

# New Zealand Insurance Market Update

2019



# Welcome to our Insurance Market Update

While New Zealand avoided any major loss-making events or natural catastrophes throughout 2018 and early 2019, global conditions were not so benign. The change we saw in the market cycle last year precipitated by the Kaikoura earthquakes and Expanded Polystyrene (EPS) capacity has gathered pace, albeit driven by global events.

These worldwide losses, the continued moves by Lloyd's of London and other insurers to remediate risks, greater regulatory oversight, and reduction of competition in several key insurance lines has created a perfect storm – one that is putting sustained upward pressure on premiums. It is fair to say that New Zealand is no longer a buyers' market.

As insurers increase their scrutiny and evaluation of risks, the areas coming under their spotlight will be of no surprise – the property sector (EPS), directors' and officers' liability, professional indemnity to name just a few.

So, in a hardening market of higher premium cost and reduced capacity in many sectors, where are the opportunities? We continue to work with our clients to help them demonstrate a proactive and best-practice approach to risk management. This is a long-term strategy; in this environment it's more important than ever to build relationships with insurers rather than take a transactional view. Organisations who achieve this will undoubtedly secure the most competitive pricing and terms and conditions from insurers.

The alternative is sobering; the poorest risks may be left uninsured or face prohibitive premium increases and restrictions in cover.

But the outlook isn't entirely grim; there are some signs of stability in pricing on attractive business – insurers who have already gone through their remediation process are starting to look for ways to keep their best clients and to drive growth.

Ultimately though, insurers will underwrite to generate profit, rather than growth. As such we will continue to see greater selectivity in terms of their appetite and capacity on a range of risks.

Willis Towers Watson New Zealand has been looking for ways to help our clients develop a holistic view of their business risk and make informed decisions about any insurance program.

Recently we set ourselves apart from other New Zealand brokers by offering clients a comprehensive risk review workshop. This identifies all possible ways of managing your total risk and cost-effective ways of minimising or mitigating risks. This is a key phase that should be undertaken before you buy insurance. Indeed, in some instances, we can help you identify risks that have no insurance solution, or would be better served by other risk financing options.

Each risk must be considered and negotiated on its own merits and the Willis Towers Watson New Zealand team remains committed to working with you to ensure that for the risks that need to be covered through insurance, we can achieve the best possible premium outcomes for you. We will redouble our efforts to present the highest-quality risk information for your business, and use our knowledge and experience to negotiate with insurers.

## **Peter Lowe**

Chief Executive Officer, New Zealand  
Willis Towers Watson







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# The direct market – general lines

# Property

## 2018 was another significant loss year

Insured losses from major natural catastrophes totalled around US\$80 billion in 2018, slightly higher than the annual average since 2011, but the third highest total of the eight-year period.

The eight-year average is driven upward by annual losses of US\$120 billion in 2011 and US\$143 billion in 2017. Unlike these years, in which one or two major natural disasters accounted for a large percentage of total insured losses, 2018 saw no major event but rather a series of small and medium-sized catastrophes pushed the total up.

The largest single insured loss in 2018 was the Camp Fire in California, which looks set to cost reinsurers up to US\$10 billion. Combined losses from the Carr, Mendocino, Camp and Woolsey wildfires are likely to run between US\$15-17 billion. This was the second year in a row that Californian wildfires have delivered US\$10+ billion losses to the insurance market.

## Underwriting portfolio remediation continues

Both globally and locally we have seen insurers undertake a remediation of their portfolios. The 2016 Kaikoura earthquake was the catalyst locally and the global losses of 2017 forced many to reassess their poorest-performing risk classes. Across the globe we continue to see remediation in play with tighter scrutiny of underwriting practices. In an attempt to correct their own poor performance Lloyd's of London (Lloyd's) has imposed significant pressure on poor-performing syndicates to present business plans detailing how they will return to sustainable profitability. This has forced the closure of some syndicates and exiting of volatile risk classes.

Those who have chosen to develop a long-term risk management philosophy will build relationships with insurers who, in turn, will look more favourably at their strategic clients.

Some insureds however look for the cheapest transactional deal from one year to the next with no focus on improving

“ Insureds who can demonstrate being proactive in minimising their risk through first-class risk management practices will secure the most competitive pricing, terms and conditions from the insurance market. ”

their risk. Insurance for this category of buyers has become more challenging to source as insurers look to improve the overall risk profile of their portfolio by removing high risk accounts from their portfolios. At this stage of the insurance cycle, the reality is that the poorest risks may be left uninsured or will face prohibitive premium increases and restrictions in cover.

## Industry capitalisation remains strong

The industry has now absorbed more than US\$200 billion of natural catastrophe losses over a two-year period. It has been a significant test, but overall the sector has proven resilient and capitalisation remains strong thanks, in part, to the continued interest from alternative capital providers seeking to invest in the insurance market.

Significant Mergers & Acquisitions (M&A) activity continues with the emerging, consolidated insurers bringing a broader product offering and greater geographic scale. This M&A has not materially constrained capacity and it is a trend we expect will continue during 2019 as organic growth in a mature marketplace is achievable but unlikely to get most investors excited.

While some insurers have pulled back from loss-making classes, the increasing interest from markets such as China, which are showing increased interest in participating on international business, is bringing new capital to market.





## Where is the market heading?

Pockets of distress remain in the market as insurers continue their remediation and reduction in exposure to certain locations such as Wellington and industries such as the food sector, both of which will continue to be challenged this year in securing favourable terms.

We are starting to see some early signs of stability in pricing on attractive business. Those insurers who have remediated their portfolios and have returned to profit will inevitably seek to keep their best clients and start to look for some profitable growth.

We do expect local insurers will continue to drive for premium increases in 2019 as they seek to get modest growth across their portfolios. It is important to recognise though, that insurers are underwriting for profit not for growth, and they will continue to be selective in terms of appetite and capacity.

In this stage of the market cycle it is critical that each risk must be considered and negotiated on its own merits to ensure the best premium outcomes will be achieved.

**Craig Buckle**  
National Manager, Corporate Risk  
Solutions





An aerial photograph showing a large area of a forest that has been cleared by a fire. The ground is covered in ash and charred tree trunks, with some remaining green trees on the edges of the cleared area.

## Fire and Emergency New Zealand funding to be reviewed

The Government has acknowledged the flaws of an insurance-based funding approach and announced a review into how Fire and Emergency New Zealand (FENZ) is funded.

Minister for Internal Affairs, Tracey Martin, has stated that the review would look at ways of providing “a stable, simple funding system that is fair to individuals and businesses”.

The admission by the Government that there may be better ways to fund FENZ also acknowledges that, apart from the issues in assessing an appropriate levy rate, the current proposal has a number of unintended consequences:

- Property owners without insurance do not pay a levy but still benefit from FENZ’s services
- Charging levies on insurance increases insurance costs and can reduce the incentive to insure to an appropriate level
- Levy collection is complex to administer for insurers, and FENZ’s levy income may become uncertain as the commercial insurance market evolves.

The Minister acknowledged that there appears to be a trend away from insurance-based levies and the Government would look at different funding regimes for fire services internationally.

At this point, present arrangements will largely continue, and there is unlikely to be any change to current levies in the immediate future.

A public discussion document on the FENZ funding model will be released later this year.

### The journey so far

The Fire and Emergency New Zealand Act 2017 replaced the New Zealand Fire Service Commission with a new organisation – Fire and Emergency New Zealand (FENZ). The new name reflects the wide range of emergency services that firefighters provide for communities.

