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Market Segment Outlook: New Zealand Life Insurance

AM Best assigned a Stable outlook on the country's life insurance segment

AM Best has assigned a Stable outlook on New Zealand's life insurance segment, due primarily to the following factors:

- Robust capital adequacy, owing to a conservative approach to capital management
- Improved market discipline driven by regulatory refinements to strengthen financial conduct
- Investment in technology, leading to operational efficiency and product innovation

Moderating factors include the following:

- Subdued premium growth amidst challenging economic conditions
- Elevated compliance costs owing to a growing regulatory burden
- Heightened data security and cyber risk

Robust Capital Adequacy Driven by Conservative Capital Management

Life insurers in New Zealand are generally well capitalised, supported by conservative capital management strategy. With the interim solvency standards taking effect on 1 January 2023, life insurers opted to hold capital buffers to ensure their capital adequacy remains appropriate. Although the shift to the new standard resulted in some recalibration of reported solvency ratios, the underlying financial strength of the country's life insurance segment generally remains robust.

In recent periods, life insurers' declining profits, driven by both higher claims costs and lower premium revenues, continued to pressure earnings. These challenges have necessitated strategic cost controls and efficiency improvements, which remain critical to maintaining profitability.

Over the past six years, the New Zealand life insurance industry has witnessed a number of consolidations. Most of these transactions involved the acquisition of New Zealand life insurers by international players. By being part of a global insurance group, these insurers benefit from improved financial flexibility and capital agility.

Improved Market Discipline Driven by Conduct Regulation

Life insurers in New Zealand are subject to a growing number of legislative and regulatory requirements, including a new licensing regime under the Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI Act), which sets conduct standards for how insurers treat consumers. In preparation for the CoFI Act, life insurers have implemented initiatives to enhance their conduct frameworks over the past five years. These initiatives involve identifying historical conduct issues and conducting remediation as required and providing regular updates to the Financial Markets Authority (FMA). In addition, the Contracts of Insurance Bill is expected to become law in the coming months. The bill provides more protection

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for policyholders by outlining policyholders' and insurers' duties, particularly around disclosure obligations. These regulatory changes are expected to improve market discipline in the New Zealand life segment.

Investment in Technology Driving Efficiency and Product Innovation

Apart from the need to meet regulatory requirements, life insurers are also investing in technology to improve their operational efficiency, to better address consumer demand. Digital underwriting tools and online application systems are being adopted by a growing number of insurers to enhance the user experience. More advanced data infrastructure allows insures to provide highly flexible and tailored insurance products/coverages.

Given how rapidly digital technology has been developing, life insurers will likely continue to invest heavily in insurtech and grow their direct distribution channels. Insurers that are able to implement technological advancements more quickly will be able to differentiate themselves and gain a competitive advantage.

Subdued Growth Amidst Challenging Economic Conditions

New Zealand is going through a period of challenging economic conditions, with low GDP growth and high interest rates. Although inflation has declined steadily from its peak at 7.3% in the second quarter of 2022, to 2.2% in the third quarter of 2024, the cost of living remains high compared with the pre-COVID-19 pandemic years, with many New Zealanders facing financial difficulties. These challenges contributed to a decline in demand for life insurance in recent periods, with lapse ratios rising, as life insurance policies are generally not viewed as a necessity. The New Zealand life segment recorded subdued premium growth of approximately 3% in the 12 months ending June 2024.

The Reserve Bank of New Zealand's (RBNZ) efforts to ease monetary policies and control inflation in the second half of 2024 should help alleviate the cost of living pressure, but any subsequent positive impact on the insurance industry will be delayed. As a result, subdued premium growth and elevated lapse ratios are expected to persist over the near term.

Elevated Compliance Costs Arising from Regulatory Developments

The numerous regulatory developments are expected to improve both market discipline and outcomes for consumers, but life insurers will bear the cost burden of meeting these requirements. For instance, a significant amount of investment is required to upgrade the legacy systems, to make data more accessible and improve governance and controls. Life insurers were asked to identify products that provided poor value to consumers, such as funeral insurance and credit card repayment insurance. These products were subsequently amended or cancelled, to minimise companies' conduct risk. In addition, the ongoing implementation of IFRS 17 increases the expense burden for life insurers in New Zealand.

Heightened Data Security and Cyber Risk

As New Zealand life insurers adopt a strategy to enhance their data infrastructure and compete on digital capability, data security and cyber exposures are projected to become greater risks. Given that the industry collects and handles sensitive personal information, there could be serious consequences if policyholder data is not safely stored and protected by insurers. This has also become a regulatory focus of late. In March 2024, the RBNZ finalised its cyber resilience data collection framework, under which licensed insurers are now required to report cyber incidents and complete a cyber resilience survey.

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies.

A Best's Market Segment Outlook can be Positive, Negative, or Stable.

Best's Market Segment Outlook	
Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

***Updates to the Report**

This report was updated on November 12, 2024 to reflect a correction to the text.

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Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

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