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Insurance Market Insights

March, 2023

Introduction

Our latest Insurance Market Insights report summarises how the insurance market has developed across key products and market dynamics over the last quarter of 2022, trends to watch in early 2023, and includes tips for navigating today's market, to ensure you are better informed and able to make better decisions to protect and grow your business.

As the world continues to emerge from the global pandemic, 2022 proved to be another challenging year. The impacts of the war between Russia and Ukraine starting in February 2022 span far and wide and are likely to continue for the foreseeable future. Also in 2022, economic difficulties grew as worldwide inflation soared throughout the year. Governments and central banks took drastic actions to stem the tide, but the economic landscape is likely to remain fragile for some time.

These challenges, as well as others related to cyber, supply chains, food security, climate transition, energy security, ESG and public sentiment are likely to create new pressures on businesses over the medium to long term. Since these risk areas are evolving and highly interconnected, it is ever more vital that businesses commit to building resilience, including maintaining a well-informed, broad strategic approach to risk, and forensically review their exposures ensuring insurance coverages reflect their ongoing need in a post COVID-19 and inflationary driven environment.

In 2022 the insurance market continued to see an overall deceleration of hard market trends. Insurer focus was on profitable retention and for some, growth in targeted areas via mobilisation of new capacity. Underwriting remained selective as insurers focussed on reducing volatility through best-in-class risk selection. Many Property placements renewed with increased sums insured/limits as valuations were scrutinised and as a result of inflation-driven exposure increases. Rising interest rates continued to create offsetting impacts. While increasing claims costs pressured pricing, increasing investment income served to dampen pressure on underwriting profit. Many risks in parts of New Zealand that are susceptible to natural catastrophe experienced challenging market conditions. Insurers with cumbersome referral processes and centralised underwriting authority were in some cases challenged to compete with agile insurers able to provide timely, responsive capacity and quotes. For some classes of insurance coverage stability returned, however "soft market clauses" remained generally unavailable.

Climate change continues to impact the frequency and severity of costly weather events. Varying levels of resilience seen in different regions of the world in the aftermath of 2022 events reiterate the need for building towards better preparedness and risk management.

Natural catastrophe events globally, pre-dominantly weather related, continue to drive large losses and pressure market conditions. From Aon's 2023 Weather, Climate and Catastrophe Insight available on Aon Insights here:

- Global economic losses from natural catastrophes were estimated at US$313 billion in 2022. Approximately 42% (US$132 billion) of losses were covered by insurance, well above the short-medium and long-term averages.
- The Asia Pacific region losses from natural catastrophes were estimated at US$80 billion in 2022. Approximately 60.5% (US$48.4 billion) of losses were from flooding. Approximately 13.5% (US$10.8 billion) of losses were covered by insurance. The region made up 26% of global economic losses.
- Flood losses in the Asia Pacific region broke historical records. Winter 2022 was New Zealand's wettest on record with multiple weather events.

Both local and international insurers with reinsurance renewals in January 2023 experienced extremely challenging renewals. This will impact insurer pricing and capacity in 2023. Reinsurance markets have undergone a fundamental shift in pricing and risk appetite driving cost increases and reducing cover on the back of six years of underwhelming returns and above average catastrophe losses (capped by Hurricane Ian in late September 2022, responsible for about 30% of economic and 40% of insured losses globally and the second costliest natural disaster ever recorded in terms of insured loss on a price-inflated basis).

Coupled with this, the combined impacts of New Zealand's most significant weather events in recent history, the Auckland Anniversary Weekend flooding and Cyclone Gabrielle at the end of January and February 2023, leave local insurers with significant commercial, rural, infrastructure and domestic losses, and property insurance pricing will go up as a result of these events. The initial estimated cost for New Zealand insurers for each event is currently NZ$1 billion and NZ$890 million respectively. The two main insurers, Suncorp and IAG, have both had to fully reinstate their reinsurance treaties only two months into their annual policies.

In 2023, property markets are anticipated to further harden while most other classes of insurance remain in moderate cycles.

Key trends within this report include:

- **Continued uncertainty driven by concerns around economic volatility, ongoing geopolitical instability, supply chain challenges, and climate change.** This was exacerbated by challenging treaty reinsurance renewals for insurers in January 2023. Inflationary resilience and risk management strength will continue to play heavily in underwriting decisions.
- **Demand for capacity and flexibility will continue to grow,** and alternatives to traditional risk transfer solutions such as alternative retention and limit strategies, parametric triggers, captives and large limit facilities such as the Aon Client Treaty will play an increasingly important role in helping clients execute their risk management strategies, as may programme ventilation (taking more risk directly to the balance sheet and choosing not to use risk transfer, e.g., selective asset self-insurance).
- **A two-tiered market will likely continue across a sizeable portion of the market,** with products and in-appetite risks targeted for insurer growth, whilst challenging, poor-performing or out-of-appetite risks may experience higher rate increases and tight capacity.

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New Zealand Market

State of the Market

In 2022 a two-stream market emerged, with preferred risks easier to place and rate increases typically a moderate 10% (flat pricing was achieved for some); however risks with catastrophe exposure, challenging occupancy types, or adverse loss history, experienced continued upward pressure on pricing. Premium increases also occurred where there was an increase in valuation.

There was some constriction in local market capacity driven by increasing values at risk and cost of weather related losses particularly flood in New Zealand and Australia, with some insurers seeing a retraction in their reinsurance cover and/or capacity. As a result, for some risks, a programme structure based on a loss limit as opposed to full value and/or more reliance on more expensive markets to achieve full placement (either local or international) was required.

Insurers continued to pay careful attention to weather-related risks, particularly flood. This drove increased premium rating and affected deductible levels in relation to those risks for some risks. In some instances, cover for weather-related risks was sub-limited.

Local insurers:

- Took a much more technical approach in their underwriting and loss modelling;
- Remained cautious of exposing capacity where values were also increasing significantly;
- Focussed on obtaining detailed and accurate underwriting information and data to enter into their models.

Property New Zealand Market

Looking Ahead

In 2023, it is anticipated that the property insurance market will become significantly harder. The combined effects of the Auckland Anniversary Weekend flooding and Cyclone Gabrielle, have left local insurers dealing with the most significant weather events in New Zealand's recent history with significant commercial, rural, infrastructure and domestic losses. The two main insurers, Suncorp and IAG, have both had to fully reinstate their treaty reinsurance only two months into their annual policies.

This is in addition to the past two years which saw insurers experiencing an increase in the number and severity of natural catastrophes, large commercial fires, and general claims costs which are being further impacted by inflation and supply chain constraints.

An increasing number of weather events and rising claims costs have significantly impacted insurers reinsurance programmes worldwide, including New Zealand, as international reinsurers increase their pricing, reduce cover and capacity. Insurers with catastrophe property treaty reinsurance renewals in January 2023, experienced some of the most challenging renewals in a generation.

The increased frequency of extreme weather events, coupled with organisations increasing demand for additional capacity due to the impacts of inflation on asset values, means insurers and reinsurers are reassessing their risk appetites, pricing and capacity.

There will be a continued and increasing focus on flood risk and storm damage. As well as increased pricing, insurers may seek to limit the impact of flood losses by limiting coverage and increasing deductibles.

Prior to the Auckland Anniversary Weekend flooding and Cyclone Gabrielle, it was anticipated that pricing may increase circa 10%. Following these two events, one major insurer announced in mid-March 2023 that April renewals onwards and immediately for new business, they will in require a 20% increase in overall premiums, to be made up from a mixture of rate, sum insured increase or excess variation. For higher risk occupations or poorly performing risks they may require more than 20%.

Where an increase in sum insured is required following a revaluation exercise, it can for some risks, result in capacity constraints for the existing insurer(s), meaning additional support for the full placement will be needed. This may come at additional cost or necessitate a programme restructure from full value to loss limit based on maximum probable loss.

In summary, the price organisations pay for their insurance needs to accurately reflect what it costs the insurer to provide the cover. As a result of the cost of recent loss events, premiums will go up and the increase may vary depending on factors such as location, risk and loss history.

Property New Zealand Market

Valuations for Insurance Purposes

Increasingly, as part of the required underwriting information, insurers are mandating up-to-date valuations for insurance purposes will be required for buildings, in order to substantiate an adequate sum insured. Where a new valuation is undertaken, it should be prepared and available well ahead of the placement date.

Sum Insured Adequacy – Increasing Costs for Construction and Equipment

It is most important to check the adequacy of your sum insured. If you have made any changes to your building or other assets, your sum insured will need to be updated.

Increasing costs for building construction continue across the country with the Aon Valuation Services Team reporting annual inflation for the 12 months to December 2022 for non-residential buildings 10.08%, civil construction 15.41%, residential buildings 13.15%, and land improvements 9.99%. If you insure a building or fit-out, the cost to rebuild or replace is likely to have increased significantly.

The same factors may also mean a significant increase in the cost to replace other assets such as plant, machinery and equipment or stock. The Aon Valuation Services Team report annual inflation for plant, machinery and equipment for the 12 months to December 2022 was 8.51% and for transport equipment 5.93%.

You may want to get a valuation for insurance purposes prepared by a suitably qualified person or an estimate from a quantity surveyor. This is usually a more accurate ways of establishing the cost of rebuilding or replacing other assets such as machinery and plant, as they consider the specifics and features of your items.

Cover Adequacy – Business Interruption

Given the continuing supply chain constraints coupled with other factors, organisations need to review Business Interruption coverage including Sums Insured and Indemnity Periods. Indemnity Period increases of 25% and 50% are now common. Organisations should also review their contingent business interruption risk and insurance cover. Aon has a specialist Risk Accounting Team who specialise in calculating business interruption insurance limits and preparing business interruption claims submissions. Please contact us if you would like to find out more.

Toka Tū Ake EQC - Residential Building Cap Increase

With effect from 1 October 2022, the monetary cap for the Earthquake Commission (EQC) residential building cover increased from $150,000 to $300,000 per dwelling (both excluding GST). Beginning 1 October 2022, EQC covers the first $300,000 of damage caused by earthquakes, tsunami, volcanic eruptions, hydrothermal activity and natural landslips. Private insurers cover damage above the EQC cap. This change means the Government, through EQC, is taking on a greater proportion of risk. The purpose of the increase in the cap is to ensure private insurance remains available and affordable as insurers moved to risk-based pricing for earthquakes.