The Act sets out significant changes to the way in which fire service levies are calculated and broadened the reach beyond contracts of fire insurance.

Despite resistance from the insurance industry and admission by the Government that insurance levies are an inefficient means of funding, the new Act stipulates that FENZ’s primary funding would continue to be through the collection of insurance levies.

Aside from the frustration that FENZ would be funded through insurance levies, of greater concern among insurance bodies and industry groups alike was the interpretation of the legislation.

Poor policy drafting, coupled with the imposition of strict and severe anti-avoidance penalties for incorrect levy assessments, led to a three-year lobbying effort by the insurance industry on behalf of its customers in an attempt to work through numerous complexities in the new regime and ensure that it is workable in practice.

Late last year the Government acknowledged that more time is required to work through further technical issues and understand the asset pool that will be captured by the new regime in order to set an appropriate levy rate. They introduced the Fire and Emergency New Zealand (Levy) Amendment Bill delaying the implementation of the new regime. The Bill has now received royal assent and extends the transitional levy provisions currently in place through to 1 July 2024.

# Motor

After the remediation of the last couple of years, most fleet underwriters are getting to a more stable pricing position despite increased repair costs due to new technology in vehicles including cameras and sensors. This must be tempered with the impending withdrawal by Allianz from a number of commercial lines in New Zealand, including motor.

There continues to be long wait times for repair work to commence due to increased vehicles on our roads and a corresponding rise in accident numbers. The trend towards utilisation of analytics continues, using more sophisticated analysis of loss histories and data from in-vehicle GPS technology, to better understand and manage driver behaviour. These analytics are helping fleet managers give stronger consideration towards self-insurance options in addition to the historical claims-driven structures (burning cost, profit share or flat rate).

## The outlook

The trend towards analytics provided by brokers and underwriters to help fleet managers select the optimum policy structure for their fleet will continue.

Generally, repairs are taking longer due to new technology, so any advantage in getting claim approval will help get vehicles back on the road quicker.

“ With the introduction of new technology including digital assessments, we are continuing to see a move towards lodgement of simple motor claims direct to insurers to facilitate the early approval of repair costs. ”

The next 12 months will continue to see larger fleet operators consider alternative structures with higher deductibles and managed funds gaining in prominence. We wait with interest to see if the withdrawal of Allianz has an impact on the levelling of pricing for those fleets with good loss histories as this portfolio is heavily influenced by claims performance.

**Michael Brown**

National Manager, Broking New Zealand





# Marine

The marine insurance market still remains competitive however some signs in the first half of 2019 have shown commercial hull and marine cargo rates increasing as global losses affect many insurer and reinsurer results.

In New Zealand, the marine market has seen an increase in written premiums increasing from NZD \$126 million in 2016 to \$136 million in 2018. During this period, claims values have increased in the last 12 months from 59% to 64% according to the NZ Insurance Council.

As the world's top dairy exporter, New Zealand contributes approximately 40% of international dairy trade with milk-based exports such as milk powder, butter and cheese valued over NZD \$17 billion. This volume puts shipping and supply chain risk for a company's freight practices under increasing pressure, contributing to infrequent but significant claims - particularly with ships carrying larger numbers of containers. This also creates large accumulation risks for insurers, being very difficult to track and quantify and can be heavily influenced by changing currencies.

“ While the local market remains relatively competitive, Lloyd's, which controls about a fifth of the global marine insurance market is reviewing a number of loss-making members, a move that could drive up costs for insurers around the world. ”

## The outlook

2017 saw the worst natural global catastrophe losses in history for the property and casualty (P&C) insurance sector – including hurricanes Harvey, Irma, Nate and Maria, the earthquake in Mexico, and monsoons in Bangladesh, and storms in Durban and wildfires in California. Since many marine insurers are part of larger multi-line companies, they were also affected by these losses and now face increasing pressure to improve results. The MAERSK HONAM (carrying 7,860 containers) suffered a Container Carrier Explosion, off Agatti Island in the Indian Ocean on 6 March 2018. This is an example of a significant loss that has affected many New Zealand insurers to the tune of \$10 million. We do expect to see marine insurance seeking modest rate increases in the next 12 months for open marine cargo (although competition in this class of business may soften any increases), commercial hull, private hull and other marine classes of business.

There may, however, be some competitive tension with key accounts and where adopting a whole-of-account approach is possible.

**Michael Brown**  
National Manager, Broking New Zealand







## General Liability

Locally, the General Liability market continues to enjoy an abundance of capacity; however pricing is very much dependant on client industry, loss history and the territories/jurisdictions where business is conducted.

Gone are the days of negotiating premium reductions, however for those operating solely in New Zealand and in a fairly benign industry, pricing remains stable, with local insurers the most competitive given their understanding of the operation of the Accident Compensation Corporation.

For those in high-risk industries, or where business is conducted offshore and facing greater exposure to worker-to-worker claims, bodily injury and product liability, insurers are more cognisant of the risks and are pushing for rate increases. Extensive underwriting information is now being required, with insurers becoming more selective about the risks they will underwrite.

“ Comprehensive underwriting information is more critical than ever in the renewal process, including full descriptions of newly formed and/or acquired entities, loss experience and historical exposures. ”

Insurers are increasingly employing predictive modelling to drive underwriting decisions, thus making accurate data imperative.

Where a client has established a long-term relationship with an insurer, and can evidence a clean claims history with good risk management, rate increases can be minimised. Benefits can also be gained by placing multiple lines of business with the same insurer.

### The outlook

At this stage the General Liability market remains stable, although certain sectors are seeing rate increases and a requirement for more comprehensive underwriting information at renewal time.

Insurers are becoming more selective about the risks they will underwrite, however where an insured is able to demonstrate effective risk management and a clean claims record, rate increases can be minimised.

The value of establishing a long-term relationship with an insurer will now be more evident than ever.

#### Rebecca Moller

Account Director – Financial, Executive & Professional Risks





## The direct market – financial lines







## Professional Indemnity

The Professional Indemnity (PI) market in New Zealand is relatively stable with most industry sectors experiencing a mid-level single digit increase in premiums for renewals based on fee income remaining static and a clean claims record. Industry sectors demonstrating higher levels of premium increase are consulting engineers, construction contractors, real estate agents, solicitors and valuers. Clients in these sectors with poor claims records are facing increased scrutiny by insurers in relation to cover, premium rates and excesses.

One market has recently withdrawn from the PI arena citing increased claims experienced over a sustained period, mainly in the Australian market, and therefore deciding to exit the New Zealand market on the expectation that this poor claims experience will follow here.

A considerable amount of capacity still remains available with ten markets writing PI, and as well as a new entrant entering the SME PI space. Technology, such as online trading platforms, is also being introduced by insurers to allow brokers to further service the needs of SME clients.

Insurers in London have experienced worsening claims in international PI and are remediating their portfolios with increases in premium and a reduction of capacity available. Lloyd's, in particular, has undertaken remedial action, including the "Decile 10" Thematic review requiring the syndicates to identify the worst-performing 10% of their business, closing poorly-performing syndicates and providing robust and resilient business plans in order to protect Lloyd's world-leading security rating.

This remedial action has had a particular impact on PI with certain syndicates no longer able to write it.

### The outlook

We see insurers continuing to being more discerning in risk selection, with non performing industry groups or professions continuing to be re-rated. Increases in premium can be expected, including as a starting point, linear increases in line with revenue increases. In addition, coverage and excesses will be reviewed with particular emphasis on the industry sectors outlined above. It will be important to ensure that the renewal process is started early and that the information is presented accurately and clearly.

