet meme used to dismiss or mock attitudes typically associated with Baby Boomers, who are viewed as closed-minded and resistant to change by Australia's younger generations.

Mocking Boomers is a sign of the times as a clear generational divide[35] has descended on Australia. The chasm that separates the beliefs and behaviours of different generations is increasingly evident, proving a challenge for insurers to navigate.

Baby Boomers, Generation X, Millennials, Generation Z, and Generation Alpha are struggling to get along and understand each other's point of view. It's contributing to a host of problems, including ageism and an inability for the generations to communicate effectively with each other on anything – from technology, politics, war, real estate, to education.

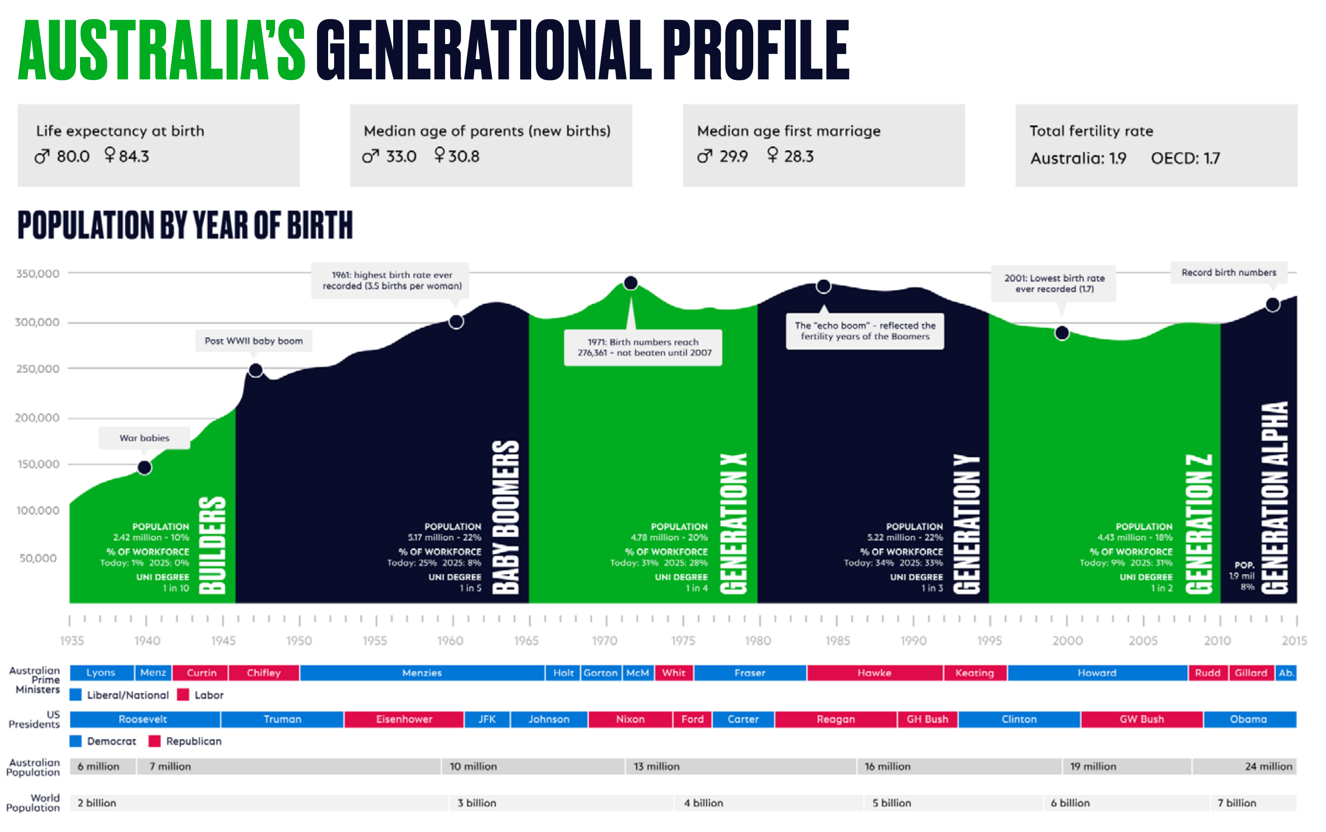
The Generations Defined

Baby Boomers

Respond to traditional, authoritative leaders who provide clear directives and demonstrate integrity.

Born between 1946 and 1964, Boomers emerged from the post-World War II baby boom, with a fertility rate of 3.5 babies per woman. This population surge spurred economic growth, housing, and infrastructure development.

This influential generation shaped society by challenging political decisions, participating in protests, and advocating for feminism and equality. They initiated the social enterprise movement, driving significant cultural, social, and economic changes. Today, they continue to impact society, often referred to as the "bank of mum and dad" for their financial support to the next generation.



