Insurance Market Insights

October, 2023

Introduction

Our Insurance Market Insights summarises the events that have impacted the insurance market in the first half of 2023 and highlights trends across pricing, capacity, underwriting, limits, deductibles and coverages. It helps to better inform you of the effect that catastrophic weather events and climate change concerns are having on market behaviours.

Catastrophic weather events have led to extraordinary losses and market conservatism

The first half of 2023 proved monumental for global natural catastrophe risk – especially climate related – as economic losses stemming from natural disasters globally reached USD 194 billion – above average the 21st century of USD 128 billion. Key events contributing to the record-breaking total include USD 7.2 billion in economic losses (insured and uninsured) for New Zealand's back-to-back Auckland Anniversary Weekend floods and Cyclone Gabrielle.

Climate related catastrophes have impacted the world, across many parts of society and business. This includs insurers, who paid USD 53 billion in losses from natural disaster events in the first half of 2023, some 46% above the 21st century average of USD 36 billion. This extraordinary loss amount is all property insurance related.

The current estimate of general insurance claims to be paid by New Zealand insurers arising from extreme weather events across the country year to date is NZD 3.563 billion. The estimate for the Auckland Anniversary Weekend floods and Cyclone Gabrielle is NZD 3.5 billion, of which insurers have so far paid out NZD 2.053 billion. In addition, there have been two other extreme weather events in the North Island accounting for a further NZD 63 million. For 2022, general insurance claims arising from weather events totalled NZ $351.3 million.

Natural disaster losses are now clearly impacting market behaviour, with the property insurance market adopting a more conservative stance to address these climate developments – with price increases, capacity contraction and coverage clarifications.

If climate related litigation gains traction, liability losses could also have a material impact on (re)insurers' profitability and the industry as a whole, especially Public Liability, and Directors & Officers Liability insurance. Globally, the number of climate change related cases against fossil fuel companies and organisations in the plastics, food and agriculture, finance and transport sectors has already risen.

Key trends within this report include:

- **A conservative market environment continued** as uncertainty related to economic and social inflation, rising loss costs, global tensions, and a slow supply chain recovery continued. Insurers remained committed to adapting their appetite, capacity deployment, coverage, attachment points and pricing to manage their portfolio performance while focusing on targeted growth for lower-hazard, quality risks, and products such as Directors & Officers and Cyber where portfolio performance targets have been achieved and coverage terms and conditions have been clarified.

- **Natural catastrophe-exposed property risks continued to experience a volatile and challenging market environment.** Climate change concerns weigh heavily into natural catastrophe risk underwriting amidst a backdrop of events such as the Auckland Anniversary Weekend flooding and Cyclone Gabrielle earlier this year. Reported property and business interruption values and valuation methodologies remained under scrutiny. Sophisticated modelling and risk quantification tools are increasingly being leveraged by both risk managers and underwriters to better understand and quantify risk. Increasingly, despite underwriting submissions to both local and overseas markets being submitted early, the provision of terms by insurers is becoming more protracted and often finalised very close to the placement date. Placements are also becoming split between more markets, with each insurer insistent on their own requirements. It is imperative that early thought is given to issues and challenges that are likely to arise and clients be prepared for and understand that last minute decisions may need to be made.

- **Demand continued to grow for innovation around risk transfer, and alternative solutions are gaining prevalence amidst an increasingly complex, interconnected and data-enabled risk environment.** Alternative risk transfer continued to emerge as ever-important levers in achieving companies' financial risk management goals including considering alternative terms and conditions and program structures (limits, deductibles, retentions) and self-insurance. Innovative solutions such as parametric insurance and captives are gaining momentum, especially for natural catastrophe exposed risks. To accelerate the delivery of index-based solutions, Aon has established a global centre of excellence for parametric initiatives and products and named a global leader Cole Mayer, to reinforce our commitment to supporting clients in making better decisions.

Content

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Property

Trends

The market environment was conservative, volatile and challenging with the cost of property insurance increasing and for some significantly, due to ongoing concerns related to reinsurance cost, weather related events and inflation.

While insurers sought to retain quality risks, especially those in lower hazard occupancies, natural catastrophe exposed risks, poor-performing risks, and risks in higher hazard occupancy types faced an extremely challenging environment. Such risks tended to experience reduced insurer appetite and capacity availability, and for some risks sizeable rate increases. Underwriting rigor remained strong and scrutiny of insured values continued. Across Property risks, complete and updated submissions including loss reports, valuation methodology details, and responses to recommendations were required.

There was increased focus on exposure to flood risk and storm damage and together with increased pricing, insurers sought for affected risks to reduce the impact of flood losses by limiting coverage through the application of flood exclusions and increasing deductibles. Insurers increasingly mandated up-to-date valuations for insurance purposes for buildings, and in some case for machinery and plant as well, to determine an adequate sum insured.

Where an increase in sum insured was required, for some risks the result was capacity constraints from the existing insurer(s), meaning additional support for the full placement was needed which often came at additional cost or necessitated a programme restructure.

Increasingly, despite underwriting submissions to both local and overseas markets being submitted early, the provision of terms by insurers generally became more protracted and were often only finalised very close to the placement date necessitating in clients having to make quick decisions.

