

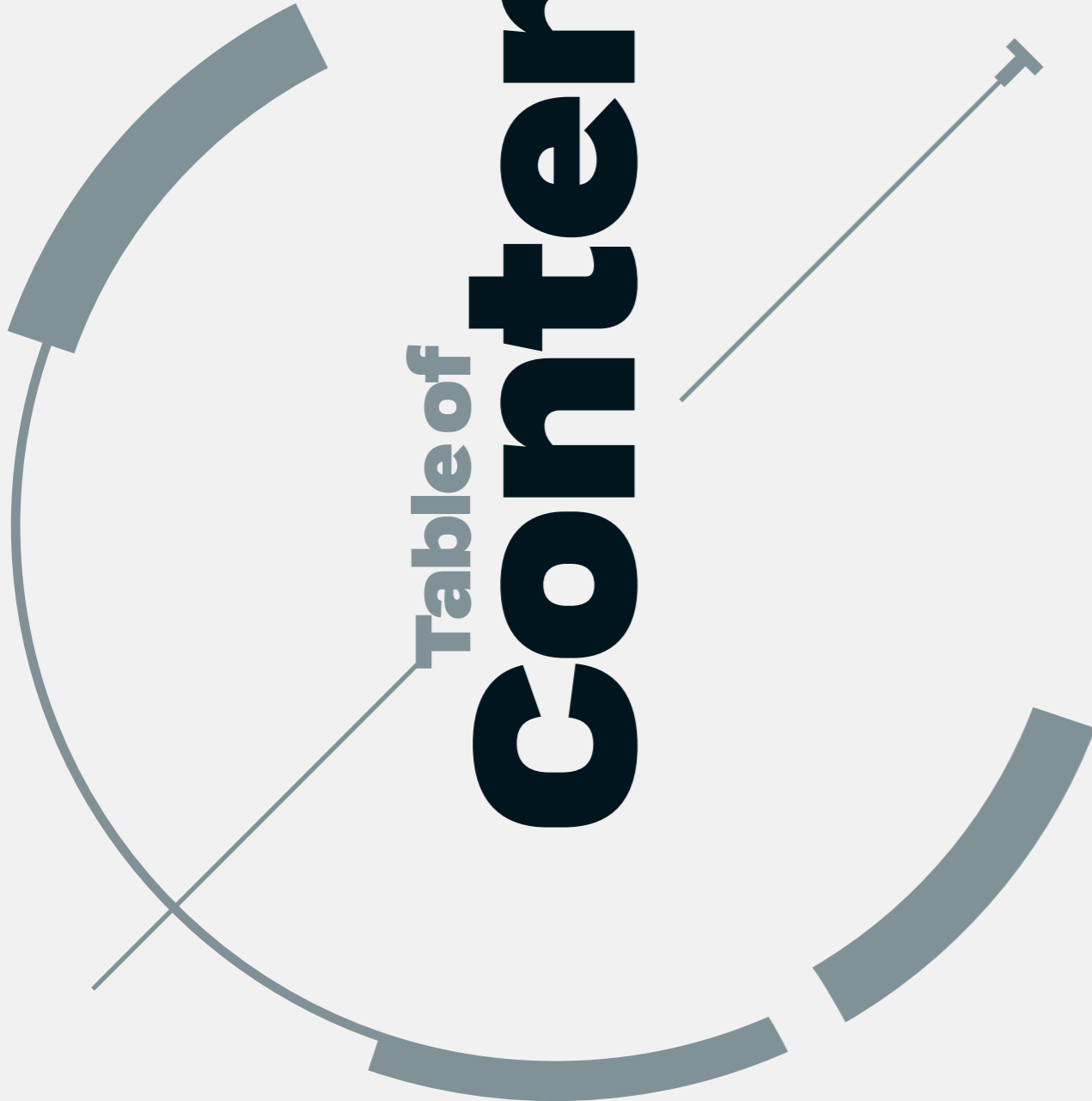
**NEW ZEALAND**

# **RADAR**

**FY2024**

**SNAPSHOT**

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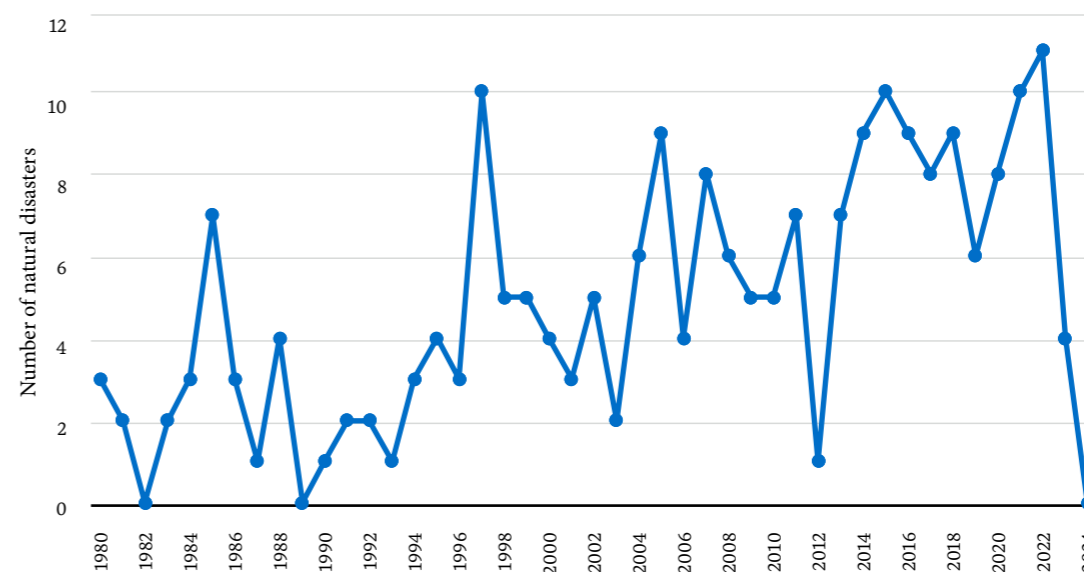


# General Insurance update 2024

New Zealanders continue to feel the pressure of affordability challenges, while insurers grapple with a highly regulated environment. In NZ RADAR FY2024 Snapshot, we unravel the complexity behind escalating premiums and increasing regulation, and how unity on adaptation efforts will be critical in keeping customers protected and the market sustainable.

Following several years of severe weather events in Aotearoa, 2024 has been unusually quiet for the community and its insurers. To date, there have been no ICNZ-classified natural disasters, although the Otago floods at the start of October may break this run. It has been more than a decade since we have experienced such a low number of natural disasters in a calendar year.