Source: McCrindle Institute

Generation X

Values autonomy, appreciating approachable leaders who offer guidance while promoting individual ownership.

Named by Douglas Coupland and born between 1965 and 1979, Generation X is known for its anti-establishment mindset. Many in this generation bought property at a younger age than those who followed. They benefited from economic prosperity until COVID-19, embracing small business and entrepreneurial opportunities.

Despite early challenges, Generation X has thrived economically, with their net worth accelerating since the early 1990s. They continue to do things differently from previous generations.

Generation Y

Juggling competing priorities, seeks clear communication and work-life balance.

Millennials, or Generation Y, born between 1980 and 1994, are known for their love of "smashed avo," specialty coffee, and travel. However, rising house prices and stagnant wages have largely kept them out of the housing market.

Shaped by their times, Millennials were profoundly affected by the events of September 11, 2001, during their formative years. Now in their 30s and 40s, they are entering the parenting and family life stage.

Generation Z

Thrives under coaching or mentoring styles, valuing approachable and transparent leaders who support professional growth.

Born between 1995 and 2009, Generation Z has been shaped by the COVID-19 era, learning to adapt economically and socially. They are resilient, conservative, and prioritise education, understanding the need for up-skilling and lifelong learning.

Contrary to stereotypes, Generation Z works hard to achieve their goals, volunteers more than the average Australian, and often works for non-profits. They value fulfillment and making a difference over earnings but are also financially conservative, diligently saving for a home. The fear of not affording a house is one of their greatest concerns.

Generation Alpha

Born between 2010 and 2024, Generation Alpha represents a new beginning. Unlike previous generations, they are fully born and shaped in the 21st century. Their birth coincided with the launch of Instagram and the iPad in 2010, highlighting their tech-savvy nature.

Shaped by COVID-19, globalisation, and increased connectivity, Generation Alpha is growing up in a unique landscape. It's important to recognise that they are not like past generations but are being moulded by a new era.

Generation Beta

Yet to be born between 2025 and 2039, Generation Beta will make up 16 per cent of the global population by 2035. They will be the children of younger Millennials and older Gen Zs, with many living to see the 22nd century. This emerging generation is expected to be technologically integrated, curious, and value diversity. They will embrace change and difference, reflecting today's themes. We can predict some aspects, unforeseen social events, technologies, and experiences will also shape them during their formative years.

The Concept of a 'Fair Go'

Back in 1970[37], the average annual adult wage was around $4,100, or about $48,000 when adjusted for inflation today.

In 2022, the Australian Bureau of Statistics reported that the average Australian full-time salary was around $92,000, almost double what it was in the 1970s. It might sound great to get double the salary, but not when the average price of real estate has risen by more than 500 per cent in the same period.

The average price[38] of residential dwellings has recently risen by $14,300 to $959,300. Tipping home ownership into the million-dollar territory by the time associated home purchasing costs are taken into account.

Naturally, younger generations are crying foul because there is no way they can afford the great Australian dream of property ownership amid the combination of rising prices and stagnant wage growth. Millennials and Gen Z are fed up, posing some very fair questions to our government about how the younger generations who are currently running workplaces and businesses in Australia are ever supposed to live the great Australian dream of home ownership.

Social media[38] is filled with videos of young people asking Boomers how much they bought their first house for, followed by much eye rolling and angry commentary about the intergenerational divide. Young people are also putting off having kids to later in life because they say it's too expensive.

[36]https://www.northweststar.com.au/story/8640682/ben-hamer-gen-zs-anti-hustle-work-culture-a-fresh-perspective/

[37]https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/total-value-dwellings/latest-release