**Nigel Grantham**  
National Manager – Financial &  
Executive Risks







## Cyber Liability

The cyber landscape has continued to evolve at a phenomenal pace with a significant increase in cyber intrusions targeting organisations for financial or other gains.

With this evolution of change, organisations are now more aware than ever of the need to address their cyber risk management policies through a tailored, innovative and integrated approach with insurance forming just part of this overall risk mitigation strategy.

The insurance market has matured over the past 12 months with insurers constantly updating policy wordings to address new exposures and to ensure their cover remains relevant. In addition, we are seeing more value-add propositions being included such as pre-breach consultation services and the application of a more flexible approach to providing bespoke cyber insurance solutions to align with an organisations unique and individual risks. Capacity continues to be abundant but a cautious approach is taken for overseas exposures.

The Privacy Bill was due to come into effect in July 2019 but this has now been delayed to March 2020. The aim of the bill is to bring New Zealand's privacy laws closer in line with those from overseas including Europe's General Data Protection Regulation 2018. With these changes comes the mandatory requirement to notify a privacy breach to the Privacy Commissioner and the individual concerned. What impact this requirement will have on the cyber insurance landscape in New Zealand is yet to be seen but will be closely monitored by insurers.

“ Organisations are storing more data than ever before and turning to technology to provide operational efficiencies including the use of Artificial Intelligence to seek competitive advantage. ”

### The outlook

With the continued improvement in organisations cyber maturity together with the impending changes to Privacy Laws in New Zealand, we expect 2019 will continue the upward trajectory in the purchase of cyber insurance as a means for organisations to mitigate their risk exposures.

#### Callum Hyde

Account Director – Financial, Executive & Professional Risks





# Directors' and Officers' Liability

“Capacity is still available, with the exception being where companies are dual-listed in New Zealand and Australia, and where they require securities entities coverage”

The Directors' and Officers' (D&O) market has continued to harden as the flow on effect from an increasing number of class action claims in Australia is felt in the New Zealand market. The impact of the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has also lead to increased claims notifications and scrutiny of board oversight.

Capacity traditionally available in the London market has also come under pressure in relation to Australasian risks due, in particular, to the Australian claims experience and recent remediation measures put in place by Lloyd's with respect to poorly-performing syndicates. New Zealand insurers that are subsidiary companies of global insurers have come under increasing pressure from their parent companies to reduce capacity and increase base premiums.

Capacity is still available, with the exception being where companies are dual-listed in New Zealand and Australia, and where they require securities entities coverage (commonly known as Side C). In these instances insurers are:

- Limiting their capacity on any one risk, with co-insurance structures becoming more commonplace
- Increasing company retentions substantially
- Increasing premiums, with increases of 100% to 300% being experienced
- Withdrawing support completely for existing clients in unfavourably perceived industries and/or jurisdictions
- Displaying limited appetite for new business risks, especially on a primary layer basis.

In general, for companies that are not dual-listed or requiring Side C cover, premiums have stayed competitive in New Zealand, as a reflection of the limited number of D&O claims experienced. However, the recent Mainzeal judgment of the High Court of New Zealand in which company directors were held jointly and severally liable for damages of NZ\$36 million was a timely reminder of the risks run by board members even in jurisdictions not renown for hostile litigation environments. We are now experiencing regular premium increases of 5-10% depending on the financial results of insureds and whether they can demonstrate a clean claims record. Insurers are also paying particular attention to financial support and insolvency issues, and underwriting accordingly. Co-insurance continues to become more prevalent as insurers allocate capacity more sparingly.

## The outlook

We are forecasting that premium rates will continue to increase and more dramatically so where clients have a dual listing in Australia or require Side C cover. Insurers will reduce capacity and we envisage more co-insurance among insurers to fill the clients' required capacity.

Additionally insurers will look more closely on financials and may apply exclusions across some areas of cover. Insurer appetite in certain industry sectors, for example financial services and technology, may also come under more scrutiny due to adverse publicity and claims action.

In order to manage the severity of premium increases:

- Early engagement with boards and D&O insurers is required to ensure the best possible outcome
- Insurers are seeking comfort from boards in relation to governance and financial issues
- Ensure there are documented processes, and these have been reviewed by their legal advisers and tested.

**Nigel Grantham**  
National Manager – Financial & Executive Risks





## About the New Zealand Horticultural Sector

New Zealand's horticultural sector produces and exports a wide variety of premium fruit and vegetable products, including forestry. While a large volume of products is consumed domestically, 85% to 90% of these products are mostly exported - kiwifruit, pip fruits, honey, wine and vegetable crops, but to mention a few key products.

Dairy also is a significant industry. Milk, despite its critics, contains high-quality protein and provides an important source of calcium, magnesium, selenium and vitamin B12. A variety of powder products and by products of milk are remanufactured to provide commodity products and value add products exported globally and, as a result, New Zealand is the seventh largest milk producing country in the world, accounting for around 3% of global milk production. The dairy manufacturing industry is represented by significant dairy businesses like Fonterra, including a number of independent manufacturers through New Zealand.

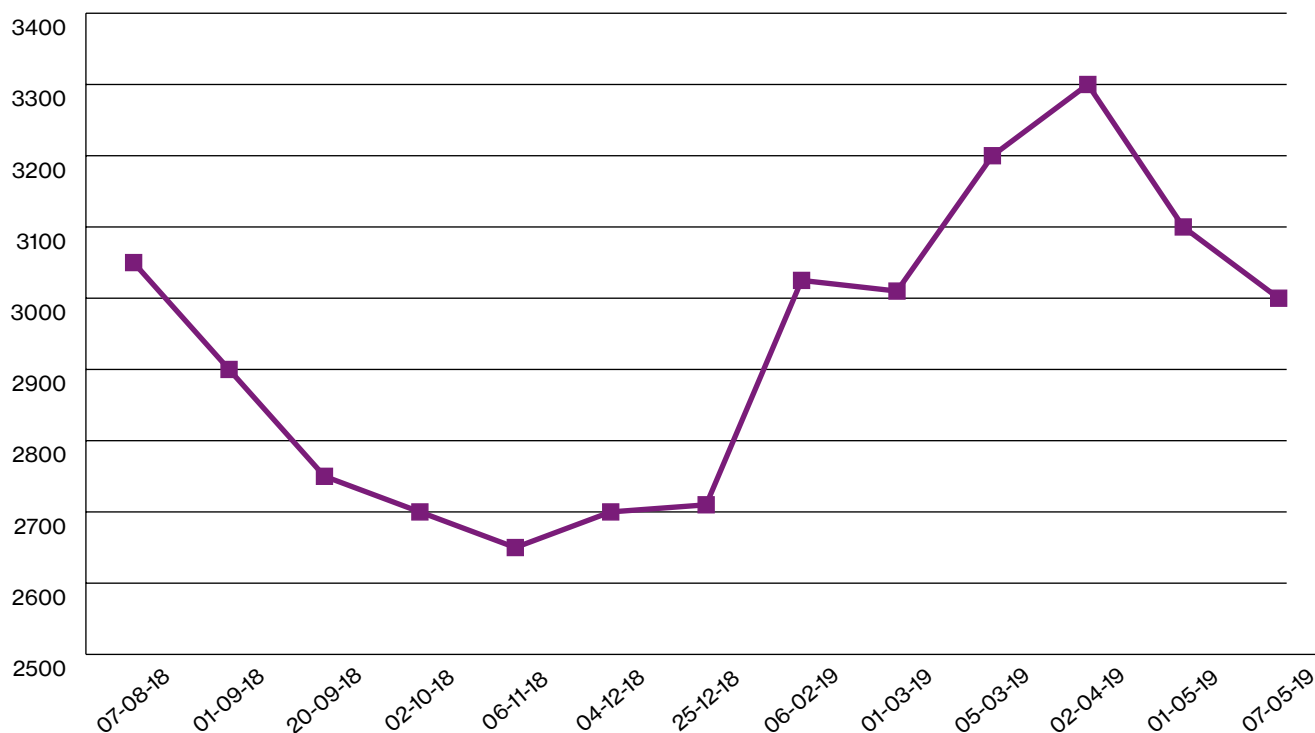
Annually the food sector, including dairy, fish and seafood and beverage (wine), has annual export revenues totalling

