INSURANCE *landscape*

January 2023/24

GENERAL INSURANCE PREMIUM PRICING

Outlook for 2023

Your insurance premiums are not only influenced by your own claims, but also by national and international events and trends. As a client it can be helpful to understand the factors affecting your premiums and the probable trends for the future.

Premiums do not simply increase to make Insurers more money, they increase because they reflect the cost of providing insurance protection in the current economic and political environment.

Global Overview

Insurance pricing in the fourth quarter of 2022 was the 21st consecutive quarter in which general insurance pricing rose, continuing the longest run of increases since 2012. Insurers remain concerned about non-modelled secondary perils, such as wildfire, hail, convective storm, tornado and flood due to their accumulation exposure and loss trend uncertainty.

Amid persistent inflation, Insurers continue to focus on accurate property and business interruption valuations. They are focused on managing greater claims costs as inflation drives increases in the cost of materials, labour and supply chain challenges, staffing shortages, rebuild delays, and other factors which continue to impact loss ratios and profitability.

Conditions in the insurance market vary by product line, with property being the most difficult segment. The frequency of large catastrophe events has driven capital out of the reinsurance market, with many reinsurers unwilling to deploy the same amount of capital as they did a few years ago, especially for risks exposed to windstorm and wildfire.

China's continued implementation of its no COVID policy, exacerbated by Russia's conflict with the Ukraine and other factors have wreaked havoc on global supply chains over the last two years. This is one of the reasons behind the rampant inflation we've seen in many parts of the world.

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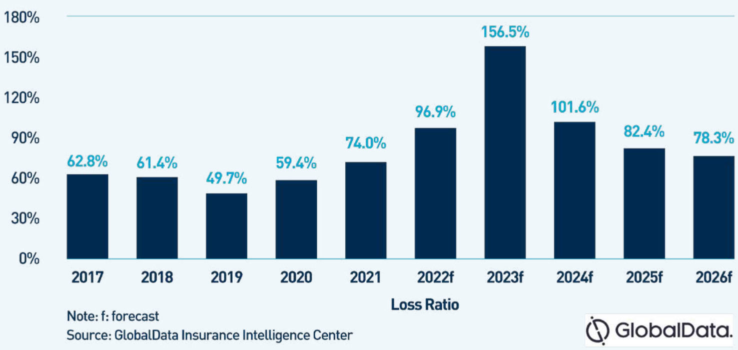
New Zealand Overview

Severe weather events hit the North Island hard with the Auckland Anniversary storms and Cyclone Gabrielle causing significant damage, which are likely to cost insurers well in excess of $1.5 billion for each event. These weather events have accelerated what was already predicted to be tough market conditions for insurance buyers in New Zealand in 2023. Reinsurance, which is insurance purchased by insurance companies to protect themselves from claims, is also impacted by these events. The global reinsurance market is experiencing significant volatility due to factors such as high inflation, interest rate hikes, and weather related losses, including Hurricane Ian and the tragic earthquake in Turkey and Syria. This has led to increased costs and higher retention for insurance companies, which will result in premium increases for insurance buyers in what we are now deeming a 'hard market', as Insurers price their increased capital costs. In addition, Insurers will be more proactive in modelling storm and flood risks, which will influence their underwriting capacity in certain parts of New Zealand. The loss ratio for property insurance increased from 59.4% in 2020 to 74.0% in 2021 due to higher natural catastrophic (NatCat) claims and is expected to jump significantly in FY2022-23 to reach 156.5%.

New Zealand Property Insurance Loss Ratio, 2017-2026f



Despite this, all New Zealand insurance companies continue to report financial stability and sufficient resources to meet their claims obligations to clients.

Australian Influence

Over the last two years Australia has had an extremely high frequency of catastrophe events. The Queensland and New South Wales flooding event last year resulted in $5.2B of insurance claims, with over 233,000 lodged. These events were catastrophic for many businesses and families and were the second most expensive weather events in Australia's history.

Average Cost per Claim Increases

The average cost per claim has been steadily increasing over the past 10 years. This has been exacerbated by three years of supply chain issues which we started to feel the impact of in 2020. Significant delays in the supply of materials, white goods and vehicles are impacting both rebuilding efforts and the settlement of claims. Labour shortages and the availability of trades people have also affected the timeframes to rectify insurable losses. One consequence of the Covid-19 pandemic has been a sharp lift in global demand for goods, as consumers substituted away from in-person services. The global supply chain has struggled to keep up with this additional demand, given the long lags involved in expanding shipping capacity, causing freight prices to rise dramatically. High freight costs meant that importers are paying significantly more to have goods shipped to New Zealand. This is adding to inflationary pressures as some retailers pass on the additional cost to consumers, whilst also reducing margins for businesses who are unable to pass on that cost.