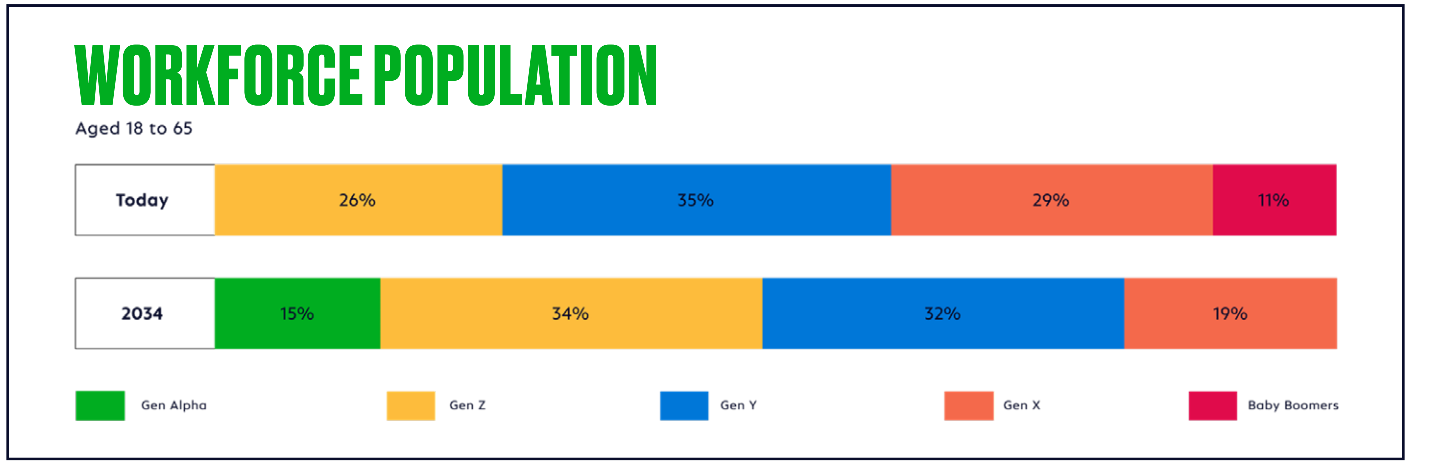
[38]https://www.tiktok.com/discover/asking-boomers-how-much-they-bought-theyre-first-house

CATEGORY	BUILDERS Born: 1925-1945	BABY BOOMERS Born: 1946-1964	GENERATION X Born: 1965-1979	GENERATION Y Born: 1980-1994	GENERATION Z Born: 1995-2009	GEN ALPHA Born: 2010-2024
Slang terms	We prefer proper English if you please	• Be cool • Peace • Groovy • Way out	• Dude • Ace • Rad • As if • Wicked	• Bling • Funky • Doh • Foshizz • Whassup?	• 🔥 • Fam • GOAT • Slay • Yass Queen	• Lit • Yeet • Hundo • Oof • rn • idrc
Social markers	World War II 1939-1945	Moon landing 1969	Stock market crash 1987	September 11 2001	GFC 2008	COVID-19 2020
Iconic cars	Model T Ford Final, 1927	Ford Mustang 1964	Holden Commodore 1978	Toyota Prius 1997	Tesla Model S 2012	Autonomous vehicles 2020s
Iconic toys	Roller skates	Frisbee	Rubix cube	BMX bike	Folding scooter	Fidget spinner
Music devices	Record player LP, 1948	Audio cassette 1962	Walkman 1979	iPod 2001	Spotify 2008	Smart speakers Now
Leadership style	Controlling	Directing	Coordinating	Guiding	Empowering	Inspiring
Ideal leader	Commander	Thinker	Doer	Supporter	Collaborator	Co-creator
Learning style	Formal	Structured	Participative	Interactive	Multi-modal	Virtual
Influence Advice	Officials	Experts	Practitioners	Peers	Forums	Chatbots
Marketing	Print (traditional)	Broadcast (mass)	Direct (targeted)	Online (linked)	Digital (social)	In situ (real-time)

