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Insurance Market Update

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A positive change brewing in the commercial insurance market

Signs of change are emerging in the insurance market for commercial risks, potentially signalling a positive outlook for our business clients.

For the past two to three years, insurers have been increasing their pricing while scaling back their capacity to cover individual risks, placing additional pressure on premiums.

Several factors have contributed to this approach:

- The lingering economic effects of the Covid pandemic have influenced interest rates, inflation and labour costs.
- The impact of climate change has led to an increased number of claims, both locally and internationally.
- Global supply disruptions due to conflicts in Ukraine and the Middle East have pushed up the costs of settling claims.
- The reinsurance market 'reset' in January 2023 resulted in higher costs for insurance companies, which have been passed onto consumers.

Insurance clock ticks

Traditionally, the insurance market operates in two phases: a 'hard market' characterised by rising prices and challenges in obtaining full insurance and a 'soft market' where prices reduce and insurers become hungrier for business. This market cycle is often referred to as the insurance clock.

For the reasons outlined earlier, New Zealand has been experiencing hard market conditions for several years, putting it at between 10 and 1 o'clock on the insurance clock.

We are now seeing clear signs the insurance market for commercial business is moving towards a softer phase as shown below.

The market is certainly not soft yet but while premiums continue to rise overall, the rate of increases is slowing. In addition, the recent loss experience in the local insurance market has improved. In 2023, the New Zealand market took a huge hit with the Auckland Anniversary floods and Cyclone Gabrielle. Thankfully, we have not experienced another large catastrophic loss since the first quarter of 2023.

Whilst weather-related claims globally are still at very high levels, the reinsurance market has stabilised and increased capacity has become available, easing pricing pressure on the direct insurers.

We are also now starting to see new capacity enter the New Zealand insurance market. This doesn't mean that we are likely to see the appearance of a new major player in the market like another NZI or Vero, but it does mean there should be more options available going forward that will put downward pressure on pricing.

MGAs offer growth opportunity

One area of growing opportunity is the deployment of capacity through Managing General Agencies (MGAs). An MGA is like a mini insurance company: it doesn't actually hold any risk itself but underwrites insurance business on behalf of insurance companies. The capacity behind an MGA is generally provided by secure insurers that have acceptable credit ratings.

As a tried and tested platform, the MGA model is an efficient way to create competition in a market that is small by global standards. Large international insurance companies that do not want to establish a New Zealand office use the MGA market to distribute their capacity, expanding their market reach.

Over recent months, the MGA market capacity for commercial fire and commercial motor risks has grown, along with business travel and liability insurance.

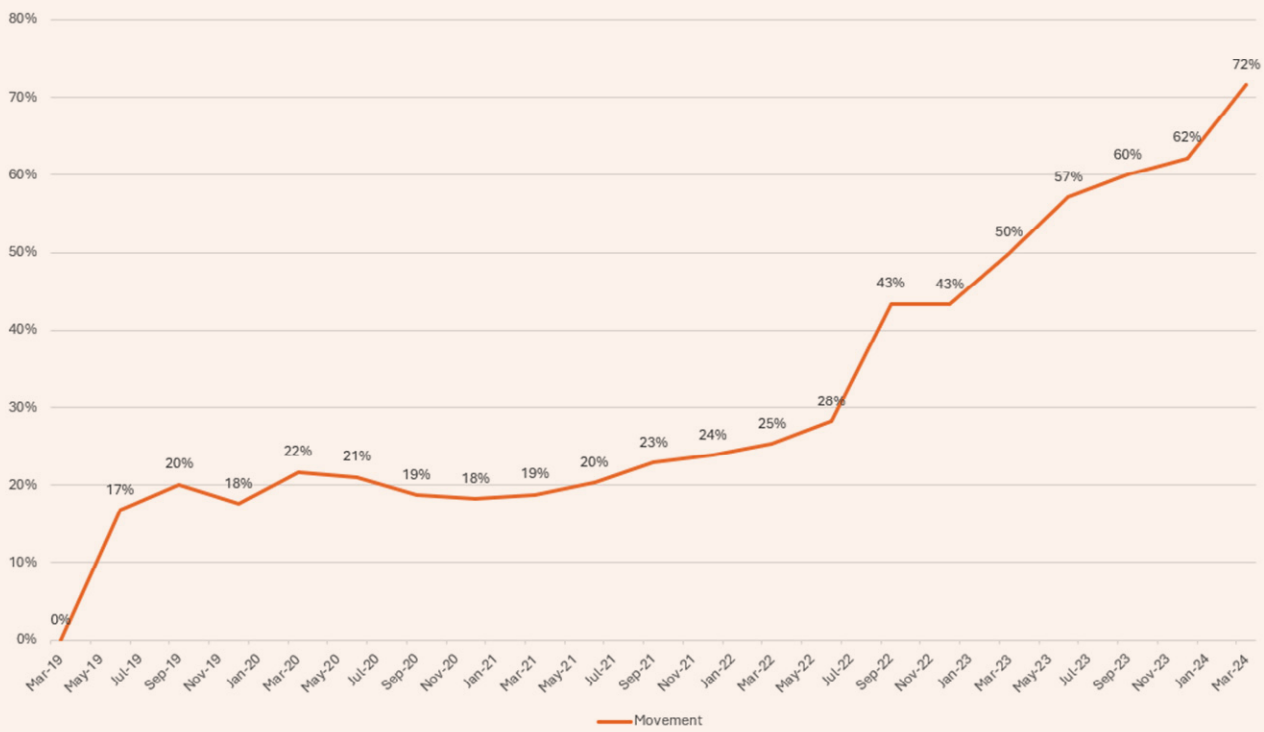
It is encouraging to see signs of a positive market change for commercial risks. As always, there will be exceptions to the rule and clients with higher risk profiles may see less obvious change in their situation.

Personal lines market bucks the trend

One exception to these signs of positivity is the personal lines market in New Zealand where we anticipate that insurers will continue to seek pricing increases for the remainder of the year. The marketplace for home, contents and personal motor insurance in New Zealand is reasonably limited and dominated by three main insurers, IAG, Suncorp and Tower. With restricted competition in this sector, pricing has trended upwards for a number of years.

The table below shows the steady rise in pricing over five years, with personal lines insurance now 72 per cent more expensive in March 2024 than in March 2019.

Personal lines market price movement (2024 vs. 2019)



The domestic buildings and contents market bore the brunt of the losses arising from the 2023 natural disasters, with around 81,000 claims out of the 117,000 total falling into these categories.

Unfortunately, we expect that further premium increases will be pushed through by insurers in the personal lines space.

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Gallagher is one of the world's top three insurance brokerage and risk management companies, with a network that provides services in more than 130 countries. Previously known as Crombie Lockwood in New Zealand, we have a long history of helping New Zealanders with their insurance needs.

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