Clients were encouraged to explore options with incumbent and new programme insurers, including considering alternative terms and conditions as well as program structures (limits, deductibles, retentions). Innovative solutions such as parametric insurance, alternative risk transfer, structured insurance and captives also served as important levers in achieving risk objectives. The cost of Property insurance and for some risks availability of capacity from the market was a driver in some clients arriving at a different solution including for some more self-insurance and for some others, making a decision to consider further at the next renewal. There was an increasing level of clients unable or unwilling to purchase 100% coverage for material damage and business interruption insurance and the option of clients becoming a co-insurer on their own programme, up to 10% on a quota share placement or on a primary and excess layer structure, is a real consideration as clients looked at alternative ways to mitigate premium increases.

Aon urged clients to begin planning at least four to five months prior to renewal, to work closely with their Aon broker and to look at leverage risk modelling tools to better understand and quantify property risk including flood risk and business interruption.

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Property

Looking Ahead

The increasing 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 will continue to reassess their risk appetites, pricing and capacity, and market conditions are likely to remain conservative, volatile and challenging with continued increases in pricing.

Underwriting rigor will remain strong with complete and up to date submissions required and continued scrutiny of insured values. Coverage terms are likely to tighten to address any valuation concerns where insurers deem inaccurate or under reporting.

Insurers will likely continue to have quotes open for shorter periods of time and clients need to be prepared that they may need to make quick decisions, close to placement date.

Property Market Snapshot

Category	Outlook	Commentary
Claims	↑	The first half of 2023 proved monumental for global natural catastrophe risk – especially climate related, insurers paying US 53 billion in the first half of 2023. some 46% above the 21st century average of USD 36 billion. The current estimate of general insurance claims to be paid by New Zealand insurers arising from extreme weather events across the country year to date is NZD 3.563 billion. (Estimate for the Auckland Anniversary weekend floods and Cyclone Gabrielle NZD 3.5 billion, in addition there have been two other extreme weather events in the North Island accounting for a further NZD 63 million). For 2022, general insurance claims arising from weather events was NZ $351.3 million.
Pricing	↑	Property pricing remained volatile due to concerns related to inflation, reinsurance costs, climate related events and natural catastrophe exposures and price increases are likely to continue.
Limits	↑	Limits were pressured upwards as inflation continued to increase exposures. Natural catastrophe limits were scrutinised by insurers and for some aggregate limits imposed as a way to manage exposure.
Deductibles	↑	Upwards pressure was applied by insurers for some risks especially those with heavy natural disaster catastrophe exposure as well as challenging risk types, poor performing risks, and risks deemed to have insufficient controls. Deductible options continued to be explored as a mechanism for reducing premium costs.
Coverage	↓	Property terms and conditions continued to tighten to address concerns related to valuations.
Capacity	↓	Capacity for natural catastrophe exposed property risks was constrained and expensive driving greater exploration and for some organisations use of alternative solutions including index-based products, captives and self-insurance.
Underwriting	↑	Insurers remained focused on risk selection through disciplined underwriting supported by robust and detailed risk information. Underwriters continued to scrutinise valuations and natural disaster exposures. In person underwriting meetings helped build relationships while virtual discussions remained a valuable and efficient approach.

Liability Crime

Trends

The market trended upwards, at generally moderate levels. Where a risk was previously underwritten with rigor, with no material changes, moderate increases of circa 5% were typical. For some risks, however, where increased underwriting scrutiny determined additional risk such as more employees, increases were circa 5-15%.

Insurers continued to require minimum deductibles of typically $10,000 for a small to medium enterprise (SME) and $25,000+ for a larger organisation.

Insurers are 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.

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 offer extensions for social engineering fraud exposure and, where cover is included, a sub-limit generally applies. Insurers continued to evaluate their exposure and, in order to manage, in some cases reduced sub-limits and require 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 continue to evaluate their cyber aggregation; with some looking to exclude or clarify cyber-related coverage. How the two policies (crime and cyber) align for certain types of losses should be considered.

Looking Ahead

With inflationary pressure, premiums are likely to continue to increase at similar levels.

Some insurers remain concerned about 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, due to the risk of controls, checks and balances not being as stringent with employees ‘working alone’.

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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).

Trends

Internationally, the directors and officers insurance market began softening during Q4 2022. This continued 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 general, 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.

Corporate, commercial and SME insureds continue to experience inflationary premium increases of 5 to 15%.

Tips for Clients

To enhance your renewal outcome, Aon recommends clients be proactive and, in addition to the completed proposal form, provide information regarding the company's corporate governance including sustainability/ESG and with the submission ready a minimum of four weeks prior to renewal date to enable terms to be negotiated and provided in a timely manner. Clients need to be prepared for potential delay in receiving terms/responses from insurers due to tighter internal referral processes and resourcing challenges.

The key issues directors should consider continue to be 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

The effects of competition internationally have begun to trickle down to the local market, particularly for excess layers where London excess layer markets are willing to provide competitive quotations. New Zealand excess layer insurers are willing to review their premium terms to protect the portfolios they have spent the last few years remediating. In addition, insurers are now proactively seeking 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 all 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 the lifespan of a claim, as it can be many years before a claim is actually settled and also 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 with London excess layer capacity being used to leverage premium reductions from New Zealand excess layer insurers. 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 to $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.