NZ\$75 billion with steady year-on-year growth. Plant expansions, for example in the dairy industry, continue to meet global demand for dairy products (commodity and value add) with a focus on plant enhancements, dairy plants including new organic milk powder plants, specialised powder plants and cheese plants planned as the demand for New Zealand products continues to grow.

The volatility of dairy commodity pricing has had an impact on dairy farmers' income in the past, with peak whole milk powder (WMP) pricing at US\$5,000 per tonne in January 2013, dipping to a low of US\$1,600 per tonne in July 2015. Current auction pricing remains around US\$3,200 per tonne and has increased off a low December 2018 price of US\$2,600.

As typically experienced in most commodity products, excess global production can affect returns very quickly. For example, a 2% to 3% increase in WMP production in the USA can dramatically affect pricing.

Whole Milk Powder pricing USD





## Specialities – Agriculture & Dairy

In 2016 and 2017, weather events contributed to significant flood damage to growing crops throughout low lying areas in New Zealand, placing stress on supply and increasing retail consumer costs. Lack of adequate labour also impacted on the ability to harvest produce. Weather-related insurance losses are typically low frequency/high severity type claims and unfortunately appear to be on the increase, though the 2018 year was relatively benign for such claims.

Most of the major property insurance risks associated with the dairy and agriculture industry are similar to other manufacturing risks. However, the widespread existence of Expanded Polystyrene (EPS) products in building structures, used due to their hygienic and thermal efficiencies, exposes the industry to the risk of significant fire losses which are difficult to contain.

The main objective for the insurance industry and clients is to manage this risk and mitigate ignition sources that can flare and de-laminate the encapsulating panel, resulting in significant damage including total loss of the affected site. The use of sprinkler protection, thermographic imaging and sound maintenance programs assist in preventing fire losses including the use of alternative less combustible products.

The impact of fire where EPS features in building construction (structural and non-structural) can be catastrophic. In addition to its use in the dairy and agriculture industry as noted above, EPS also features extensively throughout the Food and Beverage, Medical and Pharmaceutical industries in particular.

The global insurance market in this sector has been contracting since 2001 and there is generally a finite amount of capacity among local and global insurers. While capacity, price and deductibles are being impacted by some recent losses in Australasia, the critical factor in seeking cover will be the ability to demonstrate first-class risk management and maintenance practices, Disaster/Crisis Recovery strategies and Business Continuity Plans.

Unfortunately, in the later part of 2017 and 2018, the debilitating *Mycoplasma bovis* disease raised its head, threatening the profitability of New Zealand's multibillion dollar dairy and beef industry. New Zealand was one of only two countries (together with Norway) to remain free from the bacteria. While not harmful to humans and presenting no food safety risks, the New Zealand government announced it would cull more than 150,000 cattle in an attempt to eradicate the disease.

No country has ever eradicated the disease when it has become established though there are hopes by implementing the cull quickly that eradication may succeed. The eradication plan is forecast to cost almost NZ\$1 billion over a decade, which will include compensation paid to farmers.



## The outlook

We have seen property and business interruption premium rates reduce significantly in the past, with rates reducing by at least 30% to 50% during soft market conditions. This reduction had been driven by over-capacity generated by excess capital, new competition and very low global catastrophe losses being experienced by insurers.

However, in the last two years we have seen a steady increase in rates between 10-15% with larger increases in high earthquake prone regions like Wellington where natural disaster rates have increased significantly to required technical rates. Insurers are also monitoring their accumulation of risk in high earthquake zones and likely there will be a threshold at some point where insurers may struggle to provide additional capacity.

Unfortunately in the latter half of 2018, a major insurer of EPS risks in New Zealand decided to significantly reduce its available capacity, increase rates and fire excesses. The market impact has been severe with some clients struggling for capacity, particularly risks that are not sprinkler protected. Many insurers within New Zealand and global insurers have been inundated with approaches for capacity to secure placing pressure on capacity and subsequently the pricing. Capacity has been available (including from Lloyd's and other markets) however very high rates seem to be necessary at this present time to provide sustainable cover. Fortunately some new China insurance market capacity has become available to assist clients as well and we expect this to assist in future.

“The capacity and rating impact, however, is more significant with businesses in the food sector particularly with buildings incorporating EPS type panel construction within their buildings. While fire losses are low frequency, the severity of individual losses in recent years have been market changing.”

### Vedi Angjelinovic

Account Director, Corporate Risk Solutions





# Specialities – Alternative Risk, Transfer and Captives

The changing market landscape has intensified the need for companies to understand their risk. The rising cost of insurance, the reduction in available capacity and the increase in regulatory oversight in many industries has created a greater level of scrutiny on every dollar spent on insurance.

Insurance partners are evolving to ensure that companies are more informed about their risks than ever before. Companies are looking for their insurance partners to create solutions to benefit from pricing, capacity or coverage efficiencies and to provide tailor-made solutions to adapt and evolve with their changing risk profiles.

A significant number of New Zealand and Pacific Islands companies are viewing risk in a mid-to-long term range and looking at how the planning and financing of risk can enhance their business strategies. The Willis Towers Watson Captive Practice is assisting clients with investigating alternative solutions for managing key exposures to assist these companies in meeting their risk management objectives.

During 2018 Willis Towers Watson worked with the reinsurance market to create the second dual trigger parametric product to protect horticultural assets from weather-related events. Following on from this the team is considering similar products for the agriculture and aquaculture industries, in areas where the coverage, if available, is not effectively mitigating the key risks to the company

“ A number of our clients have enjoyed significant financial benefits from the formation of a captive insurance company and planned for its use in a strategic manner. These clients have saved between 30-50% of their total cost of risk over a five-year period. This has enabled them to create a competitive cost advantage over their business rivals and therefore enhance their shareholder returns.

”



## The outlook

As mentioned, the New Zealand market has seen the benefits from the formation of captive insurance companies and we expect that many companies across the country will be adopting this approach in 2019 and beyond to support their strategic direction and enhance earnings for their shareholders. With the ever-increasing focus on captives we expect the market to respond favourably to those clients taking a more active involvement in their risk management and we expect insurance partners to be tasked with providing tailor-made solutions specific to the needs of individual clients, not merely providing off the shelf products.

**Jessica Schade**  
Practice Leader - Captives







# Specialities – Irrigation

While basic economic principals may lead to a natural assumption that competition is the driving force of premium pricing, the insurance market relies on three governing factors:

- Gaining deep understanding of risk
- High quality information, and
- Solid relationships.

This is especially pertinent for irrigation businesses at any given period of the insurance cycle, but in times of limited and potentially costly capacity, all of these factors are of critically-heightened importance.