If you rely on a specialist piece of machinery that was sourced from overseas, we suggest you review the sum insured with your broker and ensure you also have adequate business interruption cover to compensate you, should a loss occur. If you haven't had your commercial building or your home valued in the last few years, we would recommend you get this done, as building costs for both commercial and domestic risks have increased substantially.

Bank Forecasts for the NZ$

Banks expect the New Zealand Dollar (NZD USD) to slowly rise above 63 US cents in 2023. However, bank experts agree there are many risks that could impact the accuracy of this prediction next year.

Low Interest Rates and Inflation

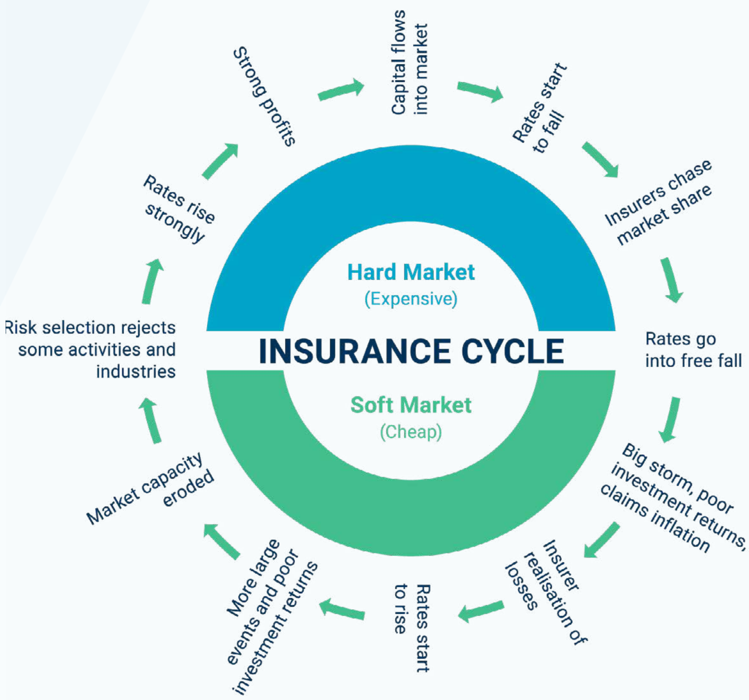
The Reserve Bank of New Zealand raised its official cash rate (OCR) by 50 basis points to 5.25% in April. It was the 11th successive rate hike since December 2008, with policymakers saying inflation is still too high and persistent, and employment is beyond its maximum sustainable level. The recent severe weather events in the North Island have led to higher prices for some goods and services. This higher near-term CPI inflation increases the risk that inflation expectations persist above the target range. Global growth is expected to be below average, contributing to lower demand for New Zealand's key commodity exports. Economic growth is expected to slow through 2023, given the slowing global economy, reduced residential building activity, and the ongoing effects of the monetary policy tightening to date.

LOOKING TO THE FUTURE

After an evaluation of these factors, we believe the pricing of insurance premiums will continue to rise. Cost cycles can be an excellent tool in evaluating where insurance rates are and what direction they are likely to take in the future. We believe the industry is currently sitting at 10 o'clock on the insurance industry clock pictured below. How long it remains there largely depends on the frequency and severity of future catastrophic weather events and the lowering of inflation that is currently impacting claims repair costs.

With the continuing hard market, we anticipate:

- A continued period of higher premiums
- Getting insurance coverage could become more difficult and more difficult to negotiate terms.
- Insurers may reduce capacity for some risks or industry groups with poor loss histories or those in earthquake and flood areas.
- Higher excesses being applied.
- A focus on risk management and mitigation processes.
- More time and additional information required to place insurance.



Given this situation, it is important to keep in mind just how valuable insurance is, especially when a loss occurs. Despite the current landscape, insurance coverage in New Zealand remains one of the widest available globally. It is critical that you review your sums insured annually to ensure they are adequate for your circumstances and the sums insured adequately reflect the risk. We hope this increased understanding will be helpful when it comes to prioritising and protecting what matters most to you.