Liability Employers Liability

Trends

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 there is no change in the risk.

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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

Trends

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

Whilst General Liability insurance will cover property damage or personal injury caused by defective products, the product itself is generally excluded from cover. Insurance cover is becoming increasingly available, up to a maximum of $250,000, for defective workmanship. Note this is not product guarantee covering fitness for purpose of products.

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 offshore operations exist via subsidiary companies domiciled in an offshore jurisdiction, increasing pressure is coming from insurers to arrange compliant local policies.

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

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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. Multi nationals and businesses operating in different fields of business can expect to complete a full proposal form with additional information at each renewal. Insurers require more time to go through the underwriting process.

Liability Professional Indemnity

Trends

The Professional Indemnity (PI) insurance market remained tight throughout the first half of 2023.

Small and medium-sized enterprises (SME) were relatively attractive to insurers. For clean risks without claims experience and where revenues were relatively unchanged, premium rates were rising 7-10% on average, as insurers sought to balance increasing reinsurance and compliance costs. Smaller professional services firms continued buying more modest limits under $5 million. Certain insurers shifted their focus from corporate to bundled liability packages offering lower policy limits.

For larger risks, insurers continued to focus primarily on account retention rather than looking to 'grow' their books. Competition remained weak. Insurers continued to be resource challenged which resulted in some being less inclined or able to quote new business submissions.

Insurers continued to underwrite risks conservatively and this more disciplined approach meant less tolerance to underwrite risks that were unattractive. Consequences include:

- New exclusions (e.g., a trend to exclude any cyber exposures).
- A reduction in the size of limit that can be provided (challenging as buying a separate layer from another insurer generally has increased cost implication).

On large risks considered by insurers to be attractive, and that were claims free with unchanged risk profile, pricing remained under moderate upwards pressure, premiums generally increasing by 5-10%.

Risks that were considered by insurers to be less attractive include:

- Real estate/valuation sectors – economic uncertainty amid uncertainty on house price stability;
- Technology Professional Indemnity risks (especially those with associated Cyber Liability risks) – increased concern over information security risk;
- Financial institution and adviser risks – the higher risk profile includes civil claims, regulatory action and crime exposures;
- Design and construction risks – ongoing claims severity has reduced available capacity and is challenging in a climate where clients (especially Government) are pushing for higher policy limits;
- Crypto risks – local insurers are not attracted to underwriting this emerging risk profile but there are markets in London that can consider coverage for this risk.

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 however increased interest from London insurers to provide cover for certain risks in New Zealand including professional firms and financial institutions. Pricing, particularly for excess layers can be competitive. Note the London market is generally unable to provide cover for Cyber risks under a Professional Indemnity policy.

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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

Aon anticipates a continuation of the hardening market and 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 Professional Indemnity policy will need to be considered a catastrophe claim response tool rather than to fund smaller ground-up additional losses.

Renewals should be started early to mitigate any delay with insurers in providing terms. Clients should be prepared for terms being provided close to placement date and that there may be change in what terms are on offer.

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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 Professional Indemnity 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

Trends

The Statutory Liability market was 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). Consequently, insurers were requiring premium increases and, depending on the industry and/or claims history, higher excesses can be applied for breaches of the HSWA.
- Secondly, organisations regulated by the Financial Markets Authority (FMA) to whom the new financial advice regime applies, or the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) regulation changes apply, due to increased risk exposures, insurers required increased premiums and higher excesses or excluded entity cover in response.

Looking Ahead

High-risk industries such as primary producers, forestry and manufacturing can expect increases in premium and deductibles 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, and for some exclusion of cover.

Other businesses can expect nominal inflationary premium increases circa 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 legislative 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.

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Cyber Risk

Trends

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) saw a multitude of changes for the cyber insurance purchaser. This adjusted approach to underwriting coupled with global cyber risk conditions calming, allowed the global cyber insurance market to move to a more stable setting with easing of capacity availability and improved policy settings now a common feature of market interactions.

With new and return capacity becoming available in the market a more competitive market emerged, however this softening came with caveats. Despite competition, insurer expectation and requirements for insureds to meet minimum cyber security standards remained – with risks falling below these standards struggling to purchase meaningful cyber insurance coverage. The cyber market appears to have reached its new level in terms of premium benchmarks and retention expectations and is unlikely to be significantly reversed.

In New Zealand, Aon is beginning to see a levelling of the market disparity between SME and mid-market/corporate risks. Insurers were more often enforcing minimum control criteria for all sized risks and adjusting premiums in conjunction, with only a micro-SME subset still being somewhat immune to this underwriting rigour. This market behaviour is somewhat echoed by New Zealand's Privacy Commission with recent statements highlighting the need for business of any size to be conscious of their cyber hygiene and data protection.

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 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. 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 and 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.

Want to take a deeper look?

For a more comprehensive overview, read **Aon's 2023 Cyber Resilience Report**

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.