Common property and loss of revenue insurance contracts simply don't automatically accommodate the characteristics of heavy infrastructure water supply facilities. For these reasons, engagement on a deeper plane is fundamental, as this forms the critical pathway to the introduction of highly specified and relevant policy coverage. Our core work with irrigation schemes is methodically structured to eliminate uncertainty. We can ensure clients receive the right cover for their situation and consult on risk mitigation strategies to improve leverage and desirability within the insurance market.

Irrigation companies who consistently demonstrate they are profoundly invested in maintaining a comprehensive risk profile will prosper by working closely with us so that strengths, differentiators and insight are articulated in a way that makes sense to insurance markets.

An effective tactic is to augment partnerships with specialist core markets. In short, irrigation companies are more likely to achieve optimal results, not solely by creating competition between a large number of insurers, many of which will not be specialists and therefore may baulk when a large loss occurs.

## The outlook

Since the turn of the year, local market appetite continues to dampen. This is evidenced by some proficient underwriters with long-standing interests in the irrigation sector retrenching capacity, particularly more so on larger scale infrastructure risks. Lack of new entrants is likely to suppress any serious robust competition through the remainder of 2019. The key for clients in the sector will be to retain leader markets and take benefit from continuity and consistency of coverage.

The London market remains viable in terms of capacity, but a consistent and often not insignificant premium gap generally remains in comparison with local insurers. This may in part be a result of a new regime which has resulted in the closure of poorly-performing syndicates as Lloyd's seeks to recover from significant overall losses. What is also evident is a greatly increased underwriting stringency not witnessed in many years.

“ Natural catastrophe exposure remains the definitive driver of capacity and premium cost. Insurers are receptive to creative policy design but in the absence of wholesale changes to placement specifications, moderate rating fluctuations are to be expected. ”

**George Byrne**  
New Business Manager, South  
Island







## Industry topics

There remains a variety of wide-ranging water industry topics which continue to attract public and media attention. Most notably these include the debate on future irrigation scheme investment, clean rivers and waterways, as well as local Government consenting to commercial water abstraction and bottling facilities geared for export.

Recent concern and commentary from various sources has been voiced in response to speculation surrounding the Government's Tax Working Group recommendation for a water abstraction tax. In no way dissimilar to irrigation companies themselves, there is complexity to many aspects of this issue which will no doubt stimulate increasingly robust debate.

It is understood the Working Group said "...there was the potential for significant long-term revenue" and added: "There are significant design considerations that would need to be addressed before advancing potential water tax instruments ...". The anticipated considerations are likely to address Māori rights and interests and the possibility of regional pricing variances. The likely crux of the Tax Group's position is their advocacy of a better model for pricing water and its potential to encourage a broad range of efficiency measures by water users as well as a greater investment in storage.

The water industry could potentially face taxation applied to all types of water use including hydro generation. The implications are far reaching for households and commercial water users, with concerns for higher power and food prices, plus the prospect of higher rates bills to pay for the irrigation of public facilities such as reserves, parks and sports grounds. The agri-sector throughout New Zealand could incur significant new costs through taxation, which inevitably flow through to consumers. As well as the ramifications domestically, produce exporters who strive for competitiveness internationally are likely to be impacted.

Peculiarly, the whole debate crosses over into another topical domain with potential taxation directly limiting funds available for environment projects, notably investment into waterway and river improvements. As for the irrigation sector, the longer term impact of water taxation may stifle future investment into irrigation infrastructure projects on the basis they could be less viable and therefore less likely to be built.



# Specialities – Construction

The construction industry continues to experience a myriad of evolving risks that are more complex, and can hamper organisations if unmanaged. Contractors are faced with broadening contractual requirements while, at the same time, required to handle the risk transfer within a changing insurance landscape. If ignored or not clearly understood early in the project evaluation/tender process, it could significantly impact project margins or, if you are a principal, unnecessary delays and uninsured losses. Examples of these include significant challenges to Professional Indemnity coverage, Wellington capacity and pricing, and resulting impact of contractor insolvency if Principals relied on Contractor Controlled Insurance Programs.

## The outlook

“ These challenges can be met by early strategic planning, and by heightened focus on the quality of information being supplied to an increasingly discerning underwriting community ”

In addition, it is imperative to evaluate the insurance placement strategy to ensure overall project success and to consider alternative risk transfer techniques, including parametric solutions for addressing project risks stemming from extreme weather events.

Creativity and innovation will be essential to building leading edge approaches to risk management



## Contract Works – Material Damage

We continue to see a number of infrastructure projects in the past 12 months which has allowed project specific pricing to remain competitively priced. These projects have mostly been placed on a principal-arranged basis, with cover being placed on behalf of the contractor by the relevant government entity. This has meant that often the insurers are pricing risk prior to knowing which contractor has been awarded the contract. Insurers are therefore looking at the risks associated with the project in more detail given they are unable to fully underwrite the contractor undertaking the works.

### The outlook

Despite this, the level of Contract Works Material Damage and Delay in Start-up (DSU) coverage available in the local market remains high, and capacity would suggest this is likely to continue. We are seeing pricing stability, however the breadth of coverage is now being scrutinised more closely by insurers than at any time in recent years.

## Construction Liability

Construction Liability pricing on annual policies for programs with a favourable claims history has been positive and competition remains high for quality business from local markets.

### The outlook

Clients with a deteriorating performance on claims can expect remediation via either increases in premiums or deductibles. Clients who are willing to accept higher deductibles will continue to receive competitive pricing from the market.

## Professional Indemnity

There has been a significant shift in the Professional Indemnity (PI) market globally, and insurers in New Zealand are starting to follow suit.

Insurers are also looking to tighten up areas of cover including nonconforming building products, loss mitigation and rectification costs as well as express fitness for purpose. Aluminium composite panels continue to be an issue for insurers as they impose exclusions and conditions to address the increasing level of claims experienced overseas.

Accounts with favourable claims experience are still seeing moderate premium rate increases with claims affected accounts experiencing a lot greater increases

### The outlook

The market capacity available for Project Specific PI placements has reduced significantly. This makes achieving the contractually required limits increasingly challenging, with additional insurers required and resulting in a consequential increase in pricing.

### Tony Seto

National Manager, Construction





# Specialities – Trade Credit

The trade credit insurance market is steady and mature and there has been little innovation within the last 12 months or requirements for pricing movements. Significant capacity is provided by well-established underwriting agencies and a relatively benign claims environment has led to highly competitive insurance premium costs.

Trade credit insurance supports self-liquidating business-to-business trade across both domestic and export categories. Apart from providing indemnification for a bad debt, policies are often used to identify new markets and ensure customers are safe in the knowledge the Insurer will support this increased trade. Financiers often look to enhance their security by taking a lien over policies issued, in turn providing support for additional funding options or reduced interest rates.

The New Zealand economy has showed signs of slowing retail spending, a reduction in migration and population growth, a softening in the housing market and wind-down in post-earthquake reconstruction in Christchurch and Kaikoura. That said though, building and construction activity remains high with an increase in new dwelling consents across many regions of New Zealand. There are also a significant number of commercial and infrastructure projects in the pipeline.

“ Both the building and construction and retail sectors continue to be difficult for the trade credit market with some high profile insolvencies which will also lead to a tightening of capacity against a backdrop of increasing demand. ”

## The outlook

Over the past three to four years we have seen premium prices decrease however this trend is likely to be reversed as claim levels start to rise.

The entry of new underwriting agencies bringing new capacity to the market could temper these rises with policy coverage coming under pressure as participants look to maintain their return on allocated capital.

