

Changes in Commercial Property Insurance

Why your premiums may be increasing

Economic and environmental factors are driving changes in commercial property insurance premiums in 2023 and you may see your insurance premiums increase as a result. We've shared information below about these key factors and insurance tips to help protect your business.



1. Increased Extreme Weather Events

It's been a difficult year for business owners, as the frequency of extreme weather events intensifies. Cyclone Gabrielle is the most significant weather event New Zealand has seen in this century.

It's clear that climate change is becoming one of the biggest challenges facing the commercial insurance industry. So, what does this mean for your insurance premiums?

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.

It's important to review your insurance policy regularly (at least annually) to ensure you have the right cover in place. This can help your business minimise potential losses should you experience any unexpected events.



2. Rising Construction Costs

Rising construction costs are being seen across New Zealand.

The value of non-residential building activity (including factories, storage, and industrial buildings) increased by 20% in the year preceding December 2022, according to Statistics New Zealand.*

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 was 6.7% in the March 2023 quarter, with food and housing 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/building-activity-eases-in-december-2022-quarter/>

**Statistics New Zealand: <https://www.stats.govt.nz/news/annual-inflation-6-7-percent/>

Insurance Tips to Protect Your Business

Use these tips to help combat the effects of inflation, extreme weather events and rising construction costs. Insurance remains vital in helping to protect your business.

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.
- ✓ Remember that the sum insured represents the maximum amount that your insurance provider will pay if your property is damaged or destroyed by an insurable event, like a natural disaster, flood or fire.
- ✓ The sum insured should be set at what it would cost to rebuild your property. To help estimate your rebuild valuation, please contact your broker to discuss your options including contacting a registered valuer or quantity surveyor.

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

- ✓ When selecting insurance coverage, remember that the indemnity period represents the maximum time your insurance provider 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.



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