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New Zealand Property Market Snapshot

Category	Outlook	Commentary
Claims	↑	**Natural catastrophe claims – New Zealand insurer cost*:** Fit the global pattern of increasing losses from extreme weather events driven by climate change and higher claims costs due to a sharp rise in the cost of construction, inflation and other factors. **2023** – $672.5 million (as of 23 March 2023, initial provisional estimates) Auckland Anniversary Weekend Floods - $320 million Cyclone Gabrielle - $352.5 million The combined impacts of these two events leave insurers dealing with the most significant weather events in NZ's recent history. **2022** - $101.8 million – **ten events** All weather-related (flood, storm, tornado, cyclone) with the exception of the Tonga January volcanic eruption and tsunami ($3.9 million). The most significant single weather-related event was the March 2022 North Island floods ($43 million). **2021** - $95 million (new record) – **ten events** All weather-related, majority flooding ($67.5 million) including West Coast flooding, West Auckland flooding and Canterbury flooding. Non-flood claims include South Island wind, storm ($20 million) South Auckland tornado ($6.2 million). **2020** - $94.6 million weather-related mainly flooding, plus $1.8 million Lake Ohau Fire – **eight events** **2019** - $37.8 million dominated by the Timaru hailstorm $23.2 million – **six events**. **Source: Insurance Council of New Zealand Data – category commercial* The New Zealand insurance industry has also experienced multiple 1-in-10-year large fire losses over the past 12-18 months.
Pricing	↑	Rate/premium increases are anticipated. Local markets have been particularly impacted by the Auckland Anniversary Weekend flooding and Cyclone Gabrielle events. In general, rate/premium increases may be circa 20%, however increases will vary depending on factors such as location, risk and past claims. An increase in valuation/sum insured will likely also increase premium.
Limits	↑	Insurer focus is on adequacy of sums insured, particularly for buildings. For some risks, policy limits are being used as a means to manage pricing and capacity. Revision of over-inflated sub-limits is also a focus – especially business interruption coverage extensions such as supplier dependencies. Natural catastrophe aggregate limits can be imposed as a way for insurers to manage exposure.
Deductibles	→	For clean risks, trading a higher deductible may assist manage a premium rate increase.
Coverage	↓	Continued focus on flood risk, insurers may seek to limit cover for some risks. Where not already applied, insurers are imposing across-the-board clarifications and exclusions, particularly related to infectious disease (although for most New Zealand policies this merely reinforces that no cover is available), silent cyber and contingent business interruption.
Capacity	↓	Capacity remains challenging in a number of areas, including Wellington region natural disaster cover, locations with higher fire risk materials or flood exposures, higher risk industries, or where there is a large increase in valuation. Insurers have increased treaty reinsurance costs and for some reduced reinsurance cover and capacity available to them. For some placements where the insurer uses facultative reinsur¬ance, some experience difficulty renewing facultative reinsurance, requiring additional time to replace capacity.
Underwriting	↑	Insurers are increasingly focusing on growing climate change challenges and risks, and the impact on risk profiles, looking very closely at regions and areas susceptible to flood or sea inundation, and imposing underwriting discipline when considering risks. There is also an increased focus on fire protection and suppression systems. Information requests continue to get ever-more detailed. Often insurers are unable to formalise quotes until all requests for detailed information and compliance with risk control recommendations are satisfied. Increasingly, as part of the required underwriting information, insurers are mandating a valuation for insurance purposes for buildings to substantiate an adequate sum insured.

Property Global Market

State of the Market

Natural catastrophe losses – including those related to Hurricanes Ian and Fiona, typhoons and heavy rainfall – inflation, asset valuations, and difficult-to-model contingent business interruption dominated insurer discussions and created complexities in a market that remained moderate to challenging. Some insurers sought to de-risk to reduce portfolio exposure.

A focus on valuations for insurance purposes continued across the market; updated replacement cost valuations were mandated and many insurers sought an explanation of historical and current valuation approaches, and imposed coverage restrictions if replacement costs were deemed inadequate.

Underwriting turn-around times remained slow, and rigorous internal scrutiny and referral processes continued. Underwriters also continued to scrutinise contingent business interruption exposures.

For most preferred risks, improved insurer performance attracted new capital, with the notable exceptions of higher-risk industries, loss-impacted programmes, or where risk management and progression was not evident.

While capacity was generally sufficient, some insurers reduced their line sizes due to the impact of valuations on overall portfolio exposures, and some higher hazard risks required more subscribers to complete.

A two-stream market emerged, with preferred risks easier to place and flat pricing achieved for some (rate increases were however typically a moderate 10%); however, risks with natural catastrophe exposure or challenging occupancy types, experienced continued upward pressure on pricing.

Alternative risk transfer solutions and higher deductibles became important levers to achieving programme goals. Complete and updated submissions – including detailed responses to recommendations – were required to achieve superior placement outcomes.

Property Global Market

Looking Ahead

In 2023, it is anticipated markets will harden. Many insurer reinsurance programmes renewed January 2023. The reinsurance market underwent a fundamental shift in pricing and risk appetite, following six years of underwhelming returns and above average catastrophe losses (capped by Hurricane Ian in late September 2022, cost circa US$53 billion), creating for insurers the most challenging reinsurance cycle in a generation. Reinsurers have moved away from frequency layers and sought to redraw the scope of property catastrophe protection with narrower coverage definitions and more excluded perils. With increased pricing and less reinsurance available, insurers are challenged in navigating these changes. The result is also possibly less capacity.

Some new capital may flow into the reinsurance market in the first quarter of 2023, attracted by the certainty of returns and improved underwriting conditions that have been established. Some insurers may re-evaluate their retained volatility in the first quarter and some may consider additional reinsurance purchases.

As a result of increased weather-related losses, insurers are focussed on paying careful attention to property portfolio weather-related risks, particularly flood. This is starting to drive premium rating and affecting deductible levels in relation to these risks. In some instances, cover is being sub-limited for weather-related claims, particularly flood. Increasingly, clients need to be able to provide loss modelling to substantiate/demonstrate their flood risk. If clients do not show insurers the actual flood risk, insurers may use a model that is not very accurate to determine capacity and limits.

Our early expectation is that market conditions will harden and rate increases of circa 10% - 15% could emerge subject to natural catastrophe influences. The trend for larger and new climate change-related natural catastrophe events means insurers will remain cautious. Inflationary increases in property valuations and sums insured, coupled with reinsurance challenges, will result in constraint in capacity from existing insurers for some risks, resulting in additional support needing to be sourced. Insurers will remain very focussed on profitability.

Detailed, accurate, up-to-date underwriting information and submissions will remain critical to achieve superior placement outcomes. (In close partnership with our Broking Teams, Aon's Global Risk Consulting Team services include loss modelling and valuation services.)

Global Property Market Snapshot

Category	Outlook	Commentary
Claims	↑	The global property insurance market continues to be strongly influenced by the impact of multiple losses arising from natural catastrophe events. Estimates are that Hurricane Ian may amount to a US$53 billion insurance event.
Pricing	↑	Rate increases should be anticipated possibly circa 10-15%, however risks with losses or natural catastrophe exposure face more significant price increases. Any increase in sum insured will increase premium.
Limits	↑	Adequacy of sums insured/limits and values declared, particularly for buildings, is a major focus of underwriters. Valuations for insurance purposes are critical. Revision of over-inflated sub-limits is also a focus – especially business interruption coverage extensions such as supplier dependencies. Natural catastrophe aggregate limits can be imposed as a way insurers manage exposure.
Deductibles	↑	Continued push for increased deductibles, particularly for accounts with attrition loss activity or natural catastrophe exposure. UK insurers generally are no longer willing to be involved in attrition losses. Imposed natural catastrophe deductibles are becoming the norm, particularly where there is high-risk exposure. Some clients not affected by these factors are trading a higher retention to manage premium rate increases.
Coverage	↓	Where not already imposed, insurers are imposing across-the-board clarifications and exclusions, particularly related to silent cyber, infectious disease and contingent business interruption. Non-damage contingent business interruption is an area of concern and focus for insurers.
Capacity	↓	With less reinsurance available, capacity may become restricted. Aon Client Treaty (ACT) ACT is a unique and compre¬hensive solution exclusive to Aon and is available to Aon clients globally across a majority of industry segments via the London Global Broking Centre Team. Global Property Facility (GPF) GPF is a line slip used exclusively for Aon international property business placed by a team within the London Global Broking Centre. It provides automatic capacity following carefully selected leading Lloyd's syndicates.
Underwriting	↑	Underwriting discipline continues to strengthen and risk controls are important to achieving favourable outcomes. High-quality risk data is required in order to obtain terms with a much more pronounced focus on climate change. It is now absolutely necessary that clients include information on what they are doing to manage climate change (previously 'nice to have'). Flood risk is an area of concern and clients need to be able to provide loss modelling to substantiate/ demonstrate their flood risk. If clients do not show insurers the actual flood risk, they may use an inaccurate model to determine limit/capacity. Recent valuations for insurance purposes are critical, to the point if they are not recent or insurers believe they are not appropriate, they will mandate increases. The impact of climate change is making pricing natural catastrophe risk more difficult, with forward-looking modelling now running alongside historical data by re-insurers.

Liability Crime

State of the Market

The market is trending upwards, at generally moderate levels. Where a risk has been previously underwritten with rigor, and no material changes, moderate increases of circa 5% are now typical. For some risks, however, where increased underwriting scrutiny determines additional risk such as increased number of employees, increases can be circa 5-15%. Insurers are also increasing minimum deductibles – typically $10,000 for a small to medium enterprise (SME) and $25,000+ for a larger organisation.

Whilst embezzlement is the main risk (most commonly the misappropriation of money by an employee), increasingly sophisticated social engineering fraud is on the rise and driven by the continued frequency and severity of loss, crime insurers are focussed on this area. Insurers have offered extensions for social engineering fraud exposure for the past five years and, where cover is included, a sub-limit generally applies. Insurers continue to evaluate their exposure and, in order to manage, in some cases are reducing sub-limits and requiring protocols authenticating payment instructions as a condition precedent to indemnity.

Typically, a crime policy includes extensions for computer fraud and wire transfer fraud, as well as social engineering. Insurers are also evaluating their cyber aggregation; with some looking to delete, exclude, or clarify cyber-related coverage. How the two policies (crime and cyber) align for certain types of losses should be considered.

Some insurers are concerned with a possible increase in crime losses emerging in the longer term, arising out of remote work from home arrangements and an increase in electronic processes as a result of COVID-19, due to the risk of controls, checks and balances not being as stringent with employees working alone.

Looking Ahead

Premiums are likely to continue to increase at similar levels with inflationary pressures affecting the base rating, with insurers also reviewing deductibles upwards especially for foreign subsidiary operations and introducing a scale of sub-limits up to usually a maximum of $250,000 for social engineering loss. Insurers are seeking to better manage capacity by imposing aggregate limits across all insuring clauses and limiting capacity to $5 million with the required limit achieved by way of coinsurance or the placement of excess layer insurance.