Source: McCrindle Institute

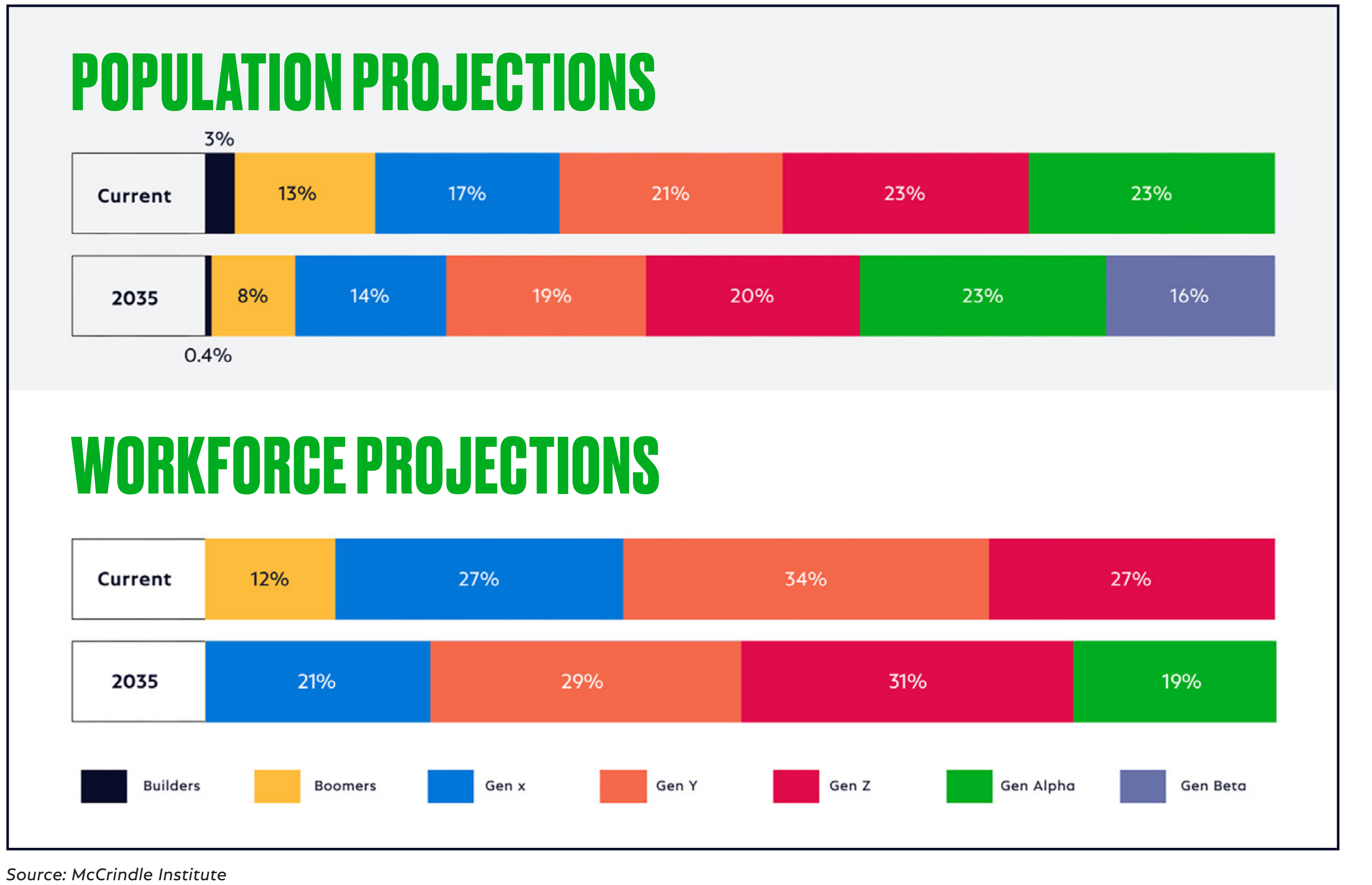
But Boomers don't think much of the complaining, sometimes generalising about younger generations by suggesting they eat too much 'smashed avo,' which is contributing to their inability to afford a house.

Australia's workforce is set to significantly transform over the next decade. By 2034, over a third of the workforce will be occupied by Gen Z as Generation Alpha commence their careers.



