

CLIENT BRIEFING

INSURER RESPONSE TO NORTH CANTERBURY EARTHQUAKES CREATES CHALLENGES

A cautionary response from insurers to the North Canterbury earthquakes creates immediate challenges. Nathan Richmond, General Manager of Placement Services for Marsh in New Zealand provides an overview of the current situation amid a wider global context for the property insurance market.

As a result of the North Canterbury earthquakes, the general property and construction insurance market conditions in New Zealand have immediately changed. The majority of insurers have currently enforced embargoes for writing any new business or increasing their exposures in certain regions. The embargoed regions are being constantly reviewed and the insurers will amend and reduce the size of their embargoed zones over the coming weeks, provided there are no more significant events.

The performance of a number of commercial buildings affected by the earthquakes has led to insurers being very cautious in respect of taking on risks that may be subject to damage.

This will be a testing time for many organisations with property damage, the extent of which may not yet be fully understood. Marsh has considerable experience in claims advocacy and understands only too well how the status of claims may evolve, and sometimes unravel, if all the correct steps are not taken now. If you've any doubts about your coverage, and what's required to successfully progress your claims, you should contact our Claims Advocacy team.

THE GLOBAL CONTEXT

While locally in New Zealand, the market is currently in period of change, we remain part of the global insurance market. The global insurance market, in the absence of alternative better paying investments, remains an attractive source of returns for investors, and is very well capitalised.

There are no immediate issues facing the global industry, however, we are seeing a slowdown in the property premium rate reductions that have been achieved in recent months from the international market.

Despite continued profits being made, insurers are still being challenged to find ways to reduce cost and increase profitability and we anticipate future mergers and acquisitions may occur, although the impact on New Zealand will vary depending on the companies involved.

PROPERTY

With the initial cost of claims being lodged for damage following the North Canterbury Earthquake estimated around \$5Bn, the local market has become more challenging for clients in the affected zones. Insurers are still working with embargos for new business but doing their utmost to support their existing customer bases.

Despite the recent earthquake events, global economic factors continue to influence the New Zealand property insurance market. These factors include items such as low interest rates, resulting in non-traditional investors embarking into the (re) insurance markets such as pension funds and insurance-linked securities. This has delivered to the market historically strong levels of capital availability against a backdrop of relatively benign global insured catastrophic losses.

For business outside of embargoed zones, competition from insurers for business, and therefore insurance premiums to clients, are typically stable to reducing. Competition has come from both a renewed appetite from incumbent insurers and new market entrants. Globally there remains a strong level of capital although underwriters are being challenged by their shareholders to focus on profitability and return on investment levels.

While the Brexit decision is expected to have minimal impact at this stage, it is adding to the increasing uncertainty in respect of operational costs for larger global (re)insurers. Alongside this, the same insurers remain cautious about the potential for major natural catastrophes.

Looking forward, one of the more localised technical factors that will also impact insurance renewals is the release of a revised earthquake modelling tool. This tool, known as the RMS HD Model, incorporates many of the important lessons learnt following the Canterbury earthquake sequence and is used in some form by the majority of (re)insurers both in New Zealand and abroad. In addition to this, the insurance companies' own reinsurance protection costs have stabilised and the previous reductions in reinsurance cost obtained by the insurers has not been forthcoming which will result in an overall stabilising of premium levels in New Zealand.

The focus from insurers remains on achieving a balanced portfolio with strong underwriting practices. Clients who are able to differentiate the quality of their risk through good underwriting information, detailed risk engineering surveys and positive claims record stand to achieve the best results.

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