Crime Market Snapshot

Category	Outlook	Commentary
Claims	↑	Social engineering fraud claims are increasing in both frequency and severity.
Pricing	↑	General upward tendency minimum 5-15%.
Limits	→	Limits up to $50 million available from a limited number of insurers.
Deductibles	↑	General upward tendency, typically the minimum for a SME is $10,000 and $25,000+ for larger organisations.
Coverage	↓	Insurers are managing exposure by restricting cover terms in some areas, e.g., imposing clarification clauses in respect of social engineering and cyber losses.
Capacity	→	Access to good levels of capacity is available from a limited number of insurers; some are seeking to better manage capacity by imposing aggregate limits across all insuring clauses.
Underwriting	→	Insurers generally seek additional information in the form of auditors' reports to management and management's response in relation to controls and are increasingly focussed on social engineering fraud-related controls and processes.

Liability Directors and Officers Liability

Terminology

Side A Directors and Officers Liability insurance (D&O) provides indemnity to directors and officers for claims bought against them where they are not indemnified by their company (natural person protection);

Side B Company Reimbursement provides indemnity to the company where the company grants indemnification to its directors and officers in respect of claims brought against them (balance sheet protection);

Side C Securities Entity cover provides indemnity to the company in respect of securities claims brought against the company by security holders (balance sheet protection).

State of the Market

Internationally the D&O insurance market became softer during Q4 2022 due to an influx of new insurers and generally broader market appetite which created healthy competition and continued price improvement – especially where pricing had been significantly adjusted in 2020 and 2021.

In most instances during Q4 2022, New Zealand corporate insureds saw less immediate benefit from the softening in the global market than insureds in territories such as the USA, UK, and Australia, due to New Zealand risks' relatively low levels of premium, smaller risk size and insurance programmes in comparison. However some insureds reaped the benefit of being able to purchase higher limits and/or pricing competition from the new excess layer capacity in the London insurance market.

Commercial and SME insureds continued to experience premium increases of 5-15% due to their lower premium base.

Tips for Clients

In order to improve your renewal outcome, we recommend being proactive and, in addition to the completed proposal, providing information regarding the company's corporate governance including sustainability/ESG. We also recommend providing renewal information a minimum of four weeks prior to renewal to enable terms to be negotiated and provided in a timely manner.

The key issues directors should consider are whether coverage has separate defence costs, as well as whether there are exclusions for insolvency-related claims, cover for capital raisings, or claims by majority shareholders.

Liability Directors and Officers Liability

Looking Ahead

We are hopeful of local market conditions improving in New Zealand in 2023, as the effects of competition internationally trickle down to the local market and insurers look to both protect the portfolios they have spent the last few years remediating and become more serious regarding new business opportunities to fund their growth targets. For SME/Commercial business (for which international markets are unlikely to have interest) small incremental premium increases may continue as insurers hedge against the effects of inflation.

The longevity of the softened market conditions is a subject of some speculation (even overseas) given the long-tail nature of financial lines claims, where losses from notifications may take years to crystalise after they have been notified to insurers. Accordingly, it is possible that the softer conditions may be relatively short lived.

With the continued evolution of risk in New Zealand and internationally, understanding the coverage provided by their Directors Insurance cover should be of interest and concern to directors. Continued adequacy of the Limits of Liability (which are generally in the aggregate for this type of cover) should also be considered given the inflationary environment and general economic conditions.

Directors and Officers Liability Market Snapshot

Category	Outlook	Commentary
Claims	↑	Future claims trends expected to be influenced by: ▪ Insolvencies arising from poor economic conditions; ▪ Rising inflationary costs; ▪ Evolving ESG, climate change and cyber risks creating new areas of litigation; ▪ Active litigation funders in New Zealand; ▪ Pace of regulatory change.
Pricing	↓	Rate stabilisation for some insureds and potential for premium reductions for insureds who have previously experienced significant premium increases. Consistent results may not follow.
Limits	→	Insureds who purchase Side C cover continue to consider reducing or removing the cover entirely in order to lessen the premium spend. In respect of private companies, insureds are not considering cutting limits as the premium saving does not currently outweigh the benefits.
Deductibles	→	Expectation is that deductible levels will start to stabilise due to insurer competition.
Coverage	→	Directors and Officers coverage remains generally stable for large financially robust organisations; however, due to insurer competition some insureds may find insurers are willing to consider enhancements where they have not been willing in the past. Potential easing of insurers, current strict underwriting approach with securities offering exclusions, increasing the premium applicable for Extended Reporting Period Extensions and backdating continuity. For less robust organisations, or those in more challenging sectors, insolvency exclusions may be applied.
Capacity	↑	Whilst the primary layer markets are stable, there is now competitive competition in the excess layer market. For private companies, insurer preparedness to outlay capacity has also become more considered, and the perceived quality of the risk and industry sector play a significant part in their decision making. In respect of publicly listed companies, insurers have reduced their capacity to $10 - $15 million in order to control their loss exposure. We may see insurers look to increase their capacity as the market softens and insurers strive to maintain their market share and meet budgetary expectations.
Underwriting	↑	Approach is generally stable locally; however, new areas of interest for insurers (e.g.: Cyber, ESG, geopolitical exposure continue to join traditional concerns (e.g.: financial metrics, industry sector). In relation to Russia, Belarus and Ukraine, insurers continue to review all exposure, whether incidental or not, that insureds have to these countries. In order to undertake this review, they are requiring responses to their questions as part of the renewal process.

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Liability Employers Liability

State of the Market

Employers Liability insurance protects New Zealand employers against settlements or damages payable where an employee sues for work-related illness compensation not covered by ACC*. The policy also covers defence costs. Generally, there is a low claim frequency and quantum for insurers given the ACC system and the bar on suing for personal injury in New Zealand. Consequently, premiums are stable with plentiful capacity.

**Employers face exposure from a variety of conditions, including injury caused by occupational stress, depression, anxiety, or mental anguish; disease or infection caused by gradual process, particularly where the employer's obligation to provide a safe workplace has not been met; disease or infection caused by air conditioning systems or passive smoking; and bystander claims caused by witnessing a traumatic injury or fatality.*

Looking Ahead

The market is expected to remain stable, with nominal inflationary increases in premium of approximately 5% assuming no change in the risk.

Employers Liability Market Snapshot

Category	Outlook	Commentary
Claims	→	Stable.
Pricing	→	Stable, generally only nominal inflationary increases of approximately 5% assuming no change in risk.
Limits	→	Stable.
Deductibles	→	Stable.
Coverage	→	Stable.
Capacity	→	Stable.
Underwriting	→	Generally straightforward.

Liability General Liability

State of the Market

The General Liability insurance market remains competitive and stable, with most insurers offering reasonable limits to most business/industry sectors. Where insurers consider the risk has been correctly rated in the past, rate increases of around 5% can be expected based on similar revenue and risk profiles, and subject to satisfactory claims experience of both the insured and the business/industry sector. Insurers are reluctant to consider coverage enhancements.

Looking Ahead

Insurers increasingly require more detailed underwriting information, and time to go through the underwriting process. Businesses exporting to or conducting business in the USA may struggle to retain cover or otherwise avoid premium and retention increases or restrictions in capacity in relation to the USA exposure.

Where not already applied, insurers are seeking to apply exclusions for cyber-related and communicable disease exposures.

General Liability Market Snapshot

Category	Outlook	Commentary
Claims	→	Claims are stable; however, with the rise of class action litigation in New Zealand, some insurers are anticipating potential for increased claims (class actions) in respect of product exposures.
Pricing	↑	General upward tendency minimum 5% assuming no change in risk.
Limits	→	Limits up to $100 million generally available.
Deductibles	→	Expiring levels generally being maintained.
Coverage	→	Insurers reluctant to expand coverage.
Capacity	→	Generally available, but business sector may influence extent.
Underwriting	↑	Increased scrutiny with insurers conservative in their approach to underwriting, particularly where there is material change to the risk, e.g., business activity/claims/turnover. Some insurers are now requiring a full proposal form and additional information to be provided at each renewal, depending on business/industry sector and claims experience. Insurers require more time to go through the underwriting process.

Liability Professional Indemnity

State of the Market

The Professional Indemnity (PI) insurance market remained tight throughout the last quarter of 2022.

Small and medium-sized enterprises (SME) are proving more attractive to insurers. Premium rates are rising 7-10% on average, for clean risks as insurers seek to balance increasing reinsurance and compliance costs. Smaller professional services firms continue buying more modest limits under $5 million. Certain insurers have shifted their focus from corporate to bundled liability packages offering lower policy limits.

For larger risks, insurers continue to focus primarily on account retention rather than looking to 'grow' their books. Pricing remains under moderate upwards pressure with premium rates generally increasing at 5-10%.

Capacity is declining for design and engineering professions who require larger limits of $10 million or more, which is challenging in a climate where clients, especially Government are pushing for higher policy limits.

Competition remains weak and some insurers have been declining new business submissions due to staffing shortages (nearly all insurers are facing skill shortages, not assisted by a lack of immigration).

Some (but not yet all) local insurers are now excluding cyber coverage from PI policies following a similar move in the London market and reflecting adverse developments in Cyber loss experience. Insured's with an exposure to third party Cyber claims will benefit from seeking terms from those insurers able to resist the application of these exclusions. Alternatively, insured's should consider arranging Cyber insurance with a suitable limit.

Insurers continue to focus on reducing the size of limits they will offer. This has a cost effect as, to retain existing limits, additional support is required from new insurers who generally require more premium for their capacity.

Insurers generally have a limited appetite to underwrite specific classes of risk that are perceived to be less attractive, including:

- Real estate/valuation sectors – economic uncertainty amid uncertainty on house price stability;
- Larger technology PI risks (especially those with associated Cyber Liability risks) – increased concern over information security risk;
- Larger financial institutions – the higher risk profile includes civil claims, regulatory action and crime exposures; and
- Design and construction risks – ongoing claims severity; particularly for Lloyd's syndicates, some of whom are still grappling with the implications of the Lloyd's thematic review which identified Design/Construct and International PI as the two poorest performing classes. Some insurers anticipate more claims developing from project delays caused by supply chain issues.

There are challenges in developing capacity in overseas markets where New Zealand accounts are seen as being relatively small in a global sense. There is increased appetite being shown in London to provide cover for certain risks in New Zealand. Note however the London market is generally unable to provide cover for Cyber risks under a PI policy.

Risk Environment what has changed?

Locally based liability insurers continue to be concerned that the emergence of litigation funding in New Zealand has increased the potential for costly claims against professional advisers.

Ongoing regulatory scrutiny and investigations from organisations such as the Financial Markets Authority (FMA), Commerce Commission and Real Estate Authority (REA), continue to place some sectors such as fund managers, financial advisers and real estate agents on insurers' watch lists.

Regulatory change has affected the way financial advisers are licenced and can provide advice. There are only four local insurers who underwrite this class and they are constantly reviewing their portfolios. Premium increases and more stringent underwriting criteria typically apply, especially for those advisers with reasonable fire and general insurance income. We expect to see further refinement in appetite, breadth of coverage and pricing increases throughout 2023.