### Historical number of natural disasters in Aotearoa by calendar year



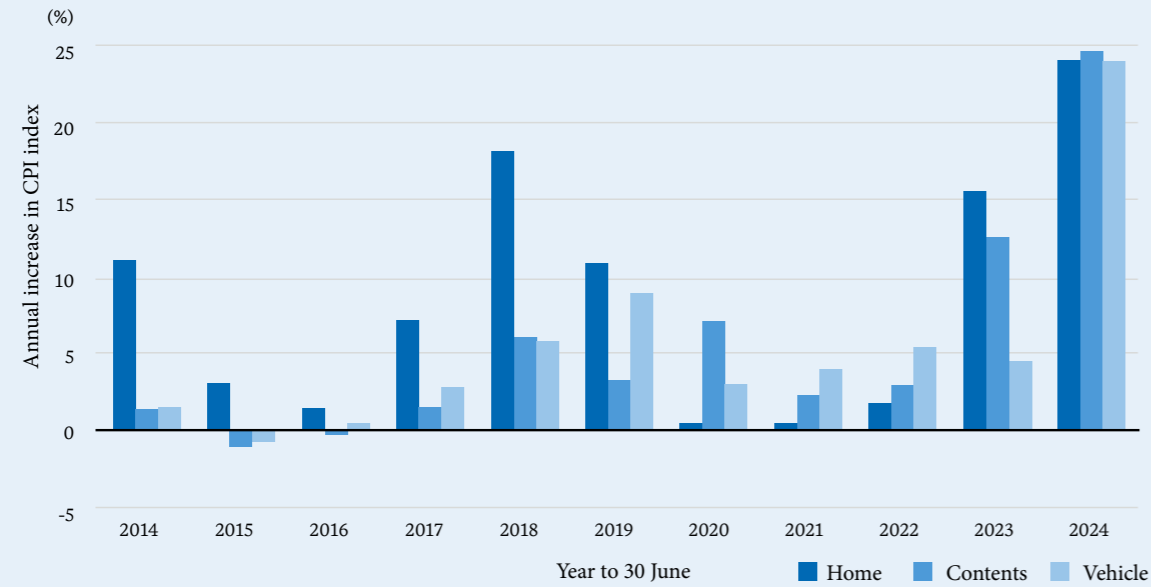
Source: ICNZ

### Cascading effects of benign weather

This period of benign weather has meant insurer profits have increased substantially, especially when compared to the lower-than-average returns in 2023, due to the impacts of the Auckland floods and Cyclone Gabrielle. Since these events, insurance premiums have risen – particularly for property and motor risks. Inflation data from Stats NZ shows insurance costs for all personal lines classes of business have increased by more than 20% over the past year, partially driven by the fire and emergency levy, which increased by 13% from 1 July 2024.