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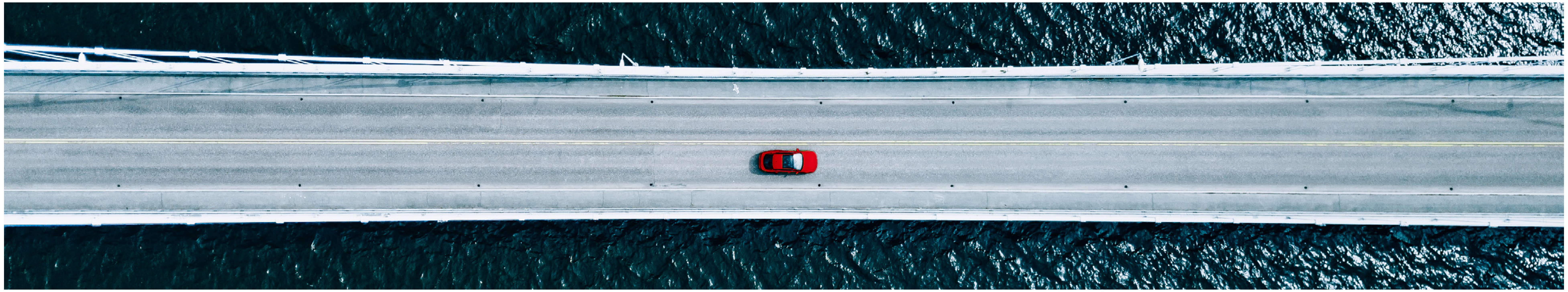
Cyber Risk Market Snapshot

Category	Outlook	Commentary
Claims	→	Claim occurrences remain fairly stable, although recent global incident rates are indicating a steady increase in 2023.
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. We are seeing insurers who have previously approached cyber with particular caution (via underwriting restrictions) are now taking a more relaxed attitude to underwriting risk – translating to positive results for insureds.
Capacity	↑	With the global cyber insurance market reaching a new baseline, new and returning capacity has become available within the market.
Underwriting	→	The global cyber insurance market appears to have reached a relatively unified common ground of minimum risk control standards. For the first time in 2-3 years, underwriting submission information required remains unchanged year on year, indicating insurers have reached a level of comfort regarding understanding risk.

Motor Vehicle



Trends

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 New Zealand extreme weather events earlier in the year. There will continue to be a greater focus on achieving technical rating and the use of risk modelling.

Aon anticipates that insurers will continue to look for increases across the board, particularly when a fleet increases in size. Good loss ratios (claims to premium) give organisations 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.

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 been an increase in claims resulting from the extreme weather events earlier in the year. 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 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 and telematics, can assist in achieving a better renewal outcome, particularly if there have been improvements resulting from a poor claims history/loss ratio.

Aviation

Trends

The global aviation insurance market is divided.

Hull War and Aviation War Liability markets have ongoing challenges resulting from the Russia-Ukraine War driven by uncertainty around potential claims* and limited capacity, resulting in many insurers applying significant rate increases and more restricted coverage particularly for aggregate limits and for confiscation events and some insurers have withdrawn from the market.

Reinsurance costs have increased, not only because of aviation-specific issues and inflationary trends but also due to the recent extreme global weather events.

Aircraft repair costs have continued to rise due to inflationary and supply chain pressures and increased material costs.

Despite these challenges, premium stability returned to the General Aviation market after a five-year hard market cycle.

**In 2022 sanctions imposed by Western nations caused lessors in those countries to terminate lease agreements on approximately 500 aircraft in Russia. Russian operators failed to return the aircraft and lessors filed claims under their aviation policies for lost aircraft alleging these are hull war losses because the aircraft have been 'nationalised' or 'confiscated' by the Russian operators. These claims are subject to coverage and sanctions issues and are unpaid but have the potential to result in over US 10 billion in losses to a market which has an annual premium of less than 3% of that amount.*

Looking Ahead

With an increased number of London insurers expressing interest in supporting Australasian markets, this additional capacity allows for genuine competition with the regional insurers to be fostered.

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 has returned to the market 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 Russia-Ukraine war 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	↑	Increase in London insurers expressing interest in supporting Australasian markets.
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

Trends

The construction insurance market remained challenging, with continued close scrutiny of underwriting coupled with a tightening risk appetite resulting in some insureds retaining more risk themselves. As a result of the New Zealand weather events earlier in the year, 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 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 New Zealand extreme weather events, it is possible that New Zealand markets will look to introduce separate and higher flood claim deductibles and on large projects and 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.

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Contract Works Market Snapshot

Category	Outlook	Commentary
Claims	↑	Large (complex) claims activity on large projects with the risk of fire (given recent fire losses) and now flood firmly on the radar. 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 also looking to apply increased deductibles for water damage, performance testing, and maintenance period claims. More recently, 'flood' is 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. In 2022, all insurers introduced 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

Trends

Public Liability

There was less pressure on public liability rates and minimum excesses were being applied. The focus remained on products and, in particular, where products are procured from, as well as the quality assurance process, they undergo. Defective product cover became extremely restrictive, and for some further application of non-conforming product exclusions – we are, however, yet to see a blanket approach to this. Hot work conditions are now being applied by most insurers.