Looking Ahead

We anticipate the hardening market to continue. Risk selection and the application of more technical rating will continue to be focal points.

Increasing reinsurance costs and ongoing compliance and regulation are pushing insurance costs up, more so than overall claim performance. Insurers are becoming more internally focussed, perhaps due to increased regulatory pressures, and less agile in their ability to respond to anything outside of their standard policy offering.

Voluntarily increased excesses and a demonstration of genuine risk management policies may off-set some of the premium increases.

For some professions, the PI policy will need to be considered a catastrophe claim response tool rather than to fund smaller ground-up attrition losses.

Early engagement on renewals is highly recommended to avoid last minute log jams and surprises.

AON

Professional Indemnity Market Snapshot

Category	Outlook	Commentary
Claims	↑	Claims severity as opposed to frequency continues to be more of an issue for most professions.
Pricing	↑	Both local and, particularly, Lloyd's markets, are generally continuing to seek premium/rate increases.
Limits	→	Several insurers are looking at paring back capacity so new excess layers or co-insurance participation needs to be sought above either $5 million or $10 million.
Deductibles	↑	Increased self-insured retention can be imposed by insurers for larger risks.
Coverage	↓	Insurers are continuing to tighten coverage scope including: ▪ Some (but not all) NZ-based insurers starting to apply Cyber exclusions to PI policies. ▪ Sanctions arising out of the Ukraine war driving Russia/Belarus exclusions.
Capacity	→	Access to capacity is generally available from a limited number of insurers; some are seeking to better manage capacity by imposing aggregate limits across all insuring clauses.
Underwriting	→	Insurers will generally seek additional information on how risks are being managed (e.g., contractual obligations) and how the business is performing (e.g., fund performance data for financial institutions).

Liability Statutory Liability

State of the Market

The Statutory Liability market is generally stable, with the following exceptions:

- Firstly, the continuation of higher defence costs and reparation orders under the Health and Safety at Work Act 2015 (HSWA). The starting point for reparation orders is between $80,000 and $250,000 (depending on the injury) and for severe life-changing injuries the courts are now including the 20% of victims' wages not covered by ACC as part of the Reparation Order. Consequently, insurers are requiring premium increases and, depending on the industry and/or claims history, a higher excess is being applied for breaches of the HSWA.
- Secondly, in respect of organisations regulated by the Financial Markets Authority (FMA) and to whom the new regime for the regulation of financial advice applies, or the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) regulation changes apply, due to increased risk exposure, where cover is included, insurers are increasing premiums or imposing a higher excess or a combination of both or excluding cover altogether in response.

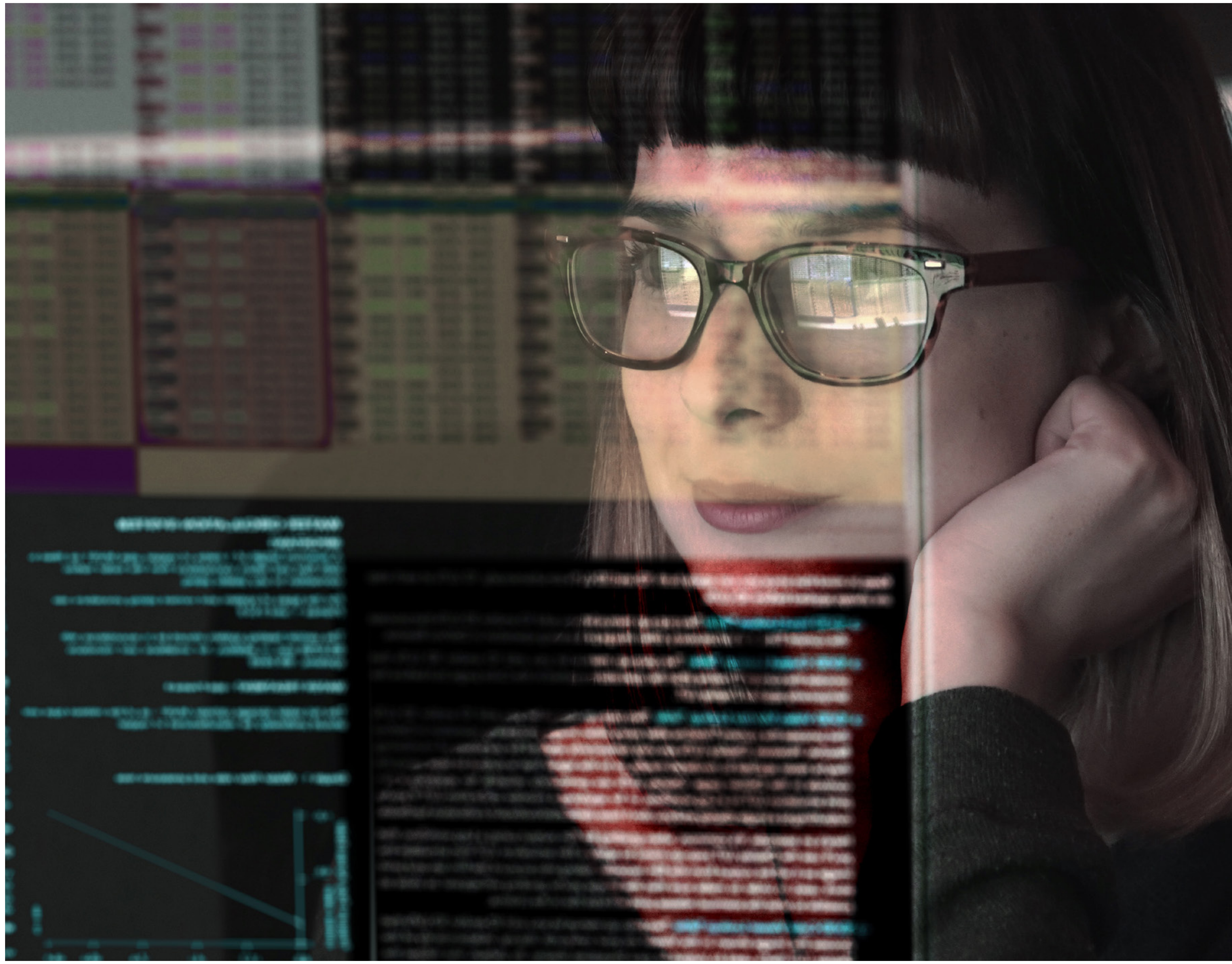
Looking Ahead

High-risk industries such as primary producers, forestry and manufacturing can expect increases in premium and retention based on both industry claims experience and their own claims experience. Organisations for whom the new FMA regime regulating financial advice applies or the AML/CFT changes apply can also expect increases in premium or retention, or a combination of both, or exclusion from cover. Insurers will require to review the applicant's latest AML/CFT audit to gain comfort around compliance in order to consider continuing to provide or offer cover. Other businesses can expect nominal inflationary premium increases in the area of 5%, assuming no material change in the risk

Statutory Liability Market Snapshot

Category	Outlook	Commentary
Claims	↑	Reparation awards are growing under the HSWA. Recent new FMA legislation applicable to the financial sector creates greater risk, and insurers may face increased claims as a result.
Pricing	↑	General upward tendency minimum 5% assuming no material change in the risk.
Limits	→	Limits up to $10 million generally available. A trend is for insureds to initiate an increase in limit with $1 million now generally viewed as a minimum.
Deductibles	→	Expiring levels generally being maintained, with a minimum of $2,500 for WorkSafe and higher for at-risk industries.
Coverage	→	No change generally, except the finance sector which is subject to recent legislation change e.g., Financial Markets (FMCA) and The Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT), where insurers are carefully considering cover provided and terms.
Capacity	→	Generally available, but the business sector may influence extent.
Underwriting	→	Generally straightforward, with the exception of at-risk industries and finance sector. Where AML/CFT cover, underwriters will require to sight audits evidencing compliance.

Cyber Risk



State of the Market

Over the last three years, an adjusted approach to underwriting cyber risk (off the back of a significant rise in cyber incident activity driven by ransomware) has seen a multitude of changes for the cyber insurance purchaser. This adjusted approach to underwriting coupled with global cyber risk conditions calming have allowed the global cyber insurance market to finally show signs of stabilisation and softening.

It should be noted that this 'softening' comes with caveats. With new and return capacity becoming available in the market we are seeing a more competitive marketplace. Despite this competition, insurer expectation and requirements for insureds to meet minimum cyber security standards remain – with risks falling below these standards still struggling to purchase meaningful cyber insurance coverage.

Further-more, general retention and premium increases experienced over recent years are unlikely to be significantly reversed. It is expected that while some softening may occur, the cyber market has reached its new level in terms of premium benchmarks and retention expectations.

In New Zealand, we see the continuation of a disjointed marketplace with small business continuing to enjoy stable and low-cost cyber insurance options (without significant underwriting rigour). Mid-market and corporate risks face quite different market conditions more in line with global trends which are slowly filtering through to New Zealand insurers.

Looking Ahead

Initiatives introduced by many insurers (such as ransomware restrictions, widespread event limits, etc) are now common across a number of cyber insurance policies. With a levelling out of the cyber risk landscape and insurers gaining a better understanding of risk controls and process, there is a greater opportunity and clarity of action required for an organisation to improve their cyber posture to relax or remove these restrictions. This shift towards entities being somewhat in control of their coverage continues to develop as a market softening plays out.

Cyber insurance submissions require a substantial amount of information before underwriters will consider providing terms. In addition to presenting good information to underwriters, the openness of organisations to take on feedback from underwriters regarding risk aspect concerns and their potential remediation will aid in exhibiting a desired attitude toward cyber security.

With each cyber incident, underwriters gain a greater understanding of cyber risk and its potential cost. It is clear that underwriters focus on an organisation's overall cyber security posture, specifically minimum cyber security measures, i.e., multi-factor authentication, encryption of data storage, tested business continuity plans, and employee training when reviewing the insurability of a risk. It is vital for organisations to present a clear and comprehensive summary of their cyber security maturity level to underwriters during this period of market softening to secure favourable coverage, pricing and deductibles.

As experienced in the recent past, cyber risk is a dynamic area with rapid change a persistent possibility. Forward-looking insurers and market commentary remains focussed on a number of factors which could drive future change to the cyber insurance marketplace (including any resolution of geopolitical tension, zero-day vulnerabilities, cyber control circumvention, etc).

In terms of demand for cyber insurance solutions for those who do not yet have cover, the two significant breaches experienced late last year in Australia (Optus & MediBank) have stimulated significant interest from both governance and management across many different business communities. The "close to home" incidents have further underlined the threat New Zealand businesses are faced by, as well as highlighting responsibilities around understanding and mitigating potential cyber risk.