Source: McCrindle Institute

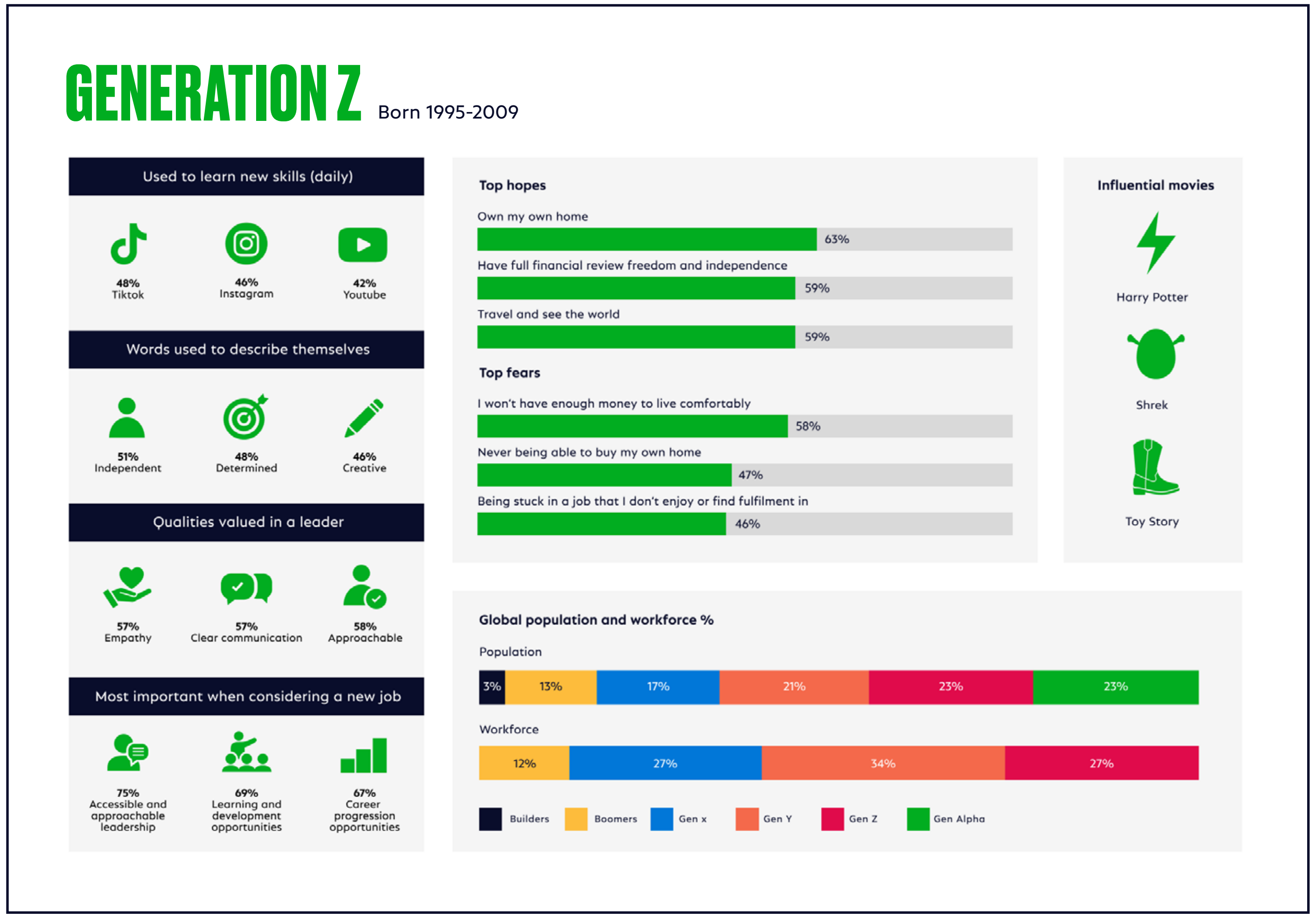
Global population projections



Source: McCrindle Institute

"Every generation imagines itself to be more intelligent than the one that went before it, and wiser than the one that comes after it." - George Orwell

While Boomers and Generation X currently run many Australian workplaces, Gen Z are entering the workforce with entirely different expectations and are much more anti-establishment than older generations, particularly post-Covid. They want to work how and where they want and bring a more ethical lens to the workplace, giving previous generations a chance to pause and reflect about how they want to work, which comes after decades operating in an industrial 9-5pm-style workplace. As digital natives, they have formed constant connection to their smartphones and are highly proficient in using technology.



Source: McCrindle Institute

With multiple generations in the workforce, cohesive teamwork is essential for effective collaboration. Regular and constructive feedback is vital for all generations at work, though their preferred communication styles differ. Gen Z, in particular, appreciates frequent praise and constructive feedback, even if it might be challenging to hear.

They prioritise a safe space for sharing ideas and value collaboration more than older generations[39]. Gen Z thrives under coaching or mentoring, seeking leaders who are approachable, transparent, and supportive of their professional growth. They also value a fun working environment, alongside vision, accessibility, and strong remuneration, to create lasting impacts.

Communication preferences of the different generations

The opportunity for leaders is to reflect on how they are creating an environment for the next generation of workers, and to ensure that the perspectives and experiences of others are well understood. This means being intentional about getting to know their team, what they value and what drives them.

Without strategies to address multi-generational challenges, insurers and brokers risk missing valuable opportunities. They could even face competitive disadvantages thanks to emerging inter-generational challenges within their workplaces. Effective communication will be essential for improving employee engagement and workplace culture by helping to manage generational gaps and prevent misunderstandings.

Rotating employees across different parts of the business can help broaden organisational understanding and expose leaders to generational differences[40]. This can help to build a culture of learning and mutual respect which can ultimately boost productivity. Post-linear learning, as opposed to the traditional transfer of knowledge from senior to junior workers, may also prove valuable. Aligning employees to learn new skills from each other, regardless of generation, seniority, or title could create significant opportunities for positive transformation.

Leaders across the insurer and broking community stand to benefit from addressing generational differences through solution-oriented conversations and tailoring engagement strategies, testing a range of communication channels to learn what is most effective. Technological advancements offer plentiful collaboration opportunities, however striking the balance between employee needs, user-friendliness, and efficiency will be crucial for meaningful outcomes.

By embedding inclusive working environments, generational differences can become great sources of energy, creativity, and innovation. Embracing a culture that values intergenerational connection and curiosity will be the key to success, focusing on unity and understanding rather than differences and resistance to change.

[39] *"Cultivating Healthy Intergenerational Teams – exploring disruptive changes and timeless truths of engaging the generations at work" McCrindle Research, August 2024.*

[40] *Paula Brough, Ashlea Troth, Katrina Radford, Ellie Meissner, Sheetal Gai, Dan Langerud, and Megan Rose, "Multi-Generational Workplaces Research: Final Report," Centre for Work, Organisation & Wellbeing, Griffith University, June 2023.*

The war for talent is likely to continue as organisations face attracting and retaining quality employees as the Baby Boomer generation retires, suggesting new human resource management approaches may be required to meet the changing needs of new entrants.