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 completely withdrew 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 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 deductibles remains.

Directors and Officers

The insurers approach to Directors and Officers liability insurance for construction companies remained very cautious and is largely driven by insolvencies. There was 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 first half 2023 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.

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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

Trends

Whilst most insurers now have mandatory exclusions for Russia, Ukraine and Belarus, a new wording named the Five Powers Clause, started to be adopted by overseas markets.

This clause takes the previously used exclusions a step further and excludes losses arising out of an outbreak of war between the five nations, namely the United Kingdom, USA, France, Russia and China. Driving this is the rising concern over the geopolitical situation involving the USA and China.

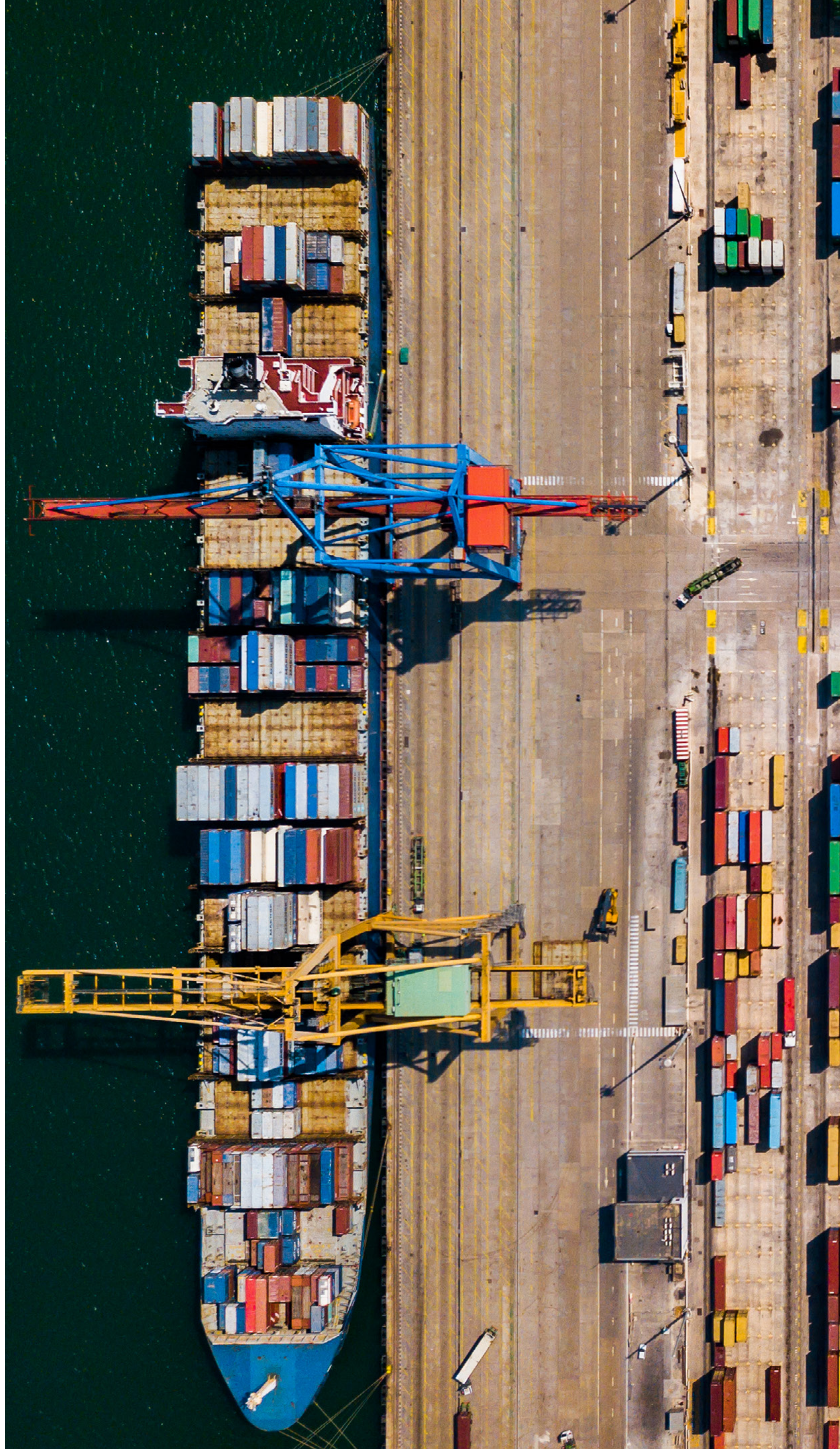
Taking the lead from their treaty and facultative reinsurance markets, there are murmurs by New Zealand insurers on this topic and it is likely that it is only a matter of time before a similar clause is implemented here.

Locally, Cyclone Gabrielle and the Auckland weather events earlier in the year continue to be a topic of conversation, with underwriters carefully considering static risks in flood prone regions.

Additionally, whilst social inflation increases the cost of materials, labour and human capital as a whole, the impact on premiums is not yet fully understood and pricing remains competitive for those accounts with a good loss history.

Looking Ahead

Whilst the above factors need to be considered, 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.