Managing Cyber Risk

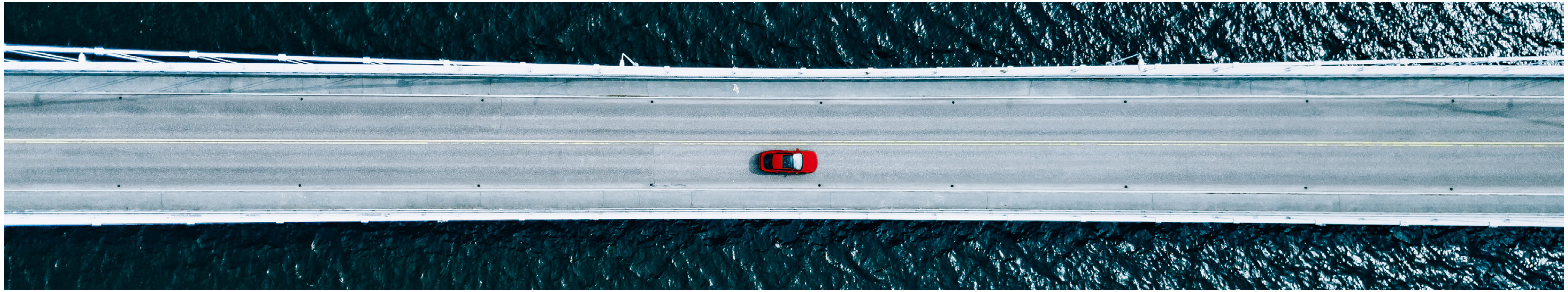
Your organisation is facing the most challenging cyber threat landscape yet experienced. Cyber insurance is just part of the solution.

Aon's Cyber Loop is our risk management model that unites stakeholders to make better decisions around cyber risk. Aon understands that there is nothing linear about cyber security, it is a circular process, and this is the guiding principle of our model. Through our model, organisations become informed participants in managing cyber risk, engaged in continuous review, improvement, and investment in security – guided by data. You can find out here more about the Aon Cyber Loop here.

Cyber Risk Market Snapshot

Category	Outlook	Commentary
Claims	→	Incident occurrences have stabilised which can be attributed to a general uplift in cyber security controls globally as well as a shift in focus of larger bad actor communities.
Pricing	→	Pricing is expected to remain relatively flat (or minimal increases) – this is applicable for risks with cyber insurance controls which meet insurer/ industry requirements and expectations.
Limits	↑	Clients' better understanding of cyber security risks and the cost of a disruption, including incident management costs, has translated into increased limits. Aon anticipates that this will continue throughout 2023, with clients looking to tailored limit adequacy engagements (such as risk workshops) in order to support cyber insurance purchasing decisions, validate premium spend, and ensure alignment with their overall risk transfer strategy.
Deductibles	→	The previous 2-3 years of retention adjustments have generally impacted most cyber insurance buyers with this new level of standard retention now remaining stable.
Coverage	→	Where a risk meets minimum underwriting criteria, coverage remains stable. Where clients have deficiencies in controls and processes, restrictions to coverage (particularly ransomware) are still largely enforced. Conversely, clients who have improved from a deficient standpoint to now meeting minimum criteria are eligible for coverage restrictions to be removed.
Capacity	↑	With the global cyber insurance market reaching a new baseline, new and returning capacity has become available within the market.
Underwriting	↑	With ever-increasing cognisance, insurers are increasing their scrutiny of organisations' overall cyber¬security posture and, in some instances, specific cyber security measures, e.g., multi-factor authentication. The key to accessing competitive pricing and coverage terms is the ability to present a quality underwriting submission that is comprehensive and well-structured and showcases the organisation's cyber security maturity level.

Motor Vehicle



State of the Market

Market conditions remain moderate. Supply chain challenges, inflationary pressures and the increasing level of technology in vehicles, continue to lead to increased repair and claims costs which in turn are driving premiums up. Insurers are also factoring in claims inflationary increases.

Good performing fleets have typically seen premium increases, but at the lower end of the scale. Commercial motor fleet premiums will always be driven by their own claims performance.

Fleet risk management, including Insureds' use of vehicle safety technologies, including telematics, has become increasingly important to the underwriting process.

Due to the high individual value of some heavy motor vehicle combinations (truck and trailer), there continues to be limited insurer options for heavy motor fleets.

Looking Ahead

Inflationary pressures are expected to continue to impact loss costs. Motor insurers have experienced increased claims resulting from the recent extreme weather events. Replacement vehicles may become more difficult to source and affect the ability of insurers to service claims. There continues to be a greater focus on achieving technical rating and the use of risk modelling.

We anticipate insurers will continue to look for increases across the board, particularly when a fleet increases in size. Good loss ratios (claims to premium) give insureds' the best opportunity to secure closer to expiring rates, assuming no change in risk profile.

Some insurers are forecasting 15% base premium increases before consideration of individual claims performance.

AON

Motor Vehicle Market Snapshot

Category	Outlook	Commentary
Claims	↑	The cost of claims is increasing due to inflation, the level of technology in vehicles, and the associated increased repair cost. There has also recently been an increase in claims resulting from the recent extreme weather events. Supply chain issues for parts can result in either increased cost, or delay in the ability to get a vehicle repaired.
Pricing	↑	Insurers are looking for inflationary premium increases, including for good performing fleets. Good fleet risk management to reduce accidents and claims costs is key to managing premium cost.
Limits	→	Stable.
Deductibles	→	Can be used by an insured as a way to manage the overall cost of motor vehicle accidents. For poor performing fleets, insurers may impose higher required deductibles.
Coverage	→	Stable.
Capacity	→	Stable.
Underwriting	→	Providing fleet risk management information including use of vehicle safety technologies including telematics, can assist in achieving a better renewal outcome, particularly if there have been improvements resulting from a poor claims history/loss ratio.

Aviation

State of the Market

At the beginning of 2022, the aviation insurance industry was upbeat, and the general opinion was the hard market cycle and pandemic related issues were in the past. However, new challenges have arisen from the impacts of inflation and navigating the legal, social and commercial issues of potentially the largest claim (for particular classes) to the market as a result of the Russia and Ukraine conflict.

Inflation is a concern for insurers as they need to consider economic trends whilst also managing their capitalisation position, to ensure they have adequate reserves to meet claims.

Insurers are also facing expanding claims costs due to increased use of composite materials in aircraft manufacturing, when compared to alloy bodied aircraft. as well as increasing Litigation costs are also on the rise due to broader definitions of liability and claimant friendly legal awards (particularly in the USA).

Reinsurance is becoming more expensive, not only because of Aviation specific issues and inflationary trends, but also because of the extreme weather events. These events have contributed to increased claims costs as has the complex situation created by total losses being claimed by lessors of aircraft stranded in Russia estimated to be worth US$10 billion. The magnitude of these losses should they crystalise, will have a huge impact on Aviation insurers who previously envisaged a worst-case war loss of a small number of planes; however, the scale of the situation in Russia has far outstripped probable maximum loss scenarios.

The Hull War market was initially concerned with aircraft being stranded and possibly lost within Ukraine and the potential for the losses being many times higher than the premium for the entire Hull War market. Hull War insurers reacted quickly by doubling rates, applying changes to cover, reducing aggregate limits on policies and deleting non-cancellable clauses. This reaction has proved to be minor compared to the threat of claims for the fleet of leased aircraft being operated in Russia.

The General Aviation sector, which is made up of corporate business jets, rotor wing aircraft, industrial aid, air ambulances, small commercial operators and private pilots has fared better than the airline industries in recovering more quickly post COVID-19; however, projections indicate continued business growth across General Aviation.

The Aerospace sector which is made up of maintenance, repair and operations (MROs), airports and regulators, was experiencing an abundance of capacity and competition until November 2022 when the reserve from the Boeing Max loss was updated and increased by circa US$1 billion taking it over US$3 billion. Unlike the Russia and Ukraine conflict, this loss only affects the Aerospace sector and is therefore likely to have a direct impact on pricing and cover.

In the current uncertain market we are seeing a wide range of outcomes. This pattern is expected to continue for some time.

Aviation

Looking Ahead

Uncertainty in the Aviation market due to higher reinsurance costs mean the market will continue to face challenges and possible capacity reductions due to a rising cost of business. The Russia and Ukraine conflict and the Boeing Max loss may have a profound impact on the direction of the aviation market in 2023.

Early engagement with markets and the provision of detailed risk information will achieve better outcomes.

Aviation Market Snapshot

Category	Outlook	Commentary
Claims	↑	Cost of aircraft claims continue to rise due to increased use of composite materials, labour costs and manufacturer parts supply. Claims taking longer to settle because of less availability of parts from offshore manufacturers and delays in transit times. Insurers are analysing claims histories over a longer period of five years. Potential for significant claims if policies are triggered, arising out of foreign-owned aircraft stranded in Russia which have been nationalised. Situation complex, uncertain and unprecedented. Greatest risk for the London insurance market.
Pricing	→	Stability had been returning with a more favourable buying environment for clients with favourable risk profiles; however, the Hull War market has reacted quickly with significant premium increases in reaction to the Ukraine/Russia situation.
Limits	→	Stable; however, polices with large limits may require multiple insurer participation which can add pressure on pricing.
Deductibles	→	Stable for low claims accounts. For accounts with claims history, higher standard deductibles apply, or higher deductibles for specific pilots/claims scenarios.
Coverage	↓	Insurers continue to challenge non-standard coverage enhancements provided in the softer market conditions.
Capacity	→	Local markets based in New Zealand and Australia show some signs of increased capacity for some risks; however this may change.
Underwriting	↑	Insurers maintain a strict approach to underwriting with detailed underwriting information required. Increased scrutiny on the declared values of aircraft and claim payments have highlighted a general issue of values declared often being too low.

Construction Contract Works

State of the Market

The construction insurance market remains challenging, with continued close scrutiny of underwriting coupled with a tightening risk appetite means insureds must retain more risk themselves. As a result of the recent New Zealand weather events, the status of a site in relation to each event needs to be provided in addition to site-specific flood risk analysis and details.

Policy coverage restrictions have stabilised for the time being (three of the main contract works insurers in New Zealand having confirmed they do not have any appetite for offering LEG3/06 Defects exclusion coverage) as have premium and excess increases.

Looking Ahead

It is expected to be more of the same, however, larger projects that require capacity from overseas insurers to complete the placement could see more punitive terms being applied. It is likely that any restriction in cover will apply to the entire placement.

As a result of the recent extreme weather events, it is our prediction that New Zealand markets will look to introduce separate and higher flood claim deductibles and on large projects, they could look to follow the international market trend of 'flood' forming part of the Natural Disaster perils definition. If this occurs then a value at risk of time of loss (VAROL) deductible would apply to flood claims as it currently does for earthquake claims.