To connect with a multi-generational workforce, organisations should consider the formalisation of flexible workplace policies, mentorship programs, recognition and rewards frameworks, inclusive leadership practices, and customised performance reviews to recognise the distinct values and needs of each generation during the recruitment and onboarding process, and throughout an employee's journey as they progress their career.

Empowering managers with adaptive leadership techniques that understand generational preferences will help to enrich team interactions, decision-making, problem-solving, and overall work efficacy.

HOW DO YOU PREFER TO COMMUNICATE WITH YOUR COLLEAGUES?

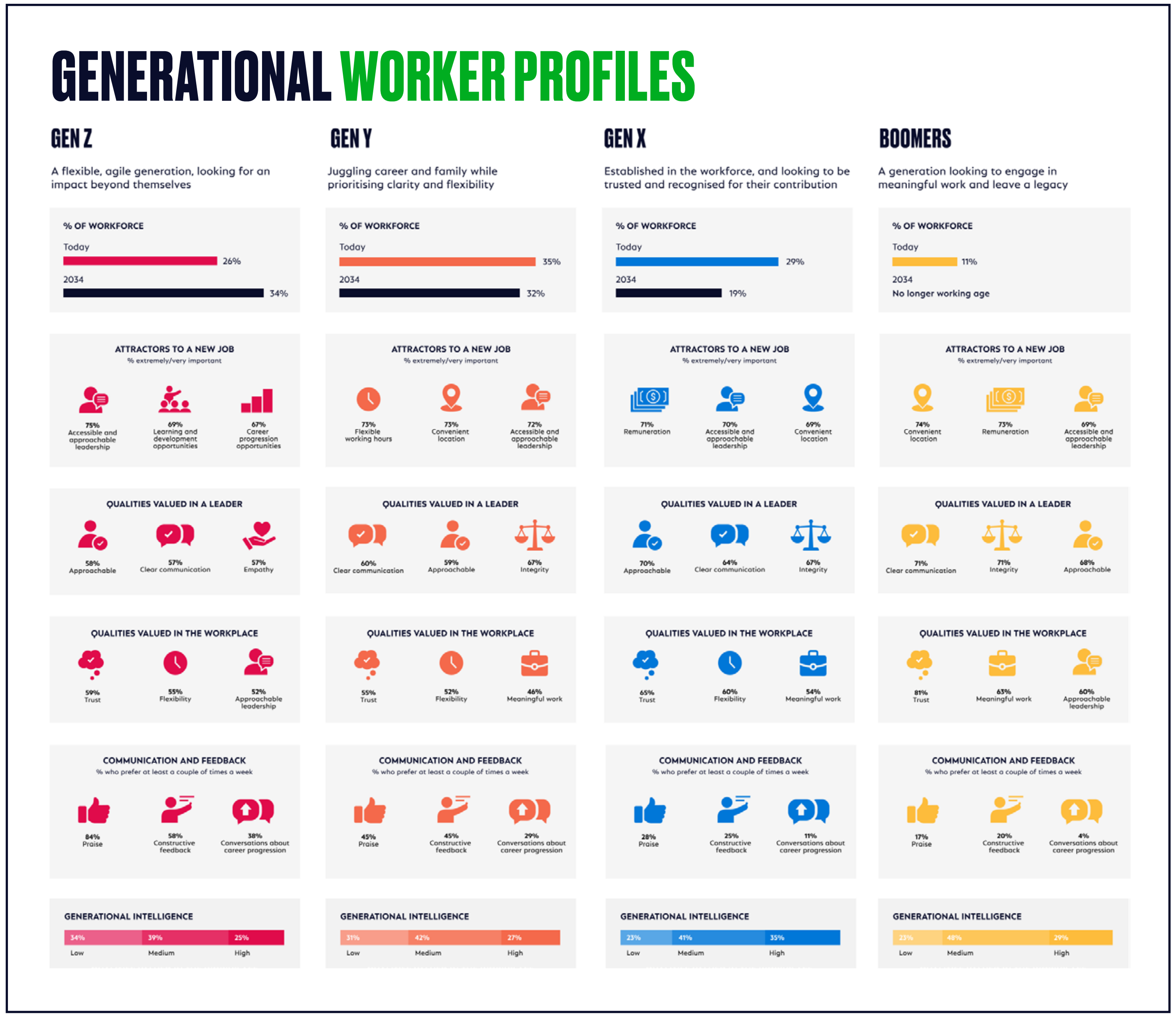
Top 3

	Gen Z	Gen Y	Gen X	Baby Boomers
1	Face to face meeting 59%	Face to face meeting 63%	Face to face meeting 73%	Face to face meeting 87%
2	Email 44%	Email 45%	Email 43%	Phone 28%
3	Phone call 41%	Online chat e.g. Slack, Zoom) 41%	Phone call 30%	Email 27%

Source: McCrindle Institute

Source: The 2024 ad from Australian Lamb

In summary, there may be no better example of the intergenerational divide than the highly anticipated 2024 Lamb ad, which cleverly depicts the generational gap that has divided the nation. Through this campaign springboard, the ad shows that left to their own devices, each generation has become the worst version of themselves. The ad reminds Aussies that there's actually more that unites us than divides us – including lamb on the barbie.