For home policies and contents policies, the overall percentage rise for personal lines is in addition to earlier increases of 15% for home and 10% for contents in 2023.

**Annual increase in consumer price index for personal lines insurance classes**



Source: Stats NZ

**Rising premiums a broader issue**

Increasing insurance costs are not unique to Aotearoa, with the Australian Financial Complaints Authority (AFCA) noting a recent increase in consumers complaining about large increases in insurance premiums. In Australia, the AFCA can investigate only those premium complaints relating to alleged non-disclosure misrepresentation. For example, one case resulted in a policyholder winning a dispute with their insurer, where it was found a 60% increase in a home and contents premium was unfair and did not reflect the property's risk.

In Aotearoa, the Insurance and Financial Ombudsman scheme does not consider insurance premium complaints. These are instead handled by either the Financial Markets Authority (FMA) or the Commerce Commission. The increase in insurance premiums has led to calls from consumer advocates for more transparency about how insurance premium prices are calculated. A recent instance of a customer challenging the accuracy of the risk maps used by an insurer is an example of the impact that risk rating can have on individual premiums. <sup>(R)</sup>



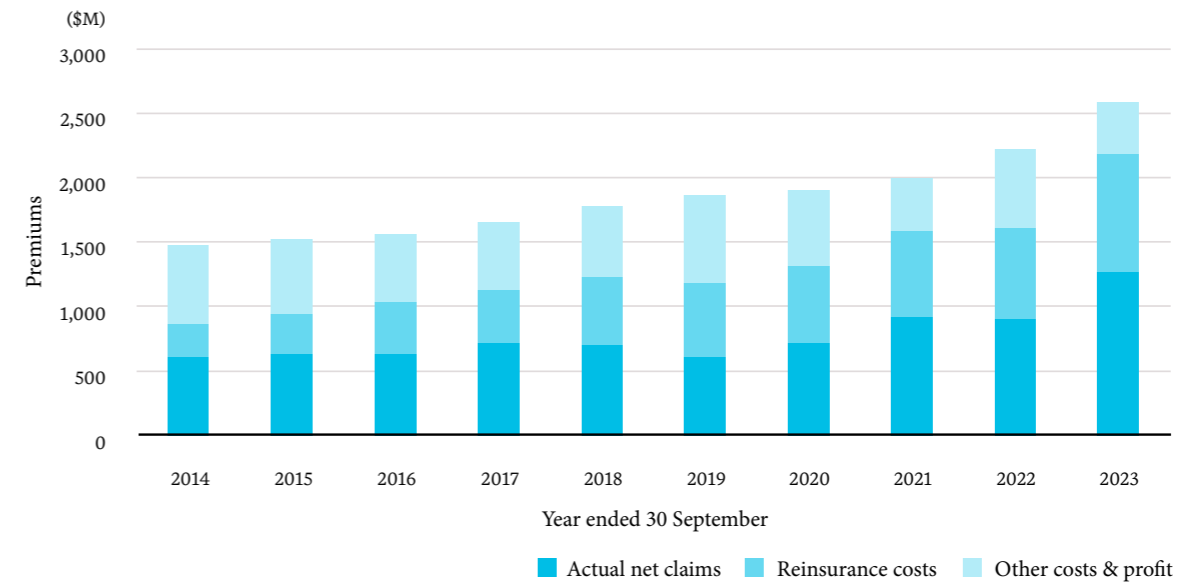


# Reinsurance – breaking down a critical cost driver

Rising costs, especially in the home and contents classes, are a major factor driving recent insurance price hikes. We dive into the details to uncover key insights ...

Following the two large weather events in 2023, reinsurers have increased reinsurance premiums, as well as increasing the limits at which reinsurance cover starts. These changes result in increased costs and reduced profits to insurers.

