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Market Segment Outlook: New Zealand Non-Life Insurance

The outlook for the country's non-life insurance segment remains at Stable

AM Best is maintaining a Stable outlook on New Zealand's non-life insurance segment, owing to the following factors:

- Solid premium growth supported by rate adjustments, particularly in the property, motor and commercial segments, despite challenging economic environment
- Good capital buffers, which support insurers' ability to absorb some shocks from claims volatility
- Robust investment yields amid high domestic interest rates, despite recent rate cuts
- Improved market discipline driven by regulatory refinements to strengthen financial conduct

Moderating factors include the following:

- Increasingly volatile weather conditions, which continue to pose challenges to non-life insurers, prompting tighter underwriting and greater reliance on reinsurance
- Reinsurance capacity constraints and high reinsurance costs, which, despite showing signs of stabilisation, may continue to affect primary insurers' earnings
- Regulatory and disclosure requirements, which, while beneficial in the long-term, may increase short-term operational costs for insurers

Solid Premium Growth Supported by Rate Adjustments Despite Challenging Economic `Environment

Non-life premium growth is expected to remain robust over the near term and on par with prior years, when New Zealand's non-life gross written premiums recorded average annual growth in the mid- to high single digits. In 2023, the industry saw significant rate adjustments following the Auckland Anniversary Weekend floods and Cyclone Gabrielle, which occurred early in the year and currently are the catastrophes with the two largest non-earthquake losses in New Zealand's history.

The rate adjustments were a key driver of non-life premium growth that exceeded general inflation, which has declined steadily from its peak of 7.3% in the second quarter of 2022, to 2.2% in the third quarter of 2024. The property and motor segments recorded the largest rate adjustments, reflecting the growing exposure to natural catastrophes and rising repair costs caused by ongoing inflationary pressure and supply chain disruptions. Insurance premium growth is expected to moderate over the near term, as the industry recorded improved profitability in fiscal year 2024 due largely to benign natural catastrophe activity. Additionally, the reinsurance market has recently shown signs of stabilisation, which should help ease the cost pressure on primary insurers.

The broader economic outlook suggests modest growth, with the IMF projecting New Zealand's economy to expand at a rate of 1.0% in 2024, resulting in a challenging environment for the

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insurance industry. New Zealand's economy is facing headwinds from elevated interest rates, a slowdown in government spending, and a net migration level that steadily declined throughout the first half of 2024.

Good Capital Buffers in Risk-Adjusted Capital To Absorb Some Claims Volatility

The capital adequacy of New Zealand's non-life market remains robust. Insurers have successfully absorbed the impact of the 2023 major weather-related events, owing to the comprehensive reinsurance coverages in place. To date, 2024 has been a relatively benign year from a catastrophe risk perspective, with fewer significant weather-related events than in prior years, easing some of the pressure on insurers' claims expenses and allowing them to build up their capital buffers. The risk-adjusted capitalisation of New Zealand's non-life insurers provides them with a buffer to absorb some earnings volatility. This is typically supported by conservative investment strategies and robust reinsurance programmes, placed with partners of good credit quality.

Non-life insurers' capital adequacy is subject to uncertainty, as major weather events could have a delayed impact on reinsurance renewals. Given the limited scope to lower the coverage limits of insurers' catastrophe excess-of-loss reinsurance, the continued cession of material losses to reinsurers may result in upward pressure on reinsurance rates and a tightening of terms and conditions, particularly in the wake of significant catastrophe events.

The New Zealand IFRS 17 and Interim Solvency Standard 2023 became effective on 1 January 2023. The interim standard is designed to streamline solvency calculations and facilitate sound solvency management in line with the implementation of IFRS 17. The implementation of the new standard has not resulted in material changes to AM Best's assessment of the capital adequacy of the country's non-life insurers, as most non-life insurers typically take a conservative capital management approach and hold buffers above the minimum regulatory requirement.

Following a recent consultation period, the Reserve Bank of New Zealand (RBNZ) is expected to publish the second amendment to the Interim Solvency Standard in December 2024, which will go into effect for all insurers on 1 March 2025.

Robust Investment Income Despite Rate Cut

New Zealand non-life insurer's investment income is expected to remain robust over the near term, driven by the high domestic interest rates. Although the RBNZ started to ease its policy rate with a 25-basis point reduction in August and a 50-basis point reduction in October 2024, bringing the current policy rate to 4.75%, interest rates remain elevated compared with historical levels. Official projections suggest that the central bank will steadily loosen its monetary policy over the next few years. New Zealand's non-life insurers typically adopt an investment strategy that focuses on interest-bearing securities, with investment income largely correlated with interest rates.

Improved Market Discipline Driven by Conduct Regulation

Non-life insurers in New Zealand are subject to a growing number of legislative and regulatory requirements, such as the Contracts of Insurance Bill, which is expected to become law in the coming months. The bill aims to provide greater protection for policyholders by outlining policyholders' and insurers' responsibilities, particularly with regard to disclosure obligations. In addition, the Financial Markets Authority is introducing a new licensing regime under the Financial Markets (Conduct of Institutions) Amendment Act 2022—the CoFI Act—which sets conduct standards for how insurers treat consumers. These changes may introduce additional compliance costs, especially for insurers with legacy pricing issues, but they are expected to improve market discipline over the long term.

Increasingly Volatile Weather Conditions

Natural disasters (including floods, storms, cyclones, earthquakes and hailstorms) remain a material risk for the non-life insurance market. Increasingly volatile weather conditions continue to pose challenges to the segment's profitability. The annual cost of extreme weather events has been rising steadily. Data released by the Insurance Council of New Zealand showed that extreme, climate-related claims hit a record high of NZD 351.2 million in 2022. This figure ballooned to NZD 3.9 billion in 2023, driven by the flood and cyclone events.

Non-life insurers' technical performance is highly correlated with the occurrence of large weather and catastrophe events—for example, the 2023 weather events and the Canterbury earthquakes in 2010/2011, which resulted in an accumulated loss of almost NZD 23 billion. The increased likelihood of extreme, large catastrophe events could expose non-life insurers' earnings to elevated volatility.

As a relatively small market that is highly exposed to natural perils, New Zealand's non-life insurance segment relies highly on international reinsurance. This reliance is likely to increase along with the elevated climate risk. As in recent years, primary insurers remain vulnerable to reinsurance capacity changes and pricing adjustments.

In 2024, non-life insurers in New Zealand benefitted from a stabilising international reinsurance market with increased capacity. However, climate risk remains a concern for the segment, as major events will drive reinsurers' appetite.

To alleviate the pressure on the private sector and maintain affordability of insurance cover for consumers, government participation is expected to grow. Currently, support for earthquake risk is provided by the Natural Hazards Commission (formerly known as Toka Tu Ake EQC), a government-owned organisation that provides insurance cover for the first NZD 300,000 of losses on residential properties for each earthquake event.

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

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BEST'S MARKET SEGMENT REPORT

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