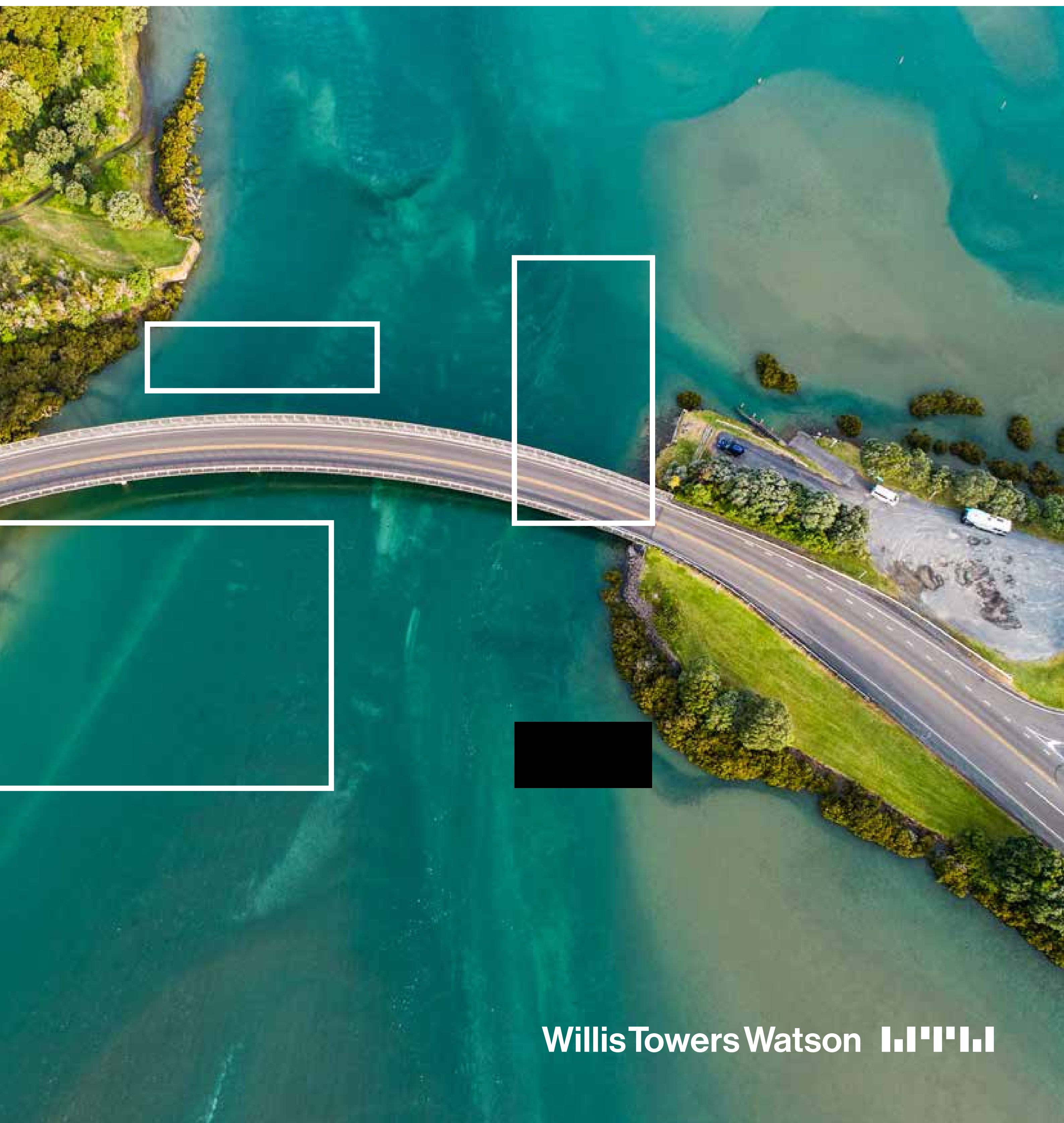
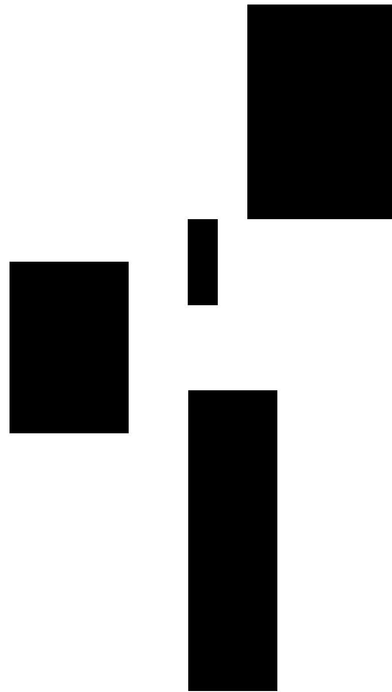
New Zealand