**Michael Kayes**  
National Manager, Credit  
Specialities



# Specialities – Surety

We are able to provide Construction risk mitigation tools through a range of Surety Bond products which include:

- Bid/tender
- Performance
- Retention
- Maintenance/defects liability
- Advance payment
- Off-site materials
- Bank fronted

Surety Bonds are an alternative to traditional secured bank guarantee facilities, designed to deliver a flexible bonding program operating alongside traditional banking lines of credit. Facilities do not require tangible forms of security which, in turn, allows a company to leverage off its capital base, thus enhancing working capital and liquidity opportunities. It provides the company the capacity to take advantage of opportunities as they arise without being restricted by capital restraints.

Surety Bonds can be utilised across a wide range of contract types including commercial, infrastructural, civil, engineering and industrial with Bonds being an accepted form of contract security for most principals including local councils and state run agencies.

## The outlook

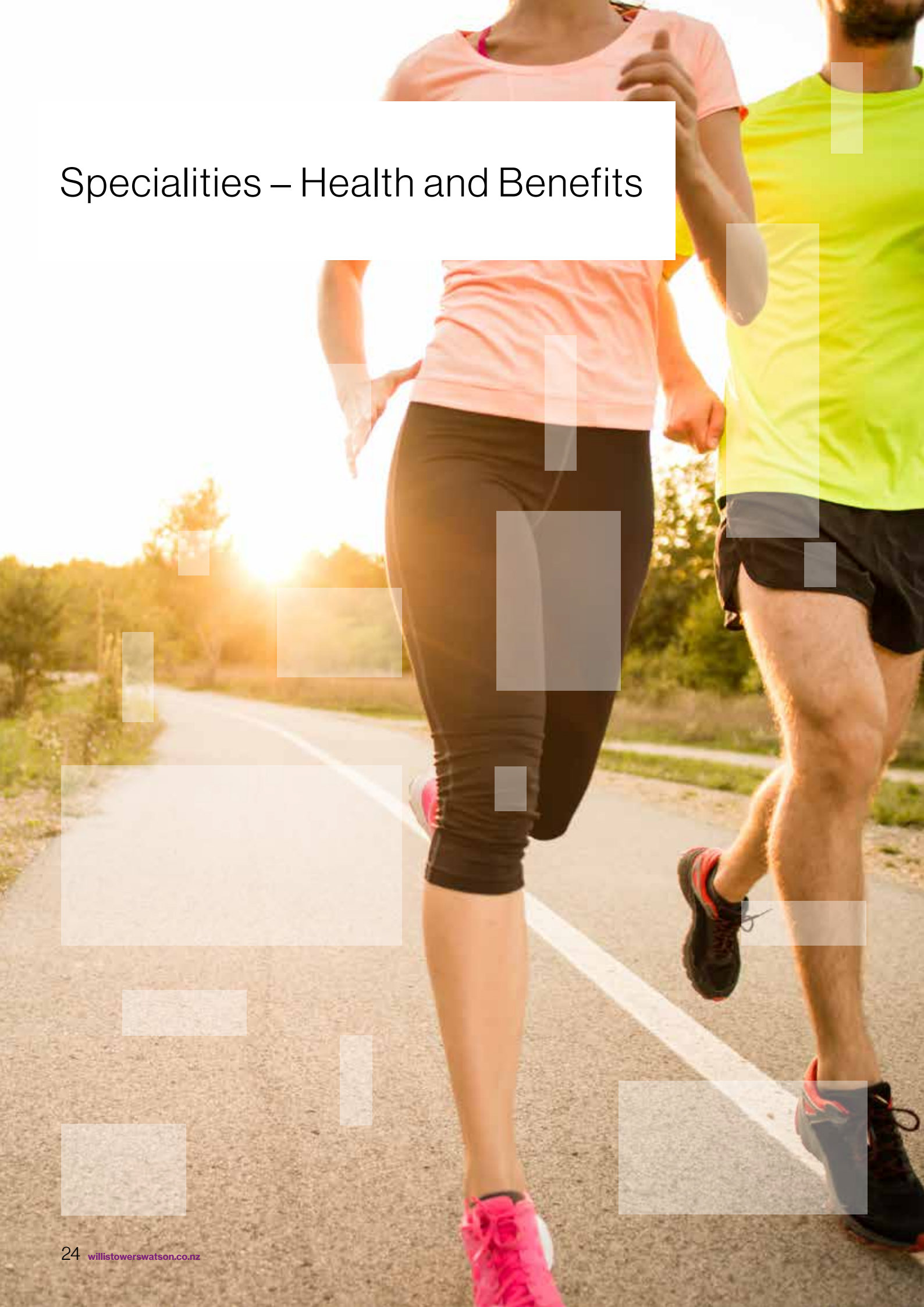
Given the small size of the New Zealand market there are only a limited number of providers willing to issue bond facilities. Regardless, clients are still able to take advantage of a softening market with an easing of underwriting criteria and a reduction of premium rates. There is ample capacity available.

**Michael Kayes**  
National Manager, Credit  
Specialities





# Specialities – Health and Benefits



## Benefits Trends

Across industries, the march towards modernisation has begun. For many, this comprises a renewed focus on core competencies, but there is a growing emphasis on digital transformation and automation, diversity and inclusion, and most importantly, building a brand as a “modern” employer, in order to attract, retain and engage the talent that is needed.

“Employees demand purpose-driven work, with opportunities for meaningful experiences, workplace policies that offer greater flexibility and celebrate diversity and inclusion, and corporate responsibility towards communities and the environment.”

Willis Towers Watson undertakes studies of employers across the country to help clients gain insights into the following areas:

- How organisational benefits strategies align with this “modern” vision
- What actions can be taken in the short and long term to modernise benefits
- How employers can design benefits to integrate physical, emotional, financial and social wellbeing.

## Medical Trends

In our 2018 update we commented on the ongoing trend of increases in costs for employers in the health insurance space. This trend continues unabated, with New Zealand's larger health insurers forecasting continual increases. The health insurers who responded to Willis Towers Watson's 2018 Global Medical Trends Survey indicated an average medical trend rate of 6.1%. This is, however, often the very starting point of a renewal discussion for a client, with ageing and loss ratios being key drivers of the ultimate year-on-year changes.

## Retirement Trends

Changes to the state sponsored retirement savings scheme, KiwiSaver, have been made in the first half of 2019. The key changes relate to member contribution rates, contribution holidays terms and an ability to now join the scheme post age 65.

There are two new contribution rates added to KiwiSaver. The new contribution rates are 6% and 10% - with multiple options (3%, 4%, 6%, 8% and 10%) available for members. The changes provide members with more choice in relation to the level of their savings – however employer contribution rates remain unchanged.

What was previously referred to as a ‘Contribution Holiday’ has been renamed ‘Savings Suspension’. The suspension will now also have a maximum period of a year before a KiwiSaver member will need to renew it.

## The outlook

There has been some consolidation in the New Zealand life insurer market over the past 12 months, with change expected to continue in the immediate future. Some of the larger life insurers have merged, while others have divested parts of their business to better focus on key opportunities. Willis Towers Watson is working closely with the insurers in the market to ensure that changes are managed appropriately with clients and their employees where applicable.

We expect to see increased competition in the market for life insurance business as the consolidation/divestment activities of late present opportunities for some of the insurers in the market in the near term.

From a health insurance perspective, the outlook over the next 6-12 months is for increased pressure on premium rates.