Source: McCrindle Institute

What brokers need to know

The generational gap plays a big role in businesses contemplating how to balance the needs and views of individuals from different groups to sell to them. No one really knows what these intergenerational tensions will look like in the future, and how they might continue to play out over time. How that will impact insurers and the broking community remains to be seen.

1. Tailoring advice

It's important to remember that not all customers are the same. Older generations may still prefer to receive correspondence in the mail, while younger generations may prefer you to find them in the metaverse. Tailoring communication methods and giving customers choice about how you interact with them is increasingly critical. And in a time of need, customers will always want to be able to pick up the phone and speak to their insurer or broker in person.

2. Generational pricing

At the risk of being accused of ageism, insurers and brokers can't charge differently depending on age, which means that some cashed up Boomers will simply be able to afford more insurance cover than Gen Z. Ensuring that all generations are treated equally is critical, despite their different needs.

3. Succession plans

Boomers have built successful workplaces based on the 9-5 office framework but will need to put succession plans in place as they lead into retirement. Embracing hybrid work and new technology will be an important part of the switch as industry stalwarts straddle the needs of millennials and Gen Z. Modern workplaces need to have a focus on mental health and wellbeing and continuous learning and development.

4. The power of mentoring

Mature professionals can greatly benefit from partnering with new industry entrants in cross-generational mentoring programs. This mutual learning allows younger employees to share new technologies and practices, while older employees contribute wisdom and industry experience. Such collaboration fosters innovation, enhances job satisfaction and engagement, reduces turnover, and creates a more cohesive work environment, highlighting the advantages of a united generational approach.

5. Build a culture of intergenerational respect

Fostering a respectful, multi-generational workplace is key to success. By valuing diverse perspectives and contributions, and investing in trust and open communication, teams can bridge generational gaps. High generational intelligence boosts trust and collaboration, enhancing team dynamics and overall organisational success in a rapidly changing world.

6. Generational diversity leads to diversity of thought

Instead of allowing our differences to divide our workplaces, encouraging open-mindedness towards alternative perspectives can foster innovative problem-solving and unique solutions. Consider generational diversity training to encourage understanding and appreciation of generational differences, minimise stereotypes and prevent discrimination.

7. Career advancement is important to Gen Z

Training, development, and career development discussions will be important areas of focus for managers who wish to avoid losing high potential talent. Regular feedback delivered in-person is highly valued by younger workers who enjoy learning in a collaborative office environment.

PART 6

Global trends impacting insurance

1. Learnings from California

Insurance in California is changing[41] as climate disasters around the state threaten the current business model and millions of middle-class Californians.

As intense wildfires ripped through California, seven of the top 12 insurance companies in the state have left or pulled back from offering new policies to customers. Despite this, California did not make any structural changes to its insurance marketplace. It is important to note, however, that this cannot be entirely attributed to climate change. Californian insurers have struggled historically to incorporate wildfire modelling into their rate calculations which are also hindered by government approval processes.

Nevertheless, it presents food for thought for the Australian sector and regulators to continue adapting to changing market needs.

2. Global weather events and the implications for insurance in the future

Globally, hot days are now hotter. Extreme summers are more common. And storms are more brutal than ever before. Unpredictability is the name of the game as average temperatures continue to rise. But insurers and brokers are expected to have a crystal ball and be able to bring certainty and calm to these weather events.

Looking ahead, insurers and brokers will need to better understand and anticipate changes[42] in the climate and weather extremes and adapt their pricing accordingly. They will also need to promote effective risk management strategies to customers.

3. The growing role of commercial insurance and how to prepare

The SME segment[43] is set to thrive in the coming years, and the complexity of the insurance required is expected to grow and evolve. This new dynamic is giving providers a unique chance to expand their portfolios alongside this business segment, which represents billions in untapped premiums.

Insurers and brokers will need to possess the latest data to develop long-term loyalty among SME customers, whilst building and expanding their technical excellence to tailor customer-targeted product portfolios.