Contract Works Market Snapshot

Category	Outlook	Commentary
Claims	↑	Large (complex) claims activity on large projects with the risk of fire (again) and now flood firmly on the radar given recent flood losses. Normal activity on all other projects – generally defects and theft.
Pricing	↑	Pressure remains on premium levels and rates.
Limits	↓	Trending downwards and needs to be watched and managed on very large projects to ensure there is sufficient capacity to complete placement.
Deductibles	→	Pressure on deductibles remains, particularly for larger projects where minimums will apply. Insurers (driven by offshore markets) also looking to apply increased deductibles for water damage, performance testing, and maintenance period claims. More recently, we have seen 'flood' being added to the definition of Natural Disaster perils.
Coverage	→	Current market conditions remain, particularly regarding little insurer appetite for LEG3/06 Defects exclusion coverage and sub-limits, and other extensions are under scrutiny. Insurer expectations around hot work procedures and permits remain and, in many cases, conditions will be added to the policy to enforce them. All insurers introduced in 2022 a Sanctions Clause, Communicable Disease Exclusion and Cyber and Data restrictions and as the exclusions are applied by re-insurers, this often makes the application of the exclusion and their format non-negotiable.
Capacity	↓	Trending downwards and noting that access points into insurers are now also more centralised.
Underwriting	↑	Increased scrutiny and information requirements.

Construction Liability

State of the Market

Public Liability

There is less pressure on public liability rates and minimum excesses are being applied. The focus remains on products and, in particular, where products are procured from, as well as the quality assurance process they undergo. Defective product cover is becoming extremely restrictive, and there will probably be further application of non-conforming product exclusions – we are, however, yet to see a blanket approach to this.

Professional Indemnity

Professional Indemnity insurance was one of the hardest hit classes of insurance following the Lloyd's Thematic review, with construction project professional indemnity insurance significantly affected. Many insurers have completely withdrawn from underwriting these risks, with some syndicates closing permanently. Locally, we have seen a push for negligence-based policy coverage (rather than wider civil liability coverage) and, in general, insurers are being more selective of the risks they underwrite. Non-conforming materials exclusions are present. Project-specific professional indemnity insurance remains difficult to procure (especially for Alliances) and significantly more expensive to obtain where it can be, with real restrictions on the extent of limits available. Insurers expectations around level of excesses remains.

Directors and Officers

The insurers approach to Directors and Officers liability insurance for construction companies remains very cautious and is largely driven by insolvencies. There is a reluctance to either increase a policy limit beyond what is currently purchased or offer terms on new business. Full financial accounts and statements are required as part of the underwriting submission.

Looking Ahead

No real change from the 2022 market conditions. Each of the above classes of insurance has its own pinch points, and careful navigation (including adequate time) is required in order to achieve the best outcome.

Construction Liability Market Snapshot

Category	Outlook	Commentary
Claims	↑	Claim activity remains steady across all lines with some legacy large Professional Indemnity and Directors and Officers claims being worked through by insurers.
Pricing	↑	Pressure remains on premium levels and rates; however leaning towards more stable.
Limits	→	Other than Alliance Professional Indemnity and Single Project Professional Indemnity, there is generally adequate capacity for all other annual insurance requirements.
Deductibles	→	Insurers have made their immediate corrections.
Coverage	↓	Across all policies, we have seen insurers make their immediate corrections.
Capacity	→	Fairly static, other than Alliance Professional Indemnity and Single Project Professional Indemnity insurance which is above $20 million.
Underwriting	→	Fairly static, however, given the state of the market, additional risk mitigation information should be considered and provided to aid discussion and negotiation (i.e., in relation to flood risk).

Marine Cargo

State of the Market

Markets continue to be concerned with supply chain disruption and the aggregated cargo values at ports and interchange points. Losses are also continuing for ships losing containers overboard, as well as fires on board container ships.

As the situation in and around Ukraine continues to evolve, markets are issuing full exclusions for shipments to/from and within Russia, Ukraine and Belarus, and they are no longer just excluding the War and Strikes, Riots and Civil Commotion perils from these areas and surrounding waters. Multinational programmes with local policies are excluding these countries and all available contingent coverages from the Master Policy, and the master underwriter is providing no assistance in replacing local policies in these areas. This is a fluid situation, and we expect more markets to move towards tighter coverage restrictions for shipments to/from and within the region as the conflict continues.

Cyclone Gabrielle, and other cyclones being experienced worldwide, have forced underwriters and their management to heavily scrutinize risks in catastrophe exposed areas, as well as the unfolding claims situation.

Additionally, whilst social inflation increases the cost of materials, labour and human capital as a whole, we still don't fully understand how this will impact on premiums in the Marine industry.

For accounts with good loss experience, pricing remains competitive. For accounts with poor claim records, we are seeing increases of over 10%, with some premium consideration being given for increased deductibles.

Looking Ahead

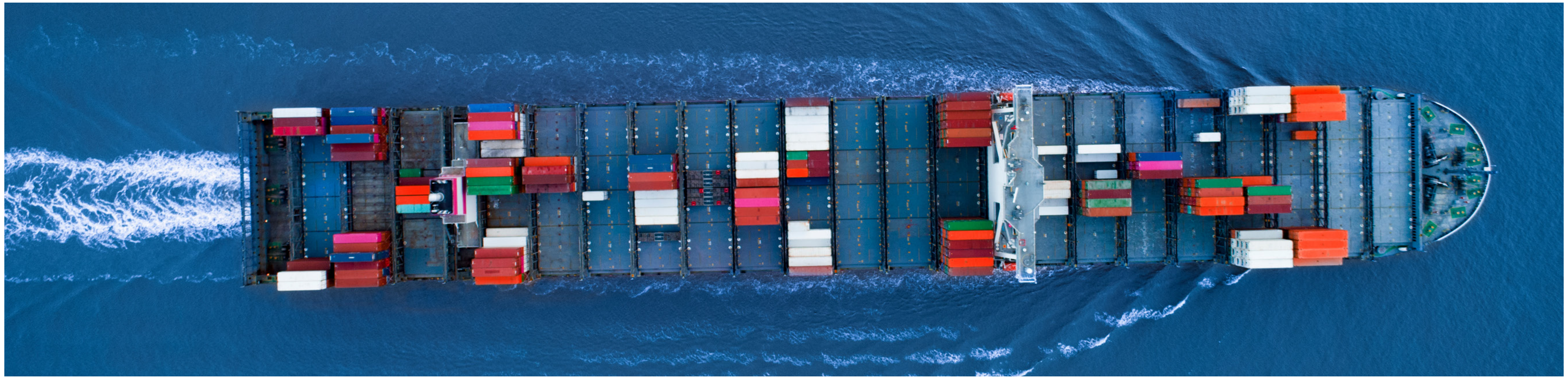
While the factors above are real and need to be considered as we think about future forecasting, there is a level of optimism that new Australian and London capacity that has entered the marketplace will keep pressure on rates in the short term, so that the immediate impact of the above events will only have a marginal impact on the market for the year ahead.

It must be kept in mind, however, that the long-term impact of these events and the ability for newer marine capacity to remain profitable will all dictate the long-term health of the marine market.

Marine Cargo Market Snapshot

Category	Outlook	Commentary
Claims	→	Whist working cargo losses appear to be under control, there have been a couple of large General Average cargo claims that have impacted on a number of Marine insurers.
Pricing	→	For accounts with good loss experience, pricing remains competitive, accounts with poor claim records, typically price increases of over 10%.
Limits	→	Policy sub-limits are being more regularly used to manage pricing with increased sub-limits coming at a cost.
Deductibles	→	Deductible limits should be assessed on a case-by-case basis in order to influence markets. Aggregate deductibles remain one of the cost-effective methods of managing premiums for larger cargo accounts. Some premium consideration is being given for increased deductibles.
Coverage	↓	Insurers are imposing Cyber and COVID-19/communicable diseases exclusions on all cargo policies. War exclusions are also being imposed on policies that have exposure to the Ukraine and Russia conflict.
Capacity	↑	There is renewed interest in the New Zealand market from Australian and London markets, resulting in increased capacity.

Marine Commercial Hull



State of the Market

Whilst insurers remain cautious in their approach to Commercial Hull business, we are seeing increased support from Australian insurers and Underwriting Agencies providing viable alternative markets for singletons, doubletons, and fleets. This has been a welcome relief in what has previously been an extremely restrictive market, and we are hopeful this additional capacity will assist in bringing balance to the sector.

In relation to Pleasure craft, Cyclone Gabrielle has further exacerbated a hard market, and we are experiencing challenges placing vessels on swing moorings, as well as seeing premium increases being applied on moored craft. Blue water appetite also remains limited and fewer carriers will consider writing this class of business.

Looking Ahead

For Commercial Hull and Pleasure Craft, claims inflation was first mooted in mid-2022 as having the potential to increase the cost of individual losses due to economic inflation, delays in supply chains, availability of repair yards, and the volatile cost of labour and materials including steel. While insurers have tried to build this into pricing, this has not really materialised and neither has the resultant impact on claims.

We forecast that that pricing in relation to Commercial Hull will remain stable; however, increases on Pleasure Craft are still being sought by insurers due to the limited number of available markets.

Marine Commercial Hull Market Snapshot

Category	Outlook	Commentary
Claims	↑	Feedback from local insurers is that their Commercial Hull and Pleasure Craft portfolios continue to challenge their profitability.
Pricing	→	Excess structures, such as Additional Machinery Deductibles (AMDs), should be reviewed on a case-by-case basis, as they can be used to influence markets and pricing.
Limits	→	For existing accounts that have a high standard of risk management, insurers are willing to accept increased fleet values (i.e., additional vessels, increased sums insured due to refits).
Deductibles	→	Excess structures, such as Additional Machinery Deductibles (AMDs), should be reviewed on a case-by-case basis, as they can be used to influence markets and pricing.
Coverage	↓	In line with their treaty reinsurance requirements, insurers are imposing Cyber and COVID-19/communicable disease exclusions on all policies, as well as removing/restricting Additional Perils cover for older vessels or those with a low standard of maintenance.
Capacity	→	Whilst capacity for Pleasure Craft continues to be limited, we are seeing increased support from overseas insurers for good performing Commercial Hull accounts.