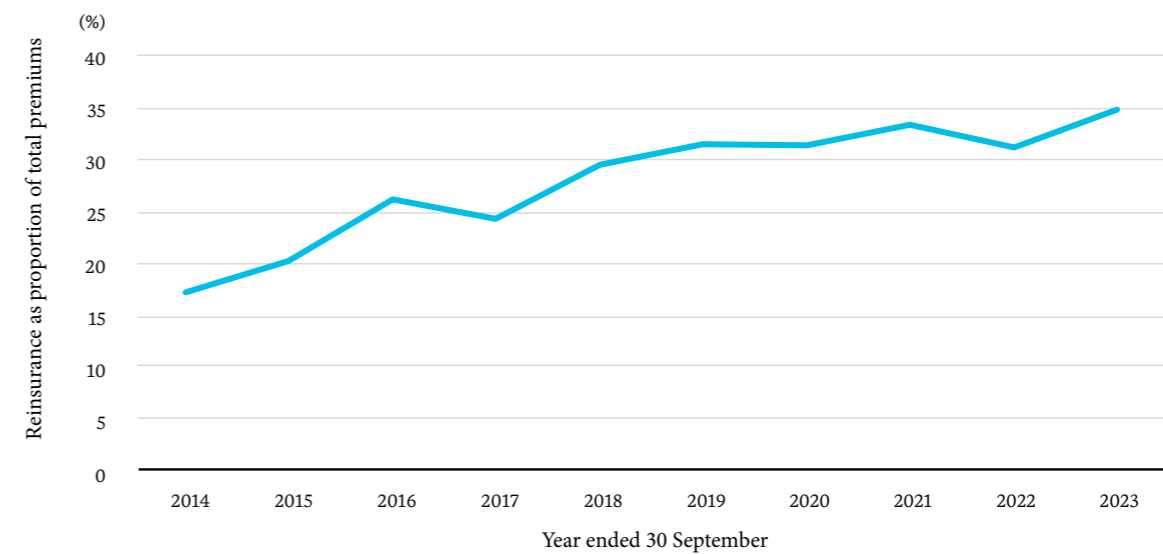
## Components of total premiums for home and contents policies



Source: Stats NZ

Here we show the proportion of total insurance premiums paid by insurers to reinsurers for home and contents policies ...

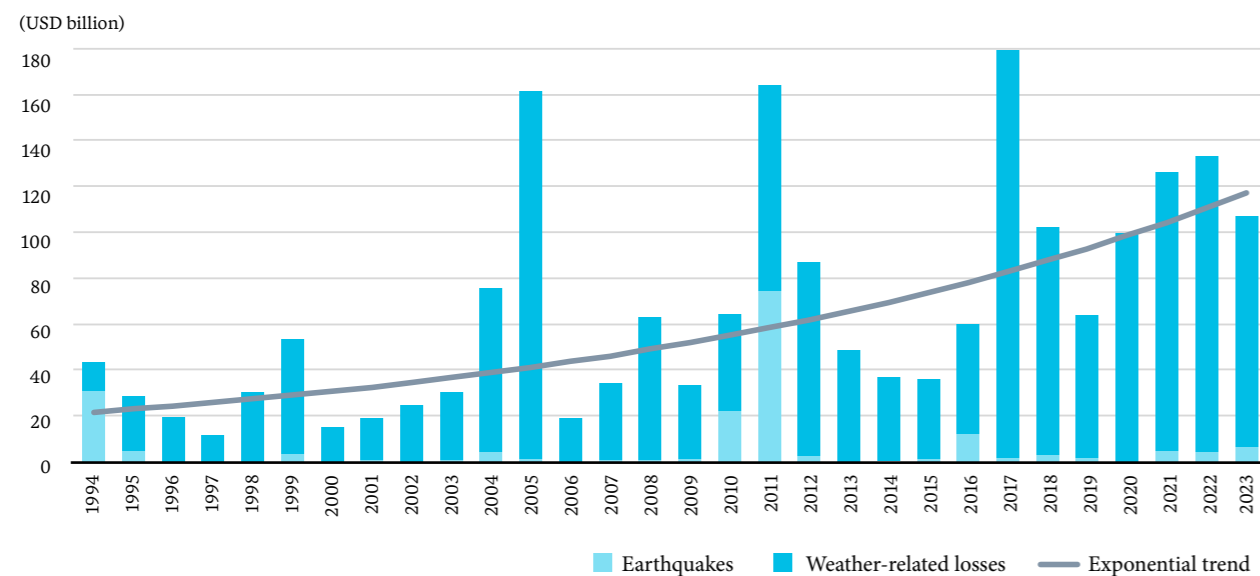
## Percentage of total premiums paid by insurers to reinsurers



The increase in reinsurance costs reflect global reinsurance trends, where reinsurers are looking to reduce their exposures to 'secondary perils'. In Aotearoa, earthquake is the main peril, and weather events such as floods and cyclones are classified as secondary perils, despite these risks being more frequent.

