



New Zealand Market Segment Outlooks

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Agenda

- **What an AM Best Market Segment Outlook Covers**
- **Snapshot of AM Best's Market Segment Outlooks**
- **Economic Overview**
- **Best's Market Segment Report – New Zealand Life Insurance**
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- **Regulatory Updates**

Market Segment Outlooks - Definition

- 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
 - Competitive issues that could impact the success of these companies
 - Other relevant factors

Market Segment Outlooks - Definition

- 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.
- 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.
- 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.

Snapshot of AM Best's Market Segment Outlooks

AM Best currently publishes 60 market segment outlooks, across life, non-life, reinsurance markets and Delegated Underwriting Authority Enterprises (DUAEs).

Global Breakdown

39
Stable
16
Negative
5
Positive

Asia Pacific Breakdown

12 Stable

Some Challenge Facing Different Markets

- Reinsurance availability, capacity, costs
- Climate risk, natural catastrophes
- Social Inflation
- High competition in personal lines
- Economic uncertainty, slowdown
- Weak fiscal conditions
- Inflation and interest rates
- Pressure on household income
- Regulatory developments

Economic Overview

- New Zealand's economic activity remains flat.
- Elevated interest rates continue to weigh on growth, although RBNZ has started to ease its monetary policy.
- Inflation has declined and is within the central bank's target range.
- Unemployment rate continues to grow.
- Exports remain sensitive to geopolitical events and economic downturns.

Best's Market Segment Report – New Zealand Life Insurance

AM Best has Assigned a Stable Outlook to New Zealand's Life Insurance Segment

Positive 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 efficiencies and product innovation

Moderating Factors:

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

Life Insurance – Positive Factors

Robust capital adequacy

- Well capitalised with conservative capital management strategy
- IFRS 17 had no material impact on AM Best's view of capital adequacy
- Some insurers had improved financial flexibility following M&A

Improved market discipline

- Regulatory refinements to strengthen financial conduct
- Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI Act)

Investment in technology

- To help meet regulatory requirements
- Improve operational efficiency
- Product innovation
- Data capabilities will likely give insurers competitive advantage

Life Insurance – Moderating Factors

Subdued premium growth

- Challenging economic conditions with low GDP growth and high interest rates
- Decline in demand for life insurance
- Current trend expected to continue in the near term

Elevated compliance costs

- Insurers will bear the cost burden from regulatory developments
- Material costs associate with legacy systems upgrades
- Amendments of existing product offerings
- IFRS 17 implementation

Heightened data security and cyber risk

- Risks arising from improved data capability
- Safeguard of personal information a bigger challenge
- Regulatory focus in recent periods

Best's Market Segment Report – New Zealand Non-Life Insurance

AM Best has Assigned a Stable Outlook to New Zealand's Non-Life Insurance Segment

Positive 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:

- 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

Non-Life - Positive Factors

Solid premium growth

- Significant rate adjustments following the catastrophe events
- Insurance premium growth is expected to moderate
- Benign natural catastrophe activity in recent periods
- Stabilising reinsurance market

Good capital buffers

- Capital buffers are supported by conservative investment strategy and comprehensive reinsurance coverage
- Reliance on reinsurance capacity to manage catastrophe exposure is an ongoing potential risk
- Limited impact from IFRS 17 and new solvency standard

Non-Life - Positive Factors

Robust investment yields

- High domestic interest rates, despite recent rate cuts
- Investment returns largely correlated with interest rate movements

Improved market discipline

- Growing number of legislative and regulatory requirements in New Zealand
- Conduct regulation sets standards for how insurers treat consumers. (E.g. the CoFI Act)

Non-Life - Moderating Factors

Volatile weather conditions

- Increasingly volatile weather conditions is a material risk for the non-life market
- Insurers' earnings are exposed to elevated volatility
- Prompting tighter underwriting

Reinsurance capacity constraints

- Greater reliance on reinsurance
- Exposure to reinsurance capacity constraints and high reinsurance costs
- Signs of stabilisation in 2024
- Government participation expected to grow

Heightened compliance costs

- Regulatory and disclosure requirements while beneficial in the long-term, may increase short-term operational costs for insurers

Regulatory Developments

Interim Solvency Standard (ISS)

- Effective in Jan 2023, together with NZ IFRS 17
- Received feedback from the industry and commissioned an external review
- Amendment will be published by mid-December 2024, and effective from 1 March 2025
- Post-ISS: Will take multiple years to complete Stage 2. RBNZ will engage the industry in 2025

Potential impact

- Challenges: providing prudential data to the Reserve Bank and maintaining a conservative approach to capital management
- Insurers have generally maintained a prudent approach to capital management

Contracts of Insurance Bill and CoFi Act

- The Contracts of Insurance Bill aims to provide greater protection for policyholders by outlining insurers' responsibilities, particularly about disclosure obligations
- CoFi Act sets conduct standards for how insurers treat consumers

Potential Impact

- Introduce additional compliance costs, especially for insurers with legacy pricing issues
- Improve market discipline

Q&A



Thank you!



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