Marine Protection and Indemnity

State of the Market

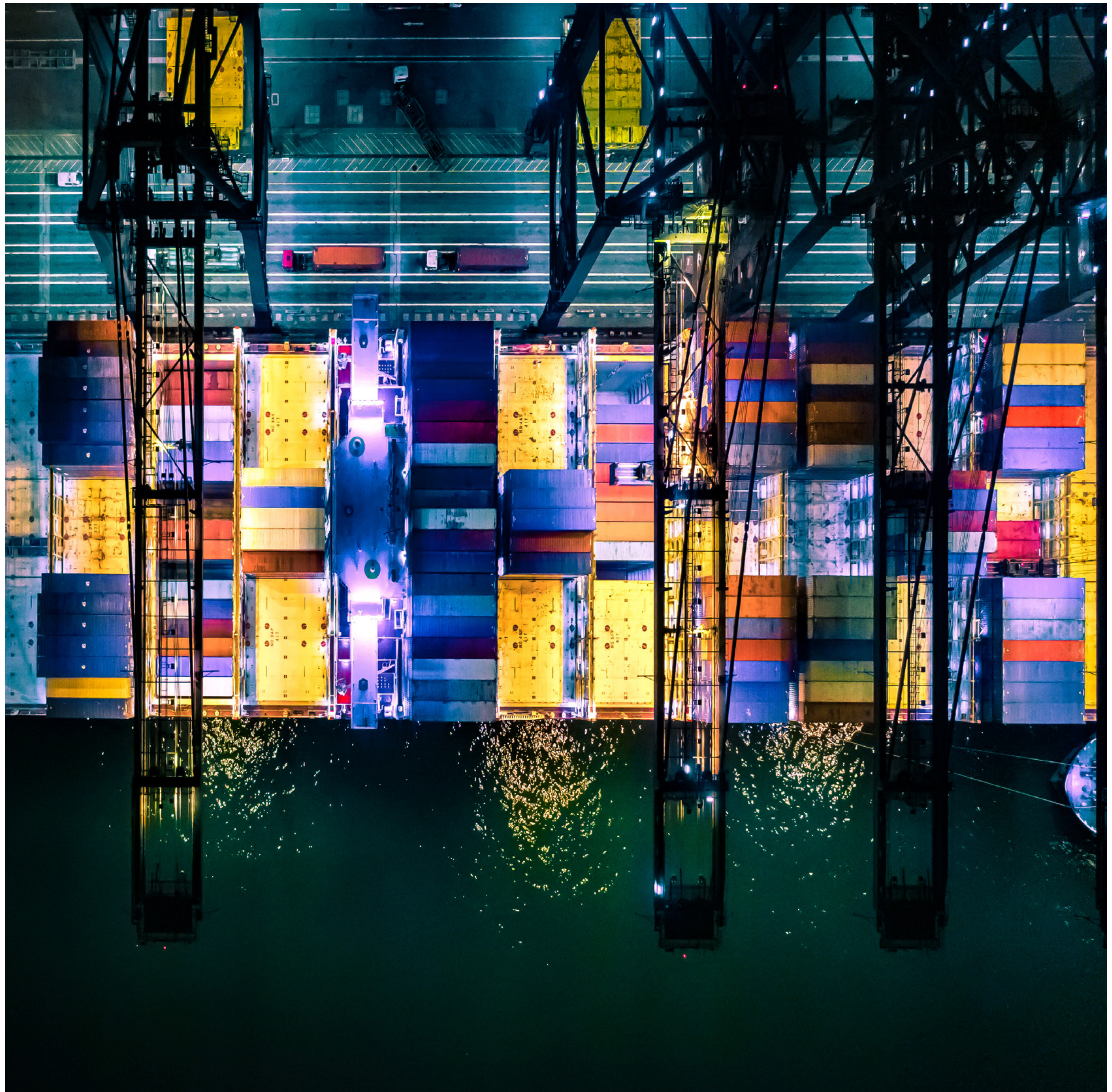
In 2022, Protection and Indemnity Clubs announced general increases in the +7.5% to +12.5% range as a result of some meaningful investment losses as well as an anticipated return to more normal pool years and the impact of claims inflation.

It is expected that these increases will continue to improve the Mutuals combined ratio and assist to rebuild their balance sheets after years of underwriting losses and poor investment returns.

Lastly, the merger between North of England and Standard Club has been approved by members and regulators and took effect 20 February 2023.

Looking Ahead

2022 was a challenging year for rate increases imposed by Clubs, and whilst undoubtably some head winds are still to come, we expect it is unlikely that blanket double-digit increases will be repeated at 2023 renewals, and a more measured approach will be taken by Clubs as the previous year's rate increases flow onto their balance sheets.

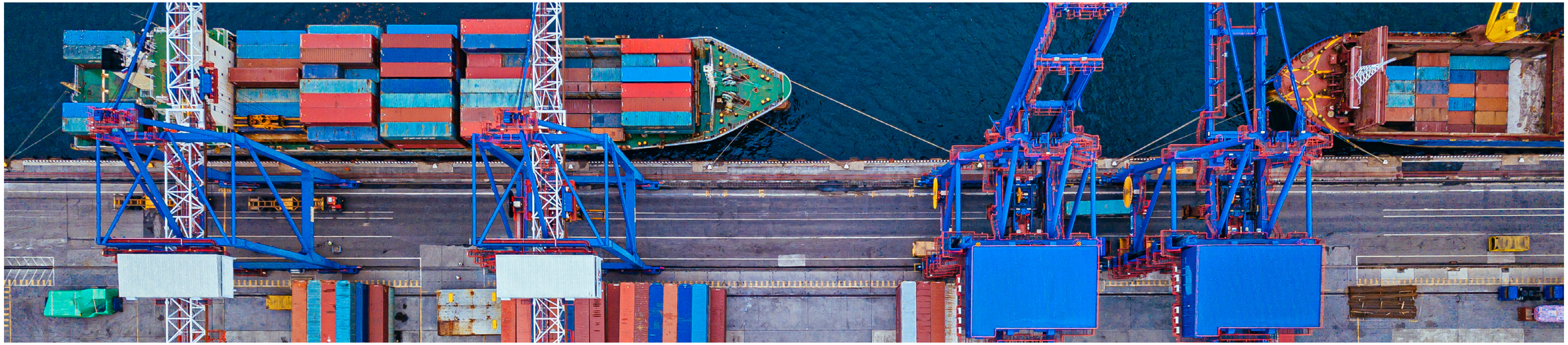


Marine Protection and Indemnity Market Snapshot

Category	Outlook	Commentary
Claims	↑	The rise in pool claims indicates continued challenges for the Clubs driven by large losses and further potential pressure on the group reinsurance.
Pricing	↑	Due to losses, rates will continue to rise over the coming years with Clubs taking a firm line on general increases.
Limits	→	With many Clubs remaining above Standard and Poor's capital requirements, we expect limits to remain stable.
Coverage	→	With many Clubs remaining above Standard and Poor's capital requirements, we expect coverage to remain stable.
Capacity	→	Despite some Clubs taking a reduction in capital, many remain comfortably above Standard and Poor's AAA capital adequacy model. They, therefore, can sustain some challenging years without undermining their core financial strength.

Marine Liability

Ports and Terminals Operations, Ship Repairers and Marina Operators



State of the Market

Ports and Terminals markets are facing uncertain times with a number of challenges facing underwriters including poor claims performance, economic and social inflation and a badly hit reinsurance market following a number of hurricanes. We are therefore anticipating a re-hardening of the Ports and Terminal market, and are expecting to see rate rises remaining close to double digits on an unchanged exposure basis. Insurers do remain open to underwriting other marine liability products such as Ship Repairers Liability and Marina Operators Liability, with a greater focus on risk information and clients implementing robust terms and conditions in order to limit liability.

Looking Ahead

The London market will continue to scrutinise underwriting results; and due to ongoing performance challenges, we are expecting to see rate rises of between 7.5%-10% on accounts where there are no material changes. This is expected to continue for the rest of 2023, although new capacity has started to enter the London market and whilst they are ensuring they don't undercut the market, portfolio growth needs to be achieved which we hope will hope will introduce competitive market tension.

In relation to Ship Repairers Liability and Marina Operators Liability, it is expected that pricing and risk appetite from local insurers will remain stable as these product lines are often written in support of their Cargo and Hull portfolios.

Marine Liability Ports and Terminals Operations, Ship Repairers and Marina Operators Market Snapshot

Category	Outlook	Commentary
Claims	→	Ongoing claims continue to drive loss ratios globally, however, we are not seeing the impact of this in New Zealand.
Pricing	→	Insurers are still willing to negotiate on increases for long-standing clients.
Limits	→	Limits remain stable.
Deductibles	→	Deductibles remain stable.
Coverage	↓	Insurers are imposing cyber and COVID-19/communicable diseases exclusion on all policies.
Capacity	→	Overall, capacity remains stable, especially on excess layers where insurers are a distance away from any working losses.