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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 and Pleasure Craft

Trends

Locally, whilst insurers remain cautious in their approach to Commercial Hull business, there was 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 it is hoped this additional capacity will assist in bringing balance to the sector.

Internationally, the Russia Ukraine conflict continues to drive uncertainty and in the Marine War market it is estimated USD 400 million worth of vessels remain trapped, and conversations regarding indemnity are ongoing. Exclusionary language in Marine War Reinsurance programmes means that Russia / Ukraine hull war is being retained net of reinsurance treaties.

Markets are also increasingly interested in shipowners' ESG initiatives so that they can align with their own internal ESG requirements, with some markets now preparing to implement ESG scoring. IMO's CII (Carbon Intensity Indicator) and EEXI (Energy Efficiency Existing Ship Index) Regulations came into effect from 1 January 2023 which puts this in to focus for clients, as well as the Poseidon Principles for Marine Insurance which now has 10 market signatories.

In relation to Pleasure Craft, the hard market remained, and there are continued challenges placing high value vessels, older vessels and vessels on swing moorings. There was also a narrower risk appetite from local insurers, as well as ongoing premium increases. Capacity for Bluewater voyages remained limited with fewer markets writing this class of business. However, this was offset slightly by greater participation from overseas insurers, particularly for high value pleasure craft, which was welcomed.

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.

It is likely that pricing in relation to Commercial Hull will remain stable; however, increases on Pleasure Craft will still be sought by insurers due to the limited number of available markets.

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Commercial Hull and Pleasure Craft 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	→	With the addition of new capacity into the market, pricing has stabilised for good quality Commercial Hull risks. However, we are experiencing a continuing hard market for Pleasure Craft.
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, if not already applied, 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, there is increased support from overseas insurers for good performing Commercial Hull and Pleasure Craft accounts.

Marine Protection and Indemnity

Trends

Most of the P&I Clubs were fairly rigid on achieving their general increases, which averaged around 10% for the first half of 2023 as Clubs sought to stabilise their results. The reasons cited for these increases were an expected return to a more 'normal' pool year versus the 2022 'exceptional year', anticipated claims inflation, meaningful investment losses and further erosion of Clubs capital, which has trended downwards in recent years.

There was however a varying approach from each of the Clubs with some Clubs being firmer than others. North of England and The Standard Club, now North Standard as the merged club, were on the firmer end, at least to start with. In anticipation of the merger, it is likely that both of these Clubs were trying to renew their books with the strongest possible premium rise, however it was found in negotiations, especially with the prospect of potentially losing tonnage, these Clubs did ultimately relent. Gard and Britannia were also relatively firm in achieving their targeted increases, albeit in the case of Gard this was a lower target (+5% to +7%) than other Clubs. Conversely, the Steamship Mutual, Skuld, the UK Club was generally more flexible and quicker to find a sensible landing.

All Clubs remained extremely competitive on new tonnage opportunities and Aon has been able to use this desire for growth from the Clubs to leverage improved renewal terms were committing new vessels.

For those in the fixed market, (fixed P&I, offshore, charterers, non-pool able covers) increases were in the region of 5% to10% overall as a result of increasing costs being passed on by the reinsurance market.

Looking Ahead

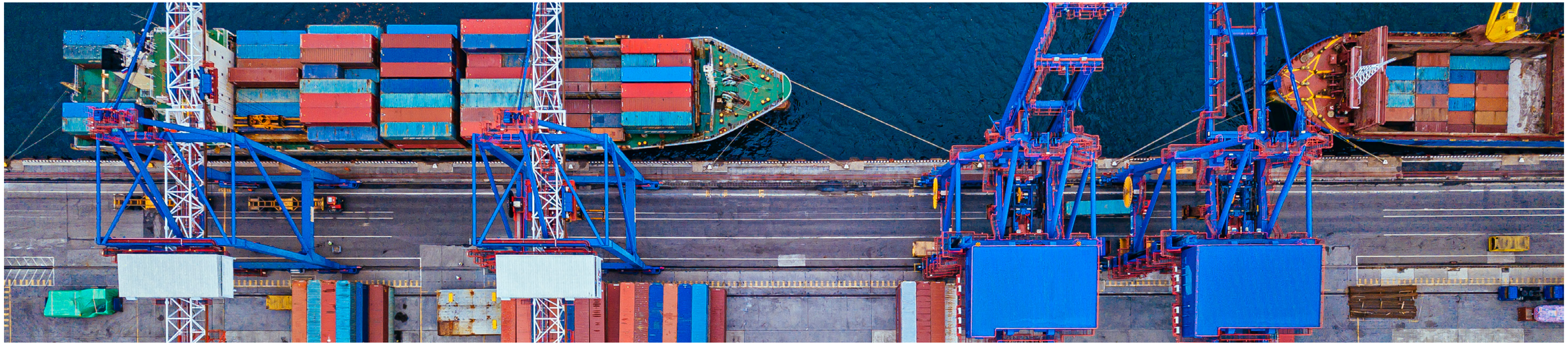
After a challenging 2022 year for rate increases imposed by Clubs, it is likely a more measured and strategic approach will be taken as the previous year's rate increases flow onto their balance sheet.