Internationally, reinsurance rates for property risks have been increasing, which reflects rising reinsurance losses. Historically, a single large event can result in substantial reinsurance losses. However, in 2023 there were several small to medium-sized events, with no single large event. Swiss Re estimates insured natural catastrophe losses in 2023 were US\$108 billion, of which approximately 80% were from secondary perils. During 2023, Italy (storms), Slovenia (floods), Turkey (earthquake), Morocco (earthquake), Greece (flood) and Mexico (hurricane) all suffered their costliest-ever insurance events. This highlights that previous loss experience, if used as a guide for future catastrophe losses, should also make allowances for climate change and other factors impacting the increasing trend in insured losses over time.

### Global reinsurance losses over time



Source: Swisse Re Institute

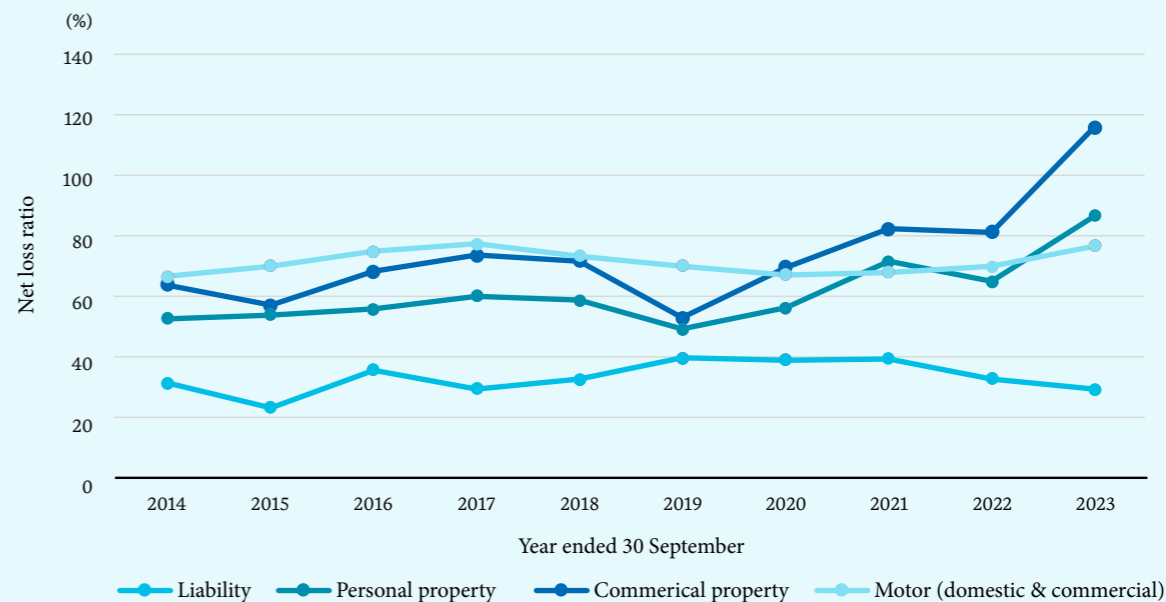
Despite reinsurance losses in 2023 being consistent with recent years, reinsurers generally returned to profitability in 2023 following increases in reinsurance rates over the past couple of years. There has also been an increase in the amount of capital available in the reinsurance market, which historically can put downward pressure on reinsurance rates.

With the 2024 US hurricane season resulting in two significant events, the expectation is for reinsurance rates for property risks to remain at current levels. For NZ policyholders, this suggests no substantial relief from insurance premiums, due to international factors such as reinsurance costs, for the foreseeable future.

## Quick class-by-class overview

Looking at other classes of business, the following chart shows the historical net loss ratios by class of business for the nation's insurers.

### Net loss ratio results by class of business



Source: ICNZ

### Commercial and domestic property

Loss experience for commercial property is similar to trends for domestic property, with these two classes affected by the same issues, such as weather claims and reinsurance rates.

Commercial property has also been suffering high vacancy rates (particularly for lower quality office buildings). This presents a unique risk for property insurers in that vacant properties are more likely to suffer deferred maintenance and are at higher risk of claims related to damage, theft or even fire.

### Motor

Loss experience for motor insurance has been more stable, being less impacted by natural disasters than other property risks, although the size of the recent weather events will have resulted in the increase in motor claim costs for 2023. Motor loss ratios improved from 2017 to 2020 due to a combination of rate increases in response to increasing claims inflation, and a reduction in claims in 2020 due to COVID-19 lockdowns.

### Liability

Liability insurance continues to be profitable, with net loss ratios consistently below 40%. This class of business is small, with total premiums in 2023 making up approximately 10% of the total insurance premiums across all four classes of business in the year to 30 September 2023.



# Spotlight on adaptation & climate

The escalating costs of insurance highlight the need to improve adaptation responses to the risks arising from natural disasters, particularly as the impact of climate change exacerbates these risks.