**Niall Martin**  
Head of Health & Benefits





# Specialities – iwi

Willis Towers Watson has developed a strong relationship with Tangata whenua. We continue to grow our marae insurance scheme that provides insurance solutions to meet the cultural needs of marae, specifically around basis of settlement for Taonga and artworks, blessing cover and risk management solutions, at a cost-effective premium. We are also providing assistance in protection and advice for financial literacy, health and education needs and we continue to provide Iwisaver, medical and life covers advice.

## The outlook

With many iwi well into post and pre-settlement mode, the opportunities are significant. Several hundred million dollars have been paid by the New Zealand Government to settle past grievances, allowing iwi to invest, generate wealth and opportunity for Tangata whenua. Therefore iwi business will continue to become a major player in the New Zealand economy with investments in dairy, agribusiness, transport logistics and major property developments. Sixty iwi who have settled with the New Zealand government manage combined assets of \$6 billion.

“ The changing perceptions of marae risks, which are the base for iwi, has changed where is has been acknowledged that a collective approach to insuring these is beneficial for both clients and insurers. ”

Willis Towers Watson's iwi practice continues to assist iwi to achieve their collective goals, with insurers keen to align themselves with this business.

### Vedi Angjelinovic

Account Director, Corporate Risk Solutions





# Specialities – Pacific Practice

## Property Insurance

What a difference 12 months can make for the Pacific property insurance market.

The previous signals of the emergence of new property insurance capacity have not developed to any significant degree and, from a wider market perspective, capacity has continued to retract.

The international property insurance and reinsurance markets are undergoing massive change as underwriters work to remediate their catastrophe exposures following multiple years of underwriting losses and poor underwriting performance. This remediation has been reflected in the continued reduction in available market support for Pacific risk capacity and an increase in the cost of this capacity.

The Australian and New Zealand property insurance markets have followed their international partners and, with reinsurance costs increasing, these markets are struggling to manage their respective in-country property portfolios. As a consequence, there is limited 'local' appetite for Pacific property risk.

Some may say that the overall approach adopted by the insurance markets has been "excessive and reactionary", yet the actions have been deemed absolutely necessary

by underwriters as they strive to return their property portfolios to profitability via the delivery of terms through a more robust and much more sustainable underwriting model.

The impact on the market changes for the property insurance buyer, especially those operating in perceived high risk occupations or high risk natural catastrophe geographical zones (i.e. the Pacific), has been significant with affordability and/or 100% availability of insurance no longer able to be assumed as being a given.

Whilst the above comments are reflected in the international property insurance sector, the same does not hold true across all property insurance markets. In many cases, the local (in-country) insurance providers such as Tower Insurance have yet to face the capacity or pricing pressure experienced by most international markets. As a consequence their pricing model is currently less volatile. In addition, many local insurers have not experienced the same loss activity as that of the international property sector and consequently they too have delivered a more stable pricing response.

We suspect this is a timing issue and that the increases in reinsurance costs will ultimately flow through to all retail insurance markets. For now we will accept the differences in the two markets and will continue to work to maximise the advantages offered by both markets appropriately.





## Liability Insurance

The General Liability insurance market is in a very different place to its property cousins. Currently there is plenty of local market support for Pacific general liability risk and the market is therefore actively pursuing new business opportunities. This competition is reflected in the quality of the market responses that we are receiving and the competitive premium levels being quoted.

While the General Liability market is stable, the professional risks market is undergoing some change with underlying pricing for the key policy classes of Professional Indemnity and Directors' and Officers' Liability insurance on the rise. At this time, market capacity for these risks is available but it is industry selective.

## Construction Works Insurances

Over the last 12 months we have not seen any positive movement in this market.

The Pacific Contract Works capacity remains very tight and insurers are being very selective of what they will and will not underwrite. Some insurers are imposing minimum premiums for their capacity on a per contract basis which is making affordability a major issue and generally excess levels for the natural catastrophe exposures are increasing with minimum levels being set in the region of NZ\$250,000 for any one loss.

This market continues to be difficult. Finding insurance support for contract works in the small to medium contract value sector is very difficult. As a consequence of this, we strongly recommend that clients undertaking contract works throughout the Pacific allow a minimum of two months for insurance solutions to be found.

## Marine Insurance

The Marine insurance market also reasonably remains stable but, again, wider Pacific losses in this sector combined with a significant deterioration in the global loss experience has seen many underwriters withdraw from the Hull market completely or alter their underwriting stance specifically towards underwriting single vessels (singletons) and/or passenger ferries. These underwriting issues are

impacting pricing levels and risk appetite.

We are noticing that our key insurers are taking a more cautious approach to underwriting Pacific Hull and Protection and Indemnity (P&I) risks and there are instances where the market has been unable to take the more high risk hull business. Clearly quality of risk has become the key driver for securing Hull and P&I insurance and this will be the norm for the market as we move forward.

As for the Cargo insurance market, the insurers have been absorbing losses from deteriorating claims performance associated with increasing Reinsurance costs for the past few years. Insurance pricing is increasing by 5% and 15%. This increase will be applied on a case-by-case basis reflecting individual client risk profiles and policy performance. Associated with this pricing shift is a clear shift in the level of underwriting information required by the markets to support both annual and one-off marine cargo placements. We do not see this position easing over the next 12 months.

## Other Insurances

In all other respects the insurance markets for Cook Islands/Pacific business remain stable and, generally, pricing and coverage levels are being held.

### The outlook

As an overall comment, insurance markets hardened significantly over the past 12 months and we do not see this altering any time soon. The property markets particularly will continue to drive for premium increases throughout the remainder of 2019, citing the losses in 2016 and the high cost of global catastrophes in prior years particularly the Caribbean in 2018. We expect that capacity for Pacific property risk will continue to retract and the lack of capacity will also feed pricing levels. Insurers will likely take a portfolio approach to remediating their position rather than addressing this on a client-by-client basis although individual claims performance will be a major consideration for underwriters when they set their renewal terms.

Once underwriters feel that they have remediated their property portfolios they may start to once more compete for business.

“ Irrespective of where we are in the insurance market pricing cycle, our approach to insurance marketing remains focused on the presentation of the highest quality risk information and detailed negotiations with insurers to achieve optimum pricing. ”

The challenge for our clients will be the need to have a clear understanding of their risk profile and to demonstrate confidence in their own loss control, risk mitigation, corporate governance standards and overall risk management protocols.

One thing is clear, the next 12 months will be challenging as insurers come to grips with their revised risk and pricing models. Insurers are seeking greater premium income and will look to achieve this where they can.

**Ged McCombie**  
Practice Manager, Pacific Islands







# Specialities – Power and Renewable Energy

On the face of it, it might be argued that the London-based power insurance market is carrying on in much the same way as it has done for many years. The glut of reinsurance market capital, referred to so often as the principal driver of soft market conditions, shows little sign of being withdrawn to be deployed elsewhere. As a result, reinsurance prices have remained low by historical standards, allowing direct insurers to compete more aggressively and fuelling the softening market conditions that we have experienced for the last ten years or so.

But as we have contended for some time now, logic dictates that this continual market softening has to break down eventually; at some stage, premium income levels become so low that it is just not worth underwriting a given portfolio anymore and loss ratios start to become unsustainable. In the past, we have been unable to say exactly when that point would be reached; only that further softening was showing that it had not been reached yet.

Is now the time? Certainly we saw the beginnings of change in 2018, with premium increases starting to take hold. There are a number of external factors influencing conditions in the London power market:

## Lloyd's Performance Management Directive

The Lloyd's Performance Management Directive (PMD) has been designed to introduce more rigour into the examination of individual syndicates business plans. Syndicates which had made underwriting losses in each of the last three years received special attention.

