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Insurance Market Update

In our March update we discuss the return of relative stability to the reinsurance market and what this may mean for our clients. We also highlight the importance of preparing a detailed renewal submission for insurers, particularly when flooding is a risk, and look at the increasingly unstable global geopolitical environment and the implications for cyber security.

In this issue

Reinsurer market stabilises after a challenging 2023

Growing impact of 'secondary' perils such as risk of flood

Global geopolitical unrest may spark more cyberattacks

It is great news that New Zealand has remained free of a catastrophic loss in the past twelve months. The Insurance Council of New Zealand (ICNZ) reported that the estimated insurance losses from weather-related events in New Zealand last year cost the insurance market NZ\$4.1 billion. Many claims related to home and contents insurance but commercial insurance claims were also substantial, as illustrated in the table.

Claims costs from the two major weather events in 2023

Insurance policy type	Auckland Anniversary floods	Cyclone Gabrielle
House	\$1,005,573,692	\$667,969,596
Contents	\$139,204,297	\$124,488,620
Business	\$616,634,010	\$803,649,493
Motor	\$109,183,873	\$5,478,695
Other	\$28,430,681	\$19,616,410
Total	\$1,899,026,554	\$1,732,616,941

ICNZ data shows the total New Zealand insurance market net premium income for home and contents policies was \$1.5 billion at 2022 year end. In contrast, insurers faced a total of \$1.9 billion in home and contents claims from last year's two extreme weather events alone.

Reinsurers face a new normal

The cost of reinsurance is a major component of insurance pricing. Reinsurers insure insurance companies and help them manage risks by absorbing some of their losses. If reinsurers lift their prices, retail insurance prices tend to follow suit.

Global events, such as catastrophic weather events, can significantly impact the reinsurance market both as a whole and at a local level. The outcome of the Atlantic USA hurricane season is a key market influencer. While the 2023 season was quiet, which was good news for reinsurer and insurer results, there was more than USD100 billion of insured property catastrophe losses last year that were generated from disasters in USA, France, Italy and Turkey in particular.

Reinsurers are facing a new normal, as insured losses topped USD100 billion for the fourth consecutive year and for the sixth year out of the last seven.

Stability returns to reinsurer market

The reinsurance renewal market in 2023 was cited as being one of the most challenging on record as reinsurers reduced capacity and changed coverage, attachment and pricing for catastrophe insurance. It was deemed as a major reinsurance reset that reflected the impact of climate change.

Reassuringly, relative stability has been the hallmark of the January 2024 renewal season. This is good news for insurance buyers as it has relieved some price pressure for local insurance companies in New Zealand. It does not mean, however, that insurance premiums will suddenly reduce. We expect the New Zealand insurance market will seek premium increases across most types of insurance for most, if not all of 2024.

For sound, well-managed risks that do not have a high number of historical claims, premium increases are likely to be lower than experienced in 2023. However, insurers did not apply their full price adjustments last year due to the timing of individual customer renewals throughout the year.

What this means for our clients

We strongly recommend our clients to approach the insurance market early and with a full underwriting submission at renewal. A by-product of 2023 losses and reinsurance changes is insurance companies' greater selectivity about which risks they accept and the terms that they provide.

Impact of secondary perils

2023 was characterised by the dominance of 'secondary' perils and continued record-setting weather/climate phenomena. For the first time ever, global insured losses topped USD100 billion without a singular event causing more than USD10 billion in losses for the industry. It was also the first year since 2017 in which no event exceeded USD10 billion.

While a devastating tropical cyclone or earthquake ('primary' events) will continue to drive the highest individual loss costs, we can no longer dismiss the potential significance of other ('secondary') peril occurrences. This is especially true for some insurance companies that now view secondary perils as their major portfolio risk.

This approach is becoming particularly apparent in New Zealand. 'Flood' for example is considered a secondary peril that results from a primary peril such as a tropical cyclone. While reinsurers and insurers use computer models to assess the potential impact of primary perils, less modelling work has previously been done on understanding flood risks.

Almost without exception, every insurance policy covering a New Zealand property risk will have its flood risk profile reviewed as it comes up for renewal in 2024. Insurers will have likely reviewed obvious flood prone risks, such as risks on lake shores, but are now looking closely at all risks using data such as council flood mapping. However, this data does not inform if there have been any risk mitigation factors implemented at the specific property.

What this means for our clients

At renewal, it is important to provide an insurer with adequate information on flood risks and possible mitigations taken. Without such information, an insurer may apply a higher excess for Flood, limiting the coverage available or, in extreme cases, excluding cover completely.



2024: A year of elections in an unstable world

National elections are taking place in over 64 countries in 2024, including in the US, Russia, Mexico, South Africa, Ukraine, Indonesia, Taiwan, the UK, Pakistan and India. Over two billion people are expected to go to the polls this year.

Against this backdrop of increasingly unstable geopolitics and global conflicts, the frequency and severity of cyber warfare may well grow.

Businesses could be exposed to spillover attacks from state-sponsored intrusions and to malware targeting software supply chains. The development of artificial intelligence (AI) provides bad actors with the ability to create and spread misinformation at scale and speed unseen to date.

Although not election year in New Zealand, businesses need to be aware of the risk posed by a disrupted global geopolitical environment. Geopolitical instability could drive an increase in systemic-type cyberattacks that can inadvertently catch New Zealanders in their web. One such example was the NotPetya attack in 2017. Believed to be sponsored by Russia and targeting the Ukraine, thousands of businesses were affected in over 60 countries.

What this means for our clients

There are some key ways you can safeguard your business from cyberattacks. These include keeping your cyber security up to date and implementing an ongoing staff training programme. It is also important to regularly review business risks and cyber cover options with your broker to ensure ongoing protection from increasingly sophisticated and active cyber criminals.



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