

# Insurance Market Update

April 2024



## Rising Insurance Premiums

**Increases in insurance premiums are affecting New Zealand businesses.**

Global and local insurance markets are significantly influenced by prevailing economic conditions, the cost of capital, regulation and the loss experience. Specifically, we are witnessing an increase in both the frequency and severity of global natural catastrophes fuelling upward pressure on insurance pricing.

Global reinsurer, Munich Re, reported that natural disaster overall losses in the first half of 2023 were at US\$110 billion. Locally, the Auckland Anniversary floods and Cyclone Gabrielle are the largest insurance weather events in New Zealand's history and are expected to cost the insurance industry NZ\$3.75 billion (approximately 117,000 claims), as reported by the Insurance Council of New Zealand (ICNZ) in March 2024\*.

Overall the cost of claims is increasing, not the cost of reinsurance, and therefore driving local market conditions as insurers pay more for capacity whilst retaining more risk to their balance sheet. As a result of these increased costs, insurers have been making changes to insurance terms including premium increases.

## Local Market Conditions

New Zealand experienced two significant weather events in 2023 with the Auckland Anniversary floods and Cyclone Gabrielle, both causing widespread damage. The insurance community rallied quickly to respond, brokers reaching out to clients and claims centres swinging in to action. This is the time when delivery of the promise is tested, and client advocacy is paramount.

Given the vast number and value of claims, it is no surprise many underwriters continue to adopt a more conservative approach with reduced risk appetite, capacity allocation, increased pricing, and more restrictive coverage terms. The market needs to reset to remain viable and sustainable in the future.

"Insurers are under considerable pressure to ensure pricing supports the global market while remaining sustainable locally." Paula Harris, General Manager, DUAL New Zealand

As the insurance market continues to evolve with the conditions, we have seen a steady stream of new entrants to the market in the form of underwriting agencies over recent years. These underwriting agencies are typically focussed on specialist areas including financial lines, engineering, specialist motor, warranty and bonds & aviation, to name a few.

The underwriting agencies act as traditional insurers with the capital backing of Lloyds and large offshore entities that satisfy regulatory requirements. Not only does this deliver specialist expertise and capacity, but it also helps differentiate larger insurers, who can provide a broader range of offerings. There is no such thing as a one size fits all insurance solution.

**We are seeing signs that the market is softening and the level of price increase is moderating.**

\*ICNZ: <https://www.icnz.org.nz/industry/media-releases/gabrielle-and-auckland-anniversary-claims-settlements-top-go>

# Top Risks for New Zealand Businesses



## Cyber-attacks and data breaches

As businesses are becoming more reliant on technology, cyber criminals are using increasingly sophisticated methods and emerging technologies (like artificial intelligence) to access critical assets for financial gain. Businesses and individuals should be aware of how disruptive technologies may impact them and their activities. It's essential to stay on top of any cyber security risks, especially as the impacts of cybercrime can be financially devastating.



## Economic slowdown

High interest rates, inflation and political instability are all contributing to this economic slowdown risk. For example, annual inflation in New Zealand remained high at 4% in the 12 months prior to the first quarter of 2024, according to Stats New Zealand\*\*. Despite the inflation rate being the lowest since June 2021, it remains above the Reserve Bank of New Zealand's target range of 1% to 3%.



## Business interruption

Business interruption costs can be significant if your business operations are temporarily halted due to an insurable event (such as a fire). \$739 million in business interruption and commercial material damage claims were paid out in New Zealand in 2023, according to the ICNZ\*\*\*.

Whilst setting the correct annual sum insured is critical, the indemnity period determines how long your business will be covered for loss of income due to an insured event. The intent is to enable you to reinstate your business to its pre-loss trading position, and if the period is too short you risk facing financial strain beyond the coverage duration.



## Changing market trends

The rising frequency of extreme weather events, challenging economic conditions and an increase in crime (including fraud) underscore the reality of continuously changing and increasing risks for businesses.



\*\*Stats NZ: <https://www.stats.govt.nz/news/annual-inflation-at-4-0-percent>

\*\*\*Market data, ICNZ: <https://www.icnz.org.nz/industry/market-data>

## Recommendations

- **Start renewal discussions early:** Insurer resources are stretched causing delay in securing terms and limiting remarket options. Accordingly, we urge conservatism when budgeting for annual policy renewals and continue to encourage longer lead-in times.
- **Secure an up to date sum insured for your property assets:** The sum insured should be set at what it would cost to rebuild your property and insurance valuations are vital to ensure that your property assets are adequately insured in case of unexpected loss or damage.
- **Consider policy structure options:** Your broker may discuss a change to excess, a change of limit, a review of your scope of cover and alternate market solutions.
- **Consider basis of settlement options:** This includes indemnity value, replacement value, functional replacement value or specified replacement value.
- **Risk management:** Review your risk management practices and risk mitigation.
- **Take a “best foot forward” approach:** Ensure your broker is provided with all of the information required to deliver a quality submission representing your business to market. Insurers will fill gaps in knowledge with price.
- **Budget planning:** Budget for continued premium increases across most portfolios in 2024 and 2025. However, where accounts have had significant losses, based on high hazard occupations or located in flood and earthquake-prone regions, expect further increases, reduced capacity and/or more restricted terms.

Pricing is just one element and it would be unwise to overlook the importance of coverage, service standards, and the willingness of your underwriting partner/s to pay claims.



“ We all recognise the challenge of affordability, and clients now more than ever need personal service and quality advice about their insurance. We work hard to ensure our clients access appropriate insurance solutions to best protect their assets, securing the right combination of risk, coverage and cost. ”



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