## Assessing progress

Two recent reports have focused on adaptation as key in better responding to the ever-evolving risks impacted by climate change. The first is the [Climate Change Commission's first progress report on the National Adaptation Plan](#), which was released in August. This is the first of what will be two-yearly reports assessing the adaptation progress, as required under the *Climate Change Response Act 2002*.

The key finding of the report is that there is "... *limited evidence that the first national adaptation plan is driving adaptation at the scale or pace needed [in response to climate change risks]*". The report sets out high-priority areas for urgent action to establish the foundations for effective adaptation, including:

- **Clarifying roles, responsibilities and processes** for planning and decision-making to appropriately respond to adaptation challenges and opportunities
- **Clearly setting out how the costs** of adaptation and climate-related losses will be shared in a fair and equitable way
- **Providing data, information and decision-support tools** that are high quality, readily accessible, and underpinned by science and research to enable decision makers to effectively understand and manage climate risks.

## Recommendations for government framework

The Commission's report was quickly followed by another, released in September, this time from New Zealand Parliament's [Finance and Expenditure Committee inquiry into climate change adaptation](#). This latest report will inform an adaptation framework being developed by the Ministry for the Environment. It recommends the Ministry's framework should include the following objectives:

- Minimise the long-term costs to the Crown and society from the impacts of natural hazards
- Improve information flows about climate risks and responses
- Address market failures and support market efficiency for housing, financial and insurance markets
- Ensure people have the incentive and the ability to manage risk.

## Industry calls for urgent, united action

Following the release of these reports, the insurance industry has called for urgent and coordinated action in response to natural hazards that has cross-party support. The ICNZ has encouraged the government to establish a lead agency on climate adaptation that would "bring together central government, councils, the private sector and communities to effectively mitigate risks and ensure sustainable adaptation measures". This has been echoed by IAG NZ, which sees the need for a clear path forward on climate adaptation in Aotearoa.

These issues are not unique to New Zealand, with Swiss Re noting in its Swiss Re Institute Sigma report No 1/2024, "*Over the last 30 years, we estimate that natural catastrophe insured losses have grown by 3 percentage points more annually than the global economy (in inflation adjusted terms). Insurance market functioning requires that premiums be commensurate with the underlying risk, but as losses continue to grow, higher rates alone will not suffice.*"

The global reinsurer adds, "*The first step to cutting losses is to reduce the loss potential through adaptation measures like enforcing building codes, building flood control infrastructure and discouraging settlement in areas prone to natural perils. Yet in the face of climate change, adaptation and insurance can only go so far. Mitigation of greenhouse gas emissions is also essential to counter the build-up of physical risks. Property owners, regulators, supervisors and the insurance industry all have a role to play. As do governments, by investing in resilient infrastructure and incentivising uptake of adaptation measures.*"

## Protecting the future

As insurance affordability continues to burden New Zealanders, and with a significant proportion of the costs attributable to natural catastrophe activity that's expected to grow, adaptation is critical. The role of adaptation towards improving resilience to natural disasters will be key to ensuring property assets remain insurable in future. Effective adaptation requires a united effort through public and private investment. The insurance industry will play a part, but significant input from government is vital.



## Climate disclosures and commitments

By the end of January 2025, every climate reporting entity (CRE) under the *Financial Markets Conduct Act 2023* will have lodged its first year of New Zealand Climate Standards (NZ CS) statements. All statements are available on the [New Zealand companies office website](#). The External Report Board (XRB) in December 2024 published its first [report](#) offering insight into the quality of statements. While the XRB was pleased with the efforts of CREs, it identified areas for improvement across almost all the statements it reviewed.


Reporting requirements are intended to be phased in, and the XRB has recently approved additional phasing. In November 2024, the XRB approved:

- A one-year extension to the adoption provision for scope 3 greenhouse gas (GHG) emissions disclosures
- A one-year extension to the adoption provision for anticipated financial impacts disclosures
- A new one-year adoption provision relating to the assurance of scope 3 GHG emissions.

The amended standards are applicable for accounting periods beginning on or after 1 January 2024. The XRB is developing a series of guidance documents to support the reporting and assurance of the GHG disclosures, in particular scope 3 GHG emissions. The first of these is earmarked for a December 2024 release.

While the XRB had initially proposed an additional amendment – to delay transition planning requirements by an extra year – it ultimately decided to withdraw the proposal due to strong user demand for this information. Insurers who are CREs can now look to the United Nations-convened Forum for Insurance Transition to Net Zero (FIT) for insurance-specific transition planning guidance. (The FIT is the successor to the Net Zero Insurance Alliance, which broke down in 2023, following a United States Republican-led backlash against ESG investment, including claims the Alliance could be violating anti-trust laws.)

