

Changes in Commercial Property Insurance

Inflation, rising construction costs and increased extreme weather events are driving changes in commercial property insurance premiums.

We've shared the key reasons why, how your insurance broker can help and tips to help protect your assets.



1. Increased Extreme Weather Events

2023 was a difficult year for business owners, as the frequency of extreme weather events intensified. Cyclone Gabrielle is the most significant weather event New Zealand has seen in this century.

So, what does this mean for your commercial property insurance?

As a result of large weather event losses, you can expect to see an increase in your insurance premiums at your next annual policy renewal. This includes business interruption and material damage policies.

The price you pay for insurance must accurately reflect what it costs insurance providers to provide coverage.

Insurance providers are significantly impacted by the claims experience and will consider both what has been seen to date from weather event claims, and what is forecasted for the future.

Higher premiums may be more of an issue for properties located in flood-prone risk areas.

The right insurance cover is vital to help mitigate risks and minimise potential losses in case of property damage.



2. Rising Construction Costs

Rising construction costs are being seen across New Zealand.

In the year ended September 2023, non-residential construction prices increased by 6.5% and the value of non-residential building work increased by 18%*. Health and storage buildings were the largest contributors to this increase.

When a valuer assesses and values your commercial property, they consider the current rebuild value and building costs in the event of damage or destruction.

With the increase in construction costs, your property's rebuild valuation will increase, which could lead to an increase in your insurance premiums.



3. Inflationary Pressures

High inflation is having a significant impact on many business owners. Annual inflation in New Zealand increased by 4.7% in the year ended December 2023, with housing and household utilities being the biggest contributors.**

With inflation remaining high, it's likely that the cost of repairing or replacing property, equipment, stock and machinery will increase as well. This means that your insurance premiums are likely to increase too in order to accurately reflect the higher replacement costs.

*Statistics New Zealand: <https://www.stats.govt.nz/news/non-residential-building-activity-down-in-september-quarter/>

**Statistics New Zealand: <https://www.stats.govt.nz/news/annual-inflation-at-4-7-percent/>

Insurance Tips to Protect Your Business

Commercial properties are significant investments and our brokers understand the challenges that businesses face when it comes to protecting the value of their properties. Use the below tips to help combat the effects of inflation, extreme weather events and rising construction costs.

Material Damage Policy: Is your sum insured up to date?

- ✓ Regularly check that your sum insured is up to date (at least annually) to ensure you have the right coverage if your property becomes damaged.
- ✓ The sum insured represents the maximum amount that your insurer will pay if your property is damaged or destroyed by an insurable event, like natural disaster or fire.
- ✓ The sum insured should be set at what it would cost to rebuild your property commencing at the date of loss and it's important not to overlook demolition costs. To help estimate your rebuild valuation, please contact your broker to discuss your options including contacting a registered valuer.

Business Interruption Policy: Is your indemnity period up to date?

- ✓ The indemnity period represents the maximum time your insurer can cover your fixed expenses and insurable gross profit while your business operations are temporarily halted due to an insurable event.
- ✓ The indemnity period is usually between 12 and 36 months.
- ✓ Choose the right indemnity period to ensure your business has sufficient time to make property repairs and return to pre-loss trading levels.

In the event of a natural disaster, the recovery can take much longer compared with a single fire loss due to supply chain disruptions. Plan for the worst.



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