Of the 95 syndicates that presented business plans, two have been put into orderly run-off, 11 have approval to write more business in 2019 and all others were approved. The expected overall premium volume is likely to be down around 5% in 2019, over 2018. It seems clear that this is likely to put a break on individual syndicates' ability to compete by driving down prices to achieve increased premium income streams.

Given that power was one of seven underperforming classes of business, we can expect this effect to be felt in the power insurance sector.

## Unprofitability of other lines

In addition, underwriting teams are being forced into some inward scrutiny due to the underwriting performance of other classes of business closely associated with their own portfolios. Classes of business such as Construction, Mining, and Downstream Energy have been reporting adverse underwriting results.

## Insurance company management pressures

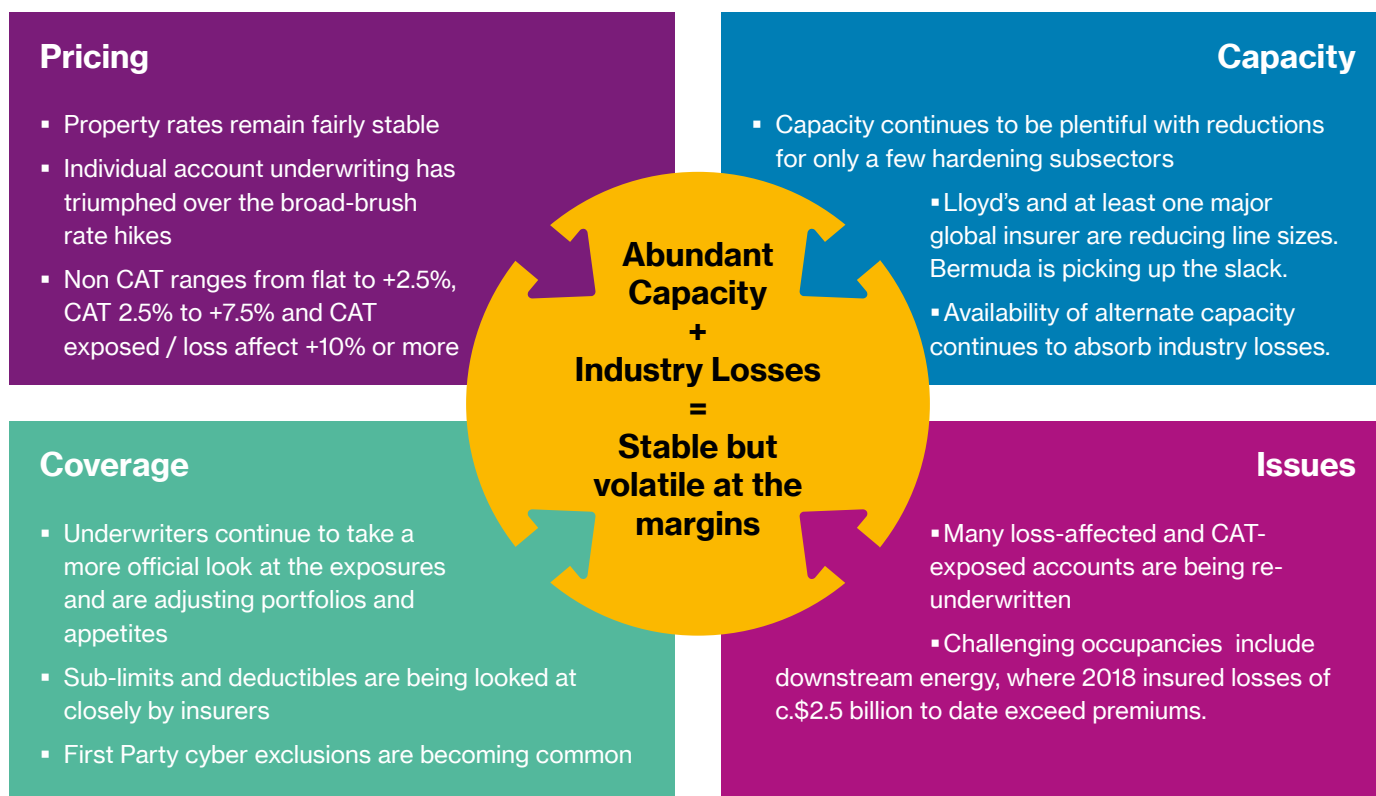
The major company market, as opposed to Lloyd's syndicates, has been severely hit by last year's natural catastrophes. As a result, similar to the PMD imposed on Lloyd's syndicates, it is understood their underwriters are under pressure from management to scale back on premium income expansion and "hold the line" on rating levels and other terms and conditions.

### The outlook

We are seeing a change of mood among underwriters – instead of underwriting for growth they are underwriting for profit. So although theoretical capacity levels remain high, brokers are finding it more challenging to deliver the results that our clients have enjoyed for a number of years.

The following diagram summarises the power market sector, which can be described as no longer soft but still with plentiful capacity for most risks.

### Property State of the Market





## There are five key dynamics influencing the power market in 2019:

# 1

**Lloyd's review:** the extensive review undertaken by Lloyd's management is as a result of the overall poor underwriting results of the past few years. The review has put strong emphasis on syndicates to improve results, leaving underwriters nervous of the class and less likely to quote without increases in either rates and/or coverage. This attitude is likely to be mirrored in the company market.

# 2

**Retreat from coal:** Insurers' retreat from underwriting coal related business has resulted in a significant reduction in capacity for coal fired generators. This in turn will result in upward pressure on rates and downwards pressure on coverage.

# 3

**Mergers & Acquisitions activity:** The impact of M&A activity in the insurance market over the past few years has inevitably seen a tightening of available capacity. While the available capacity is often unchanged, the appetites of the merging companies often differ. As result, where you once had two options on pricing and coverage, you now often have only one.

# 4

**Synergy of International offices' philosophy:** Markets have often talked of their philosophies being international, but in practice that has not been entirely the case. 2018 has seen a degree of centralisation of underwriting philosophy in some major carriers. The effect has been that the options of utilising carriers in different regions to optimise marketing has been diluted, further reducing capacity options.

# 5

**2018 loss experience:** 2018 has not been the worst year for losses to the power market, although it is on track with the average in the sector. This average, when coupled with low premium rates from a number of years of reductions, has the markets looking for remediation rather than simply complaining that conditions are unsustainable.

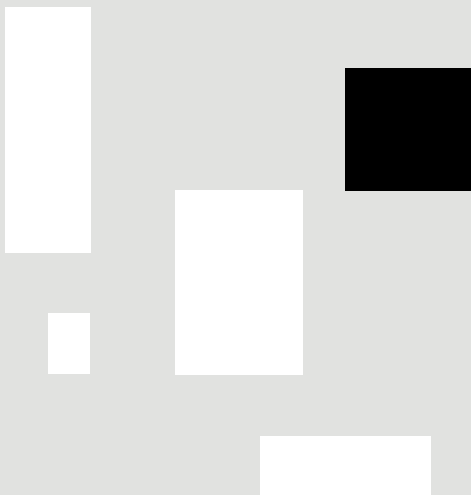
A market turnaround is no longer an assertion or expectation – it is now fact. Notwithstanding this the market continues to reward clean risks with good risk management.

**Clive Berry**  
Branch Manager - Wellington









## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at [willistowerswatson.com](http://willistowerswatson.com).



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