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	→	As 2022 increases flow through, pricing is showing signs of stabilising with Clubs negotiating 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	→	Clubs 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



Trends

Insurers were generally following the trends seen in the London market, though at slower pace in terms of rate increase.

Clean marine liability business was generally renewing in the range of rate increases of 2.5 to 7.5%, compared to rate increases of 10 to 15% in London. Assisting this is new capacity being provided by Australian insurers which is creating competitive market tension.

Insurers remained 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 their liability

Looking Ahead

The London market will continue to scrutinise underwriting results due to ongoing performance challenges, and whilst this is offset locally by capacity provided by new markets, it is likely the current push for rate increases of 2.5 to 7.5% will continue for the next 12 months.

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.

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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	→	There is a push for pricing increases of between 2.5 and 7.5% for clean accounts, although insurers are still willing to negotiate 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

Trends

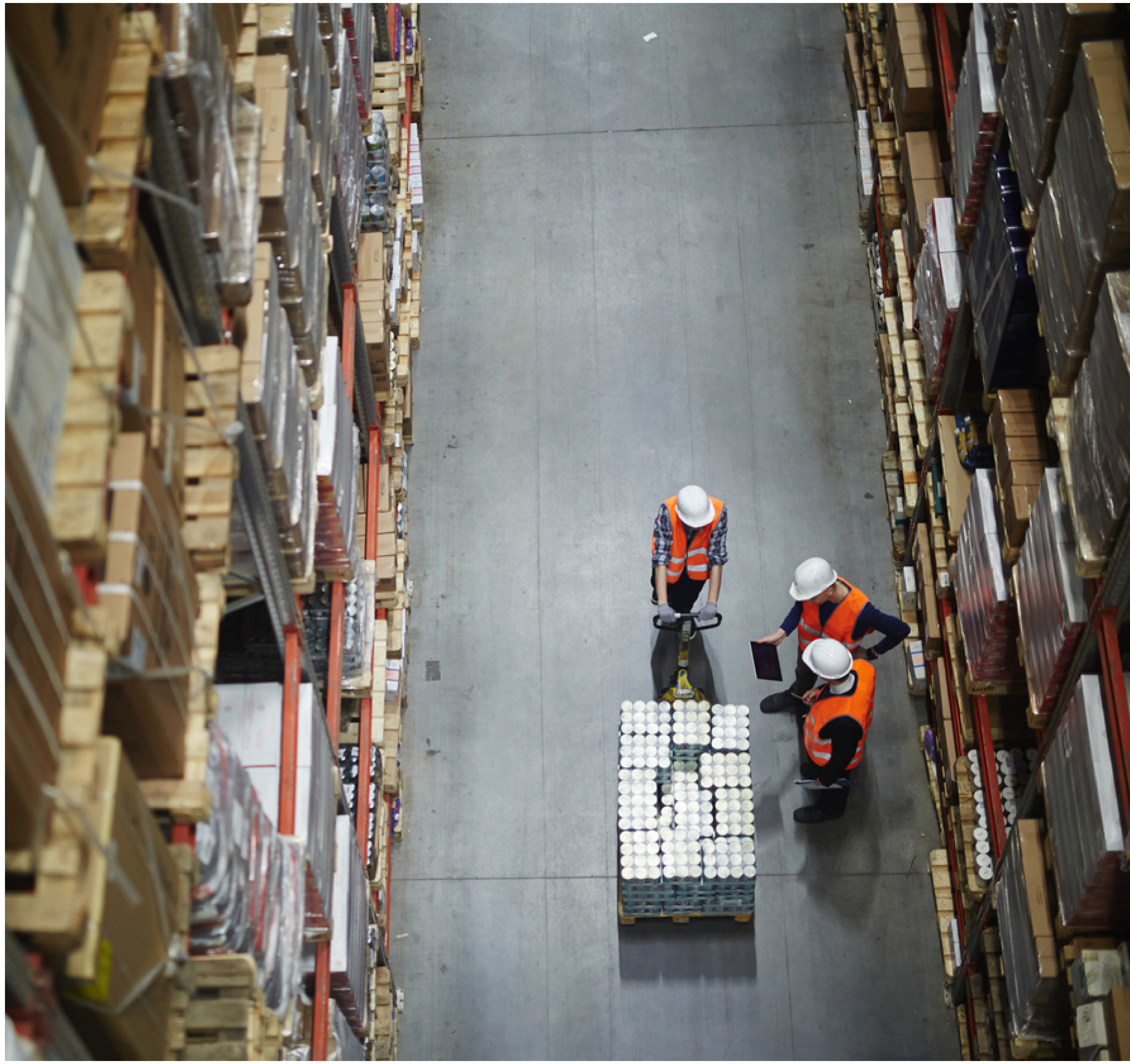
The outlook for the global economy remains under a close negative-watch and as credit conditions tighten, liquidity will be harder to come-by, leading to higher levels of business failures. As anticipated, global trade credit carriers are reporting increased claims ratios so far in 2023.