Trade Credit

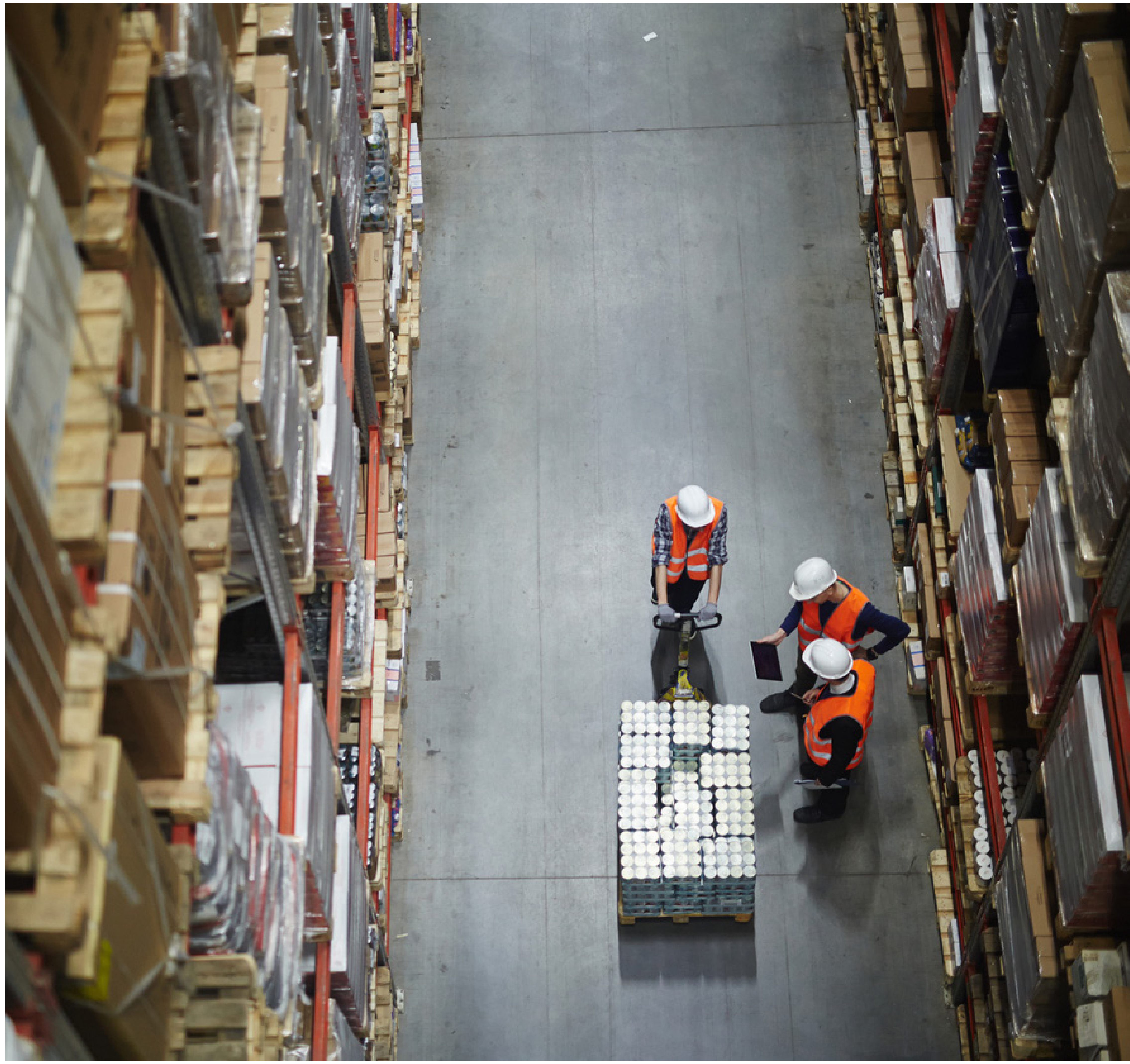
State of the Market

We continue to see businesses focussed on mitigating credit risk, largely due to the risk of non-payment from overseas markets impacted by COVID-19, local businesses challenged by supply chain disruptions, increased inflation and recent weather events. This is particularly noticeable in the construction sector, where recent insolvencies have occurred in New Zealand (Jackso Civil, Alutech Windows). An increase in debt collection cases (a pre-curser to insolvency claims) have emerged in Q1 2023. Further, the Ukraine and Russia conflict has created supply chain problems, where businesses (primarily in the EU manufacturing and auto sectors) find it difficult to source inputs necessary for the production process.

Premium rate increases have subsided with domestic insolvency claims still at low levels. Insurer appetite has returned with credit limit acceptance rates back to pre-crisis levels. New business preferences have been in sectors such as food and beverage, agri-food, pharmaceuticals, chemicals, software and IT services.

Looking Ahead

Insurers have 'weathered the storm' reasonably well and have recently focussed on resuming new business in targeted sectors. Core whole of turnover policies remain their preferred approach to taking up new clients, to ensure they have a spread of risk across a pool of debtors. We anticipate continued demand for trade credit insurance to support financing, particularly where a bespoke policy structure can aid lenders to improve their capital relief position, positively impacting borrowing costs.



Trade Credit Market Snapshot

Category	Outlook	Commentary
Claims	↑	Business insolvency levels are expected to show a material increase in 2023.
Pricing	→	Premium rate increases have subsided as claims were artificially much lower in 2021 and 2022 than expected.
Limits	→	Policy limits have remained consistent.
Deductibles	→	Deductibles have remained consistent.
Coverage	→	Policy cover has remained consistent although insurers have withdrawn limits in Ukraine and Russia.
Capacity	→	Capacity remains available for most sectors, except construction.
Underwriting	↑	Credit limit acceptance rates have returned to pre-crisis levels; however, insurers are requiring more transparency around buyer financials.

Travel - Business

State of the Market

Since the easing of border restrictions in 2022, international travel has continued to rebound with increases observed in nearly every month of the year. January 2023 was the first month to see over 1 million border crossings since COVID-19 related border and travel restrictions were first introduced. Stats NZ Tatauranga Aotearoa advises that the number of crossings in January are two-thirds of the 1.5 million that travelled pre-pandemic. The return to of international travel along with the prerequisite by certain countries to have travel insurance that includes medical cover for COVID-19 in order to obtain a visa or enter the country has resulted in a rapid return in travel insurance policy uptake. In addition, we continue to see an increased volume of insurance claims as a result of the challenges facing airlines and associated costs with delayed or cancelled travel arrangements or missing or delayed baggage.

Insurers remain cautious when writing group travel risks due to the rapid infection potential of COVID-19. Compared with multiple policyholders travelling to various destinations individually, the potential total costs of an entire group travelling together and contracting COVID-19 is more of a concern to underwriters and commonly results in imposed sub-limited restrictions for COVID-19 cover. In addition, we're seeing stricter underwriting criteria applied to both business and leisure travellers with more information required about both the traveller and destinations than prior to COVID-19.

The insurers used by Aon New Zealand for Business Travel provide cover for specific perils relating to COVID-19 for Loss of Deposits, Cancellation and Disruption and continue to cover medical expenses incurred from contracting COVID-19, which has been in place since mid-April 2020. It is important to note that no cover is available for claims arising from any lockdowns, changes in government alert levels, quarantine or mandatory isolation requirements from our business travel insurance partners and, in addition, there is no coverage for events resulting from travelling against the New Zealand Government's advice or against local government advice at the overseas destination. All travellers are encouraged to familiarise themselves with the Safe Travel website for up-to-date information regarding their destination.

The costs associated with travel insurance including medical treatment, reinsurance, inflation and medical evacuations have all risen, and are expected to continue to rise. As such, this has resulted in increases to premium base rates across the market which it is anticipated will continue for the near future.

Travel - Business

Looking Ahead

We have seen a return of cover, albeit still very limited, for loss of deposit/cancellation/disruption for COVID-19. Current sanctions in place for Belarus, Russia and Ukraine mean travel to these destinations will continue to remain outside of underwriting appetite while the conflict continues, and sanctions remain in place.

The increase in both business and leisure travel over the coming months and years will see a return to a more sustainable premium pool; however, insurers are likely to monitor any claims and losses very closely before looking to extend coverage further.

The legislative/regulatory environment has increased the evidence required for travel claims, whether they're medical or baggage related. Airlines continue to experience delays in responding to queries which further exacerbates the timeliness of resolving travel claims. Aon's partners are advising processing timeframes of 20-30 business days, so it is important to provide complete evidence or supporting documentation when lodging a claim to assist with these timeframes. Insurers are also guided by stricter processes when reviewing claims and the absence of supporting evidence will likely see claims, or portions of a claim, declined.

Travel - Business Market Snapshot

Category	Outlook	Commentary
Claims	↑	With an increase in travel activity, combined with lessened availability of transport route options and increased costs associated with travel, claim quantum potential is higher than pre COVID-19 occurrences. Claims volumes have increased significantly since mid-2022 and this in turn has impacted processing time, which now sits around 20-30 business days and the requirement for supporting evidence for all parts of a travel claim.
Pricing	↑	Premiums are increasing due to insurer increasing costs associated with claims (including medical treatment and medical evacuations), inflation and reinsurance.
Limits	→	Policy limits have remained relatively constant, with the exception of COVID-19 medical costs occasionally being sub-limited, especially in group travel situations.
Deductibles	→	In most instances, deductibles remain low or are not applicable market wide which is consistent with this product line historically. We are unlikely to see a major change to these in the near future.
Coverage	→	Policy coverage for business-as-usual losses have remained generally unchanged. Coverage restrictions will impact clients when losses arise from COVID-19-related issues such as changes to border restrictions, quarantine or isolation requirements.
Capacity	→	The travel insurance market continues to be affected by the COVID-19 pandemic with higher scrutiny within the product line providing some hurdles to maintaining capacity. Changes in some insurers' underwriting criteria have further tightened capacity, in particular, for private leisure travel for some providers, and group travel risks.
Underwriting	↓	Further limitations have been applied to incidental private travel within Business travel policies and additional underwriting information may be required to purchase this extension that is only available on a case-by-case basis. Local underwriting approaches have tightened, and caution applied to group risk profiles.

Aon Advice to Clients

Exploring Alternatives May Help You Achieve Flexibility and Price Relief

Traditional risk transfer continues to play a vital role in achieve risk management objectives. However, in challenging markets and risk situations where capacity is limited, alternatives may provide greater flexibility and some pricing relief. Partner with your Aon Team to analyse your losses and risk profile and explore which alternatives to traditional risk transfer solutions may be a good fit for your risk management strategy (e.g., alternative retention and limit strategies, captives, parametric triggers, large limit facilities such as the Aon Client Treaty as well as programme ventilation – taking more risk to the balance sheet and choosing not to use risk transfer e.g., selective asset self-insurance.)

Where traditional insurance is the best option, partner with capital providers who may be willing to evaluate your risk on an enterprise level, making you less susceptible to appetite contraction on your lower-performing risk types.

Proactive and Robust Engagement Builds Insurer Confidence

Partner with insurers throughout the year to build strategic relationships and bring them along on your journey so there are no surprises at renewal. Even with continuous engagement, it remains important to start renewal planning early by conducting incumbent meetings to preview appetite and pricing, and analysing data to evaluate market alternatives and explore viability.

Be forthright in providing comprehensive underwriting information – especially related to risk control and mitigation practices and actions you have taken from past recommendations – but create discussion agendas that are focused on your differentiated strengths and key concerns. Highlight lessons you have learned from past claims, and actions you are taking to build resilience. Risk selection is a top insurer priority; engaging early and providing robust information will help to secure underwriter attention and responsiveness, and ultimately achieve superior results.

Quantify Your Risk to Help Avoid Potential Gaps

Asset valuation remains a top insurer priority. Remain vigilant in managing your asset valuations and coverage (sub) limits to avoid gaps. Address inflation as well as other factors such as supply chain and contractor relationships that may impact recovery and indemnity periods. Describe your valuation methodologies in detail. Insurer confidence in your approach will not only reduce time-consuming follow-up queries but also results in superior pricing outcomes.

While Property valuations have been in the spotlight recently, it is equally important to work with your Aon Team to conduct quantitative assessments of your liability exposures and limits, taking into account not just revenue but also changes in your operations, geographic footprint, size, etc.

AON

Aon Risk Management Services

Aon is in the business of shaping decisions for the better; delivering innovative solutions that give our clients the clarity and confidence to make better decisions to protect and grow their businesses.

We are more than just insurance. Aon offers fully integrated, holistic risk management services to help clients identify, assess and manage existing and emerging risks (including addressing the risks and impacts of climate change, assisting clients towards a resilient and sustainable future). We assist with the selection and implementation of appropriate risk transfer, risk retention and risk mitigation strategies, and provide the right advice following a major claim.

Aon's specialised consulting teams consist of highly qualified and accredited colleagues including accountants, risk and fire engineers, certified valuers, and a specialist resource to assist clients with enterprise risk management frameworks.

We add distinctive, long-term value to optimise your overall insurance programme and enhance your risk management.

Aon is the leading provider of insurance broking, risk management and associated services in New Zealand, and around the globe. From Kerikeri to Invercargill, our dedicated teams are on hand to provide service and advice on a local, regional, national and global scale. From quote to claims management, we're with you every step of the way.

Say **hello** to **your** local Aon broker today.

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