In November 2024, aligned with the UN Climate Change Conference (COP29) in Baku, Azerbaijan, the FIT released its inaugural report, [Closing the Gap: The emerging global agenda of transition plans and the need for insurance-specific guidance](#). The report:

- Assesses key features of insurers' underwriting portfolios that need to be considered in transition planning, alongside relevant sustainability risks and opportunities.
- Articulates the industry's triple role as risk managers, risk carriers and investors in supporting a just transition to a resilient net-zero economy. This includes addressing the interconnected, climate-related sustainability issues of protecting nature and biodiversity, and preventing pollution via a circular economy. 



# Spotlight on regulation

Regulators are increasingly focusing on insurers and the fair treatment of customers. In this environment, it will be crucial for insurers to continue placing policyholders front of mind in every decision they make for their business. We report on the top regulatory changes to keep you in the know.

## RBNZ moves

On the regulatory front, things are also continuing to evolve. The RBNZ is consulting on a second amendment to the Interim Solvency Standards (ISS), which aims to resolve a series of issues with the initial ISS. The amended standard is expected to be published in mid-December and will be effective from 1 March 2025.

The RBNZ is also working on drafting the revised *Insurance (Prudential Supervision) Act 2010* (IPSA), after it completed the final round of consultation in December 2023. Industry expects the revised IPSA will enable the RBNZ to undertake more proactive and intensive supervision of insurers. This may include new tools such as a 'ladder of intervention', which escalates RBNZ's supervisory oversight if an insurer's solvency position reduces below certain levels. The exact details of any changes are yet to be released, but the RBNZ expects to produce a draft of the revised IPSA in the next six months or so. From there, parliamentary processes will begin with a first reading of the draft Bill in Parliament during the first half of 2025.



## Contracts of Insurance Bill

This piece of legislation is on the agenda after being drawn from the Members Bill ballot back in April. From a general insurance perspective, the two most significant changes arising from the Bill are:

- **Changes to policyholder duty of disclosure** – For consumers, this will shift the onus onto insurers to ask the questions they require when writing policies, rather than the current expectation that customers will provide all relevant information. This means insurers will need to follow up with customers if their answers are missing, irrelevant or obviously incomplete.
- **Policyholder protections increased** – Insurers will no longer be able to void policies due to policyholder misrepresentation. Instead, proportional remedies (such as reducing claim amounts, or charging higher premiums for the remainder of the contract) will be applied, based on how the insurer would have responded if it had known the relevant information and whether the failure to disclose the information was intentional.

In response to the Bill, insurers may need to revisit underwriting processes, and potentially pricing approaches. The Bill is expected to pass through the final stages of the parliamentary process before the end of the year, although, given the impact it will have on the industry, the commencement period may be up to three years.

## COFI Act

The *Financial Markets (Conduct of Institutions) Amendment Act 2022* (COFI) will come into force from 31 March 2025, with the FMA regulating insurers on their fair conduct programs. The FMA has also continued its investigations into insurer pricing practices. In October 2024, AA Insurance was fined \$6.2 million by the High Court following FMA proceedings for failing to apply multi-policy and membership discounts. Earlier in March, the FMA filed proceedings against Tower for not properly applying multi-policy discounts. These cases highlight the need for insurers to fully understand how their pricing algorithms are working and to ensure they are consistent with their customers' expectations. <sup>®</sup>

# Spotlight on cyber

New Zealand may share a fraction of the global cyber insurance market – about NZD \$45 million of a total NZD \$26 billion in gross written premium – but the local cyber market is growing. We take a look at what this growth means for the industry, insights from across the Tasman and how insurers can reduce their risks.

## Growing risk awareness but low insurance take-up

According to broker Marsh, the New Zealand cyber market growth is driven by “a growing awareness in the business community of potential risks and costs associated with cyberattacks, including financial loss and reputational damage”.

Even so, only 8 to 10% of New Zealand businesses are estimated to hold cyber insurance. This is significantly less than peer countries, including Australia (about 20%) and the United States (about 40%). Our discussions with industry suggest the reason for the relatively low take-up is multifaceted, spanning a combination of:

- Cost and affordability of cyber insurance
- The low level of penalties under privacy legislation compared to other jurisdictions
- The low level of cyber awareness and confidence of brokers in New Zealand to successfully sell what is a reasonably new insurance product
- Insureds not seeing the value of cyber insurance and a ‘she’ll be right’ attitude to cybersecurity
- Perceived level of threat (compared to Australia, where cyber incidents have dominated headlines over the past couple of years).