New Zealand has experienced a 20% plus increase in insolvencies from last year, as the IRD take action to liquidate more businesses over unpaid taxes. Further, recent weather events throughout New Zealand have created pressure on profitability, weaker cash and tighter-for-longer financial conditions which are testing the resilience of impacted companies.

Looking Ahead

Insurers are weathering the storm reasonably well and have focused 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. It is anticipated there will be 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.

Insurer capacity has remained healthy with total potential exposure levels in the market remaining at historic highs. As 2023 continues, we might expect Credit insurance pricing and capacity to adapt quickly to the economic cycle, as insolvencies and associated covered claims accelerate.



Trade Credit Market Snapshot

Category	Outlook	Commentary
Claims	↑	Business insolvency levels are expected to show a material increase in 2023.
Pricing	↑	Premium rate increases are likely.
Limits	→	Policy limits have remained consistent.
Deductibles	→	Deductibles have remained consistent.
Coverage	→	Policy limits have remained consistent.
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

Trends

International travel has continued to rebound with increased border crossing observed in nearly every month in 2023. Statistics New Zealand advise that New Zealand resident arrivals in April 2023 were at 65% as compared to arrivals in April 2019 and that these travellers are spending an average of 24 days abroad compared with an average of 19 days prior to the COVID-19 pandemic. Furthermore, there is a higher proportion of travellers who cite visiting friends and relatives as the purpose for the trip and relatively fewer travelling for business purposes, when compared to 2019.

These variations in travel purpose, along with increased volume of insurance claims because of the challenges facing airlines and associated costs with delayed or cancelled travel arrangements or missing or delayed baggage, continue to result in stricter underwriting criteria and more detailed proposals being required for both business and leisure travellers.

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.

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. This compounds the increased number of claims and as such, this has resulted in increases to premium base rates across the market which it is anticipated to 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 he 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.

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

Aon Advice to Clients

In the first half of 2023, we saw once again that proactive engagement and the use of data-driven risk insights builds trust and credibility, can attract more markets and favourable pricing, terms and conditions and is key to optimising risk transfer strategies.

Start the Renewal Process Early

With the heightened focus on risk selection and a growing reliance on data and modelling, underwriting is taking longer, especially for challenging and natural catastrophe exposed Property risks, which may take up to six months to solution. Allowing additional time will position you to describe your story in detail – including changes in business or operating models – and respond to any queries that may arise, building underwriter trust and confidence in your risk. It is also increasingly important in parts of the market, like natural catastrophe exposed Property, where insurers' 2023 capacity maximums may be met as year-end approaches. Be sure to set and mange time expectations amongst key stakeholders and decision-makers. Be aware that finalised terms may only be available very close to the placement date.

Scrutinise and Update Your Asset Values

Inflation, a slow supply chain recovery, rising labour costs, and other factors have driven up costs and extended timelines, creating a significant underinsurance risk which could have myriad direct and indirect consequences. In partnership with Aon's Business Interruption, Contingent Business Interruption and Asset Valuation teams, conduct a thorough review of your asset values and valuation methodologies. Secure appraisals and conduct probable maximum loss studies. Leverage Catastrophe Modelling solutions to highlight exposed profiles and loss drivers. Develop a property risk improvement strategy and be prepared to make the required investment.

Leverage Data-Driven Insights to Inform Your Risk Strategy

Advances in technology have enabled the robust identification and quantification of risk. Utilise risk modelling solutions and re-examine loss scenarios to inform decisions, evaluate trade-offs and identify risk management practices that can be improved to build greater resilience. Reconsider policy terms and conditions, risk retention thresholds, attachment points, indemnity periods and sub-limits. Work with your Aon Team to explore alternative solutions like Parametric Products, Alternative Risk Transfer, and Captives.

Clearly Articulate Your ESG Strategy

Risks related to ESG, which can arise from myriad complex, interconnected factors, continue to create volatility and uncertainty for insurers and the risk community at large. Underwriters remain focused on organisations ESG maturity and their plans for achieving disclosed targets. Include in your submission the details related to your ESG strategies, including investments you are making in cyber governance, diversity, equity and inclusion initiatives, and energy transition. Engage with Aon to measure and benchmark your transition to a net-zero future using Aon's Transition Performance Index: Making Better Decisions on the Journey to Net-Zero (aon.com)

We encourage you to engage with your Aon team to learn more about each of these recommendations.

Aon Risk Management Services

Aon exists to shape decisions for the better – to protect and enrich the lives of people around the world. Our colleagues provide our clients with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business and recover from adversity.

Organisations continually face a changeable risk landscape which has the potential to leave them exposed in the event of an unexpected loss or disruption. Risk management needs to be an integral part of an organisation's decision-making process to identify, assess and mitigate existing and emerging risk that could impact success.

Aon is the only insurance broker in New Zealand that offers fully integrated risk management services.

Aon Risk Management Services is a specialised consulting team of highly qualified and accredited colleagues including accountants, risk and fire engineers and certified valuers. Our nationwide team of risk management professionals assist our clients to understand their risk profile including climate change, develop and communicate risk management improvements, protect interests and maximise insurance programmes.

We encourage you to engage with your Aon team to learn more about Aon Risk Management Services.

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.

0800 266 276 aon.co.nz