4. The CrowdStrike Cyber Incident

A Microsoft IT outage in July 2024 was caused by a defect in a single content update to CrowdStrike Falcon Sensor V6.58, a provider of security technology, whilst interacting with Windows. A provider of security technology. While there was no suggestion of a security breach nor cyber-attack, the lingering impact globally to the retail, finance, aviation, media, energy, healthcare, and telco industries were impacted when the 'blue screen of death' cut millions of companies off – in some cases, for days.

While the true impact[44] was still being assessed at the time of writing this report, analysts expect business interruption claims to drive the bulk of insurance industry losses.

4. AI and its carbon problem

Artificial intelligence[45] may have helped the tech giants like Amazon and Microsoft grow their wealth, but there's a problem here that isn't getting much attention yet, although Wall Street has revealed that it's taking notice.

The issue is that the power demands of huge data centres that underpin the AI revolution are growing at a rapid pace, and yet the climate impact isn't getting much attention. Some analysts in the US suggest that it may increase electricity demand by as much as 20 per cent by 2030.

There are signs that support this theory, including shares in Dominion Energy rising as the company revealed it expects to supply 15 new data centres this year, requiring a gigawatt or more of electricity. Meanwhile, Microsoft has announced a $10 billion green energy deal with Brookfield Asset Management to supply electricity to some of its data centres.

It isn't widely reported just yet, but there's a push underway to ensure that this increased energy demand coming from AI is met with lower carbon sources, which could well throw the climate pledges of utilities and tech giants into disarray. Watch this space.

5. Policy wordings in the spotlight

Insurance policy wording has been under the spotlight in recent government inquiries as the industry recognises that policy wording needs to be simplified[46] to ensure consumers understand their coverage. Government reviews indicate there is a need for the industry to standardise terms, which is being considered. Brokers will continue to play an important role.

6. Insurance industry grows

It was always inevitable that entrepreneurs and startups would want a slice of the insurance market. Here in Australia, unicorn startup e-commerce pet supplies retailer Pet Circle has entered the pet insurance industry, while others are launching in a bid to compete with the bigger market players.

Female-led insurance startup Peachii has also launched to service lifestyle and luxury item customers via a platform that democratises access to insurance for premium investment goods. Stella Insurance has also entered the market as a female-led insurance startup.

US electric car giant Tesla has just launched its brand-specific insurance cover in Australia, available to new and existing Tesla owners through its smartphone app.

[41] https://www.kqed.org/science/1985175/insurance-in-california-is-changing-heres-how-it-may-affect-you

[42] https://www.iag.com.au/sites/default/files/Documents/Reports/IAG-Climate_Change_Paper%202003.pdf

[43] https://www.mckinsey.com/industries/financial-services/our-insights/small-and-medium-size-commercial-insurance-the-big-opportunity

[44] BI claims the likely focus of insured losses from Microsoft IT outage, say analysts - Reinsurance News

[45] Generative AI is an Energy Hog | Bernstein

[46] https://in-magazine.com.au/an-unfair-fight/ v

CONCLUSION

Insurers and brokers are acutely aware that the pace of change in the world around us is profound, and that preparation, investment and planning is the way to stay relevant into the future.

Strong relationships are critical to ensure that brokers can continue to provide genuine value and help customers mitigate their risks in the face of relentless turbulence.

Right now, customers, communities, all tiers of government and of course, brokers, must look at new ways to share intelligence and insights to build resilience as an industry and lower risks for our customers in the face of peril claims due to a changing climate.

Indeed, it has never been more critical for insurers and brokers to stand shoulder to shoulder and present a united front through uncertainty, as we all find better and smarter ways to work.

Brokers are especially well positioned to promote their expertise as trusted risk advisors. Their depth of knowledge across hundreds of insurer markets and complex policy wordings, and the ability to translate this into simple coverage terms, can help customers save time and money while avoiding cutting corners on their cover.

It is CGUs ambition to become the Australian general insurance brokers' leading insurer partner. As one of Australia's largest intermediated insurers, we understand that our value to brokers and customers stems from offering quality products, transacted with seamless service, backed by market-leading claims experience, and executed in compliance with our regulatory requirements. Our commitment to anticipating and preparing for what may lie ahead means that our business will be in a constant state of transformation so that we can meet changing broker and customer expectations.

Our one constant is the world will continue to change around us. Unforeseen challenges will continue to test our resilience. Together, the creation and distribution of the STRIVE Report is an important initiative to help Australians to navigate a complex insurance market through education and insights. We encourage brokers to share it far and wide within their networks, inviting questions and informed discussions about how intermediated insurance programs can help to protect customers' most valuable assets in an uncertain world.

CGU Insurance partners with Australian general insurance brokers to distribute our domestic and commercial insurance products. We recommend customers visit the National Insurance Brokers' Association (NIBA) website to locate a trusted insurance advisor.

Scan the QR code and find your broker today.

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