## Learnings from Australia for SMEs to consider

The take-up of cyber insurance is even lower for small and medium-size enterprises (SMEs), a development we explore in our co-authored report for the Australian Actuaries Institute, [Cyber Protection Gap Widens for SMEs](#).

As part of our research, we spoke to more than 20 stakeholders, including insurers and brokers, members of the legal profession, financial institutions, regulators, cybersecurity professionals and industry bodies. While the research was focused on the Australian market, the discussion and recommendations are highly relevant for the New Zealand industry.

The key findings were:

- Corporate Australia has received a cyber wake-up call in the past couple of years, with major incidents and the government response to these dominating the headlines.
- This has prompted significant investment in improving the security posture and preparedness of Australia’s largest businesses, and a rapid upskilling on behalf of company directors. While improvements have been made, the changing threat landscape means no businesses can rest on its cyber laurels.
- Over the same period, it’s clear Australia’s SMEs, who are facing a challenging economic climate, have not had similar bandwidth or resources to devote to their cybersecurity. With an increasing level of threat, the cyber protection gap for SMEs is widening.
- While many of the stakeholders we spoke with believe the SME segment has the most to lose from a cyber incident, and therefore the most to gain by purchasing cyber insurance, only 10 to 25% of SMEs hold a standalone cyber insurance policy. The cost and complexity of cyber

insurance are significant barriers for many SMEs.

- Bridging the cyber protection gap for SMEs will require continued (and relentless) collaboration and effort across government and the insurance industry, as well as within the small-business community and the providers of technology solutions that support them.

## Self-protection – increased accountability for insurers

Cyber risk continues to be a focus for regulators and policymakers in New Zealand, with implications for general insurers. Following consultation on cyber data collection requirements and information sharing arrangements, the RBNZ this year introduced cyber resilience reporting requirements. Licensed insurers are required to report to the RBNZ:

- Material cyber incidents as soon as practicable, but within 72 hours (from 8 April 2024)
- All cyber incidents regardless of materiality in six-month intervals for large entities and annually for other entities (the first reporting period began on 1 October 2024)
- A self-assessment against its cyber resilience guidance, annually for large entities and biennially for other entities (first survey was due 1 October 2024).

The New Zealand Government – led by the Department of Prime Minister and Cabinet – is also working to develop a program of work to enhance the resilience of New Zealand’s critical infrastructure system against all hazards and threats – including cyber threats. While the exact definition of critical infrastructure has not yet been defined, it will likely include entities that provide essential services, including financial services. With Australia’s critical infrastructure definition including insurers, the message for large insurers is: be prepared to fall under the critical infrastructure regime. <sup>®</sup>


**Ross Simmonds** | Director

Ross is a general insurance expert with actuarial experience spanning pricing, reserving, strategy and analytics. He develops pricing and natural perils models, assists in designing new products and insurance offerings, and provides regulatory advice. Ross is a Past President of the New Zealand Society of Actuaries and regularly presents on issues affecting insurers and consumers in Australia and New Zealand.

[Ross.Simmonds@taylorfry.co.nz](mailto:Ross.Simmonds@taylorfry.co.nz)


**Win-Li Toh** | Principal

Win-Li leads our general insurance practice, harnessing more than 25 years advising insurers, self-insurers and government across the globe. She holds several Appointed Actuary roles and is 2024 Senior Vice President of the Actuaries Institute of Australia. Win-Li is among the [Insurance Business 2024 Global 100 list for best insurance professionals](#), celebrating strong, decisive leadership worldwide. She co-authored the Actuaries Institute (Australia) recently published dialogue paper [Cyber Protection Gap Widens for SMEs](#), and, in 2023, was awarded Insurance Leader of the Year by the Australian and New Zealand Institute of Insurance and Finance.

[WinLi.Toh@taylorfry.co.nz](mailto:WinLi.Toh@taylorfry.co.nz)


**Sarah Wood** | ESG Risk

With a background in economics and public policy in New Zealand and Australia, Sarah has more than 13 years' experience working with government and the private sector. She advises on Environmental, Social and Governance risk, helping clients understand and quantify their risks for climate and sustainability, and cyber. Most recently, Sarah co-authored the Actuaries Institute (Australia) dialogue paper [Cyber Protection Gap Widens for SMEs](#).

[Sarah.Wood@taylorfry.com.au](mailto:Sarah.Wood@taylorfry.com.au)

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### Wellington

Level 6  
 22 The Terrace  
 Wellington 6011

### Sydney

Level 22  
 45 Clarence Street  
 Sydney NSW 2000

### Melbourne

Level 27  
 459 Collins Street  
 Melbourne VIC 3000

[taylorfry.co.nz](https://taylorfry.co.nz)