Insurance Market Update

2020



Welcome to our Insurance Market Update for New Zealand in 2020. We will explore general and financial lines as well as a focus on our specialty areas. The global pandemic has influenced all our markets and we hope to bring some clarity and information to you in this update about the months ahead.



New Zealand

Insurance Market Update 2020

Contents

Welcome 2

The direct market – general lines 4

- Property 4
- Motor 7
- Marine 8
- General Liability 9

The direct market – financial lines 10

- Directors' and Officers' Liability 10
- Cyber Liability 12
- Professional Indemnity 13

Our specialities 14

- Agriculture & Dairy 14
- Construction 17
- Health & Benefits 19
- Irrigation 21
- Iwi 23
- Pacific Islands 24
- Power & Renewable Energy 26
- Surety 31
- Trade Credit 32

Welcome

2020 Insurance Market Update

While Insurance Council metrics have shown the best ratios for the New Zealand industry in many years, there are few other positives to note about the insurance market as we, like the rest of the world, continue to deal with the social and economic impacts of a global pandemic.

Having said that, the current state of the market should not be a surprise or significantly impact clients who have developed a long-term strategy to managing and mitigating risk, and understand it is an investment in their organisation rather than a cost. Willis Towers Watson's initial standpoint has always been to work with our clients to ensure that insurance is viewed through this lens, to help protect their companies through the current economic conditions and into the future.

COVID-19 has affected all businesses to some extent, as well as insurance classes. For organisations that view insurance as a cost, these are sobering times. Cost base organisations will be viewed by insurers as short-term transactional buyers and will suffer accordingly in the marketplace either by significantly increased premiums, reduced capacity or, in a worst case scenario, no insurance at all. In today's conditions, this is clearly unacceptable.

Therefore, in a hardening insurance market of reduced capacity and higher premium costs, we are redoubling our efforts to ensure clients understand the new imperatives of attracting the right level of cover for their businesses. Our insurer partners expect the best underwriting submissions, based on the best information to ultimately provide you with the best price and terms and conditions for your risks.

Let's look at some of the key aspects of the New Zealand market we've seen this financial year. The Insurance Council, in its 2019 results to September, showed a loss ratio of 52.15% and a combined ratio of 82%, which is the best ratio the New Zealand insurance industry has had for about five years.

The most significant weather event throughout the year was the Timaru hail storms which accounted for approximately $85 million in losses. This, combined with a significant increase in the gross written premium, represented a reasonable financial result for our New Zealand insurers ensuring they are in a relatively strong position to support NZ business through the remainder of 2020 and beyond.

The situation is not the same for our global insurer partners which have seen significant premium increases as Lloyd's and the international markets play catch up on remediating their underwriting exposures and risk appetites.

New Zealand has continued to apply significant pressure on our major industries which utilise expanded polystyrene (EPS), and Wellington earthquake capacity. These major risks are significantly underwritten by our global partners, and pricing and capacity has been stretched during 2019 and into the early part of 2020.

Directors' and Officers' Liability is under significant pressure around the world, and we are seeing significant premium increases with capacity reductions throughout all sectors but most particularly where organisations are dual listed with the New Zealand and Australian Stock Exchanges.

At Willis Towers Watson we work with our clients to help them develop a holistic view of risk and how to make the

best decisions that lead to the most optimal outcomes for their organisations. Our Risk & Analytics and Insurance Marketing teams play a vital role here, to ensure your insurer partners understand the risks you face, where they could occur, how losses could ensue, and how you can respond to those losses. This true sense of partnership has never been more important in such difficult economic times.

Sometimes that results in a different approach; a significant number of our clients who developed Alternative Risk Financing strategies over the past five years are now reaping the benefits of this long-term strategic thinking. They are using these vehicles to control the cost of insurance and maintain significantly wider terms and conditions than those currently available on the transactional market.

Our message to clients remains consistent; to ensure that they get the best outcome for their business and maintain the right levels of cover, it means early and strong engagement well in advance of renewal dates and treating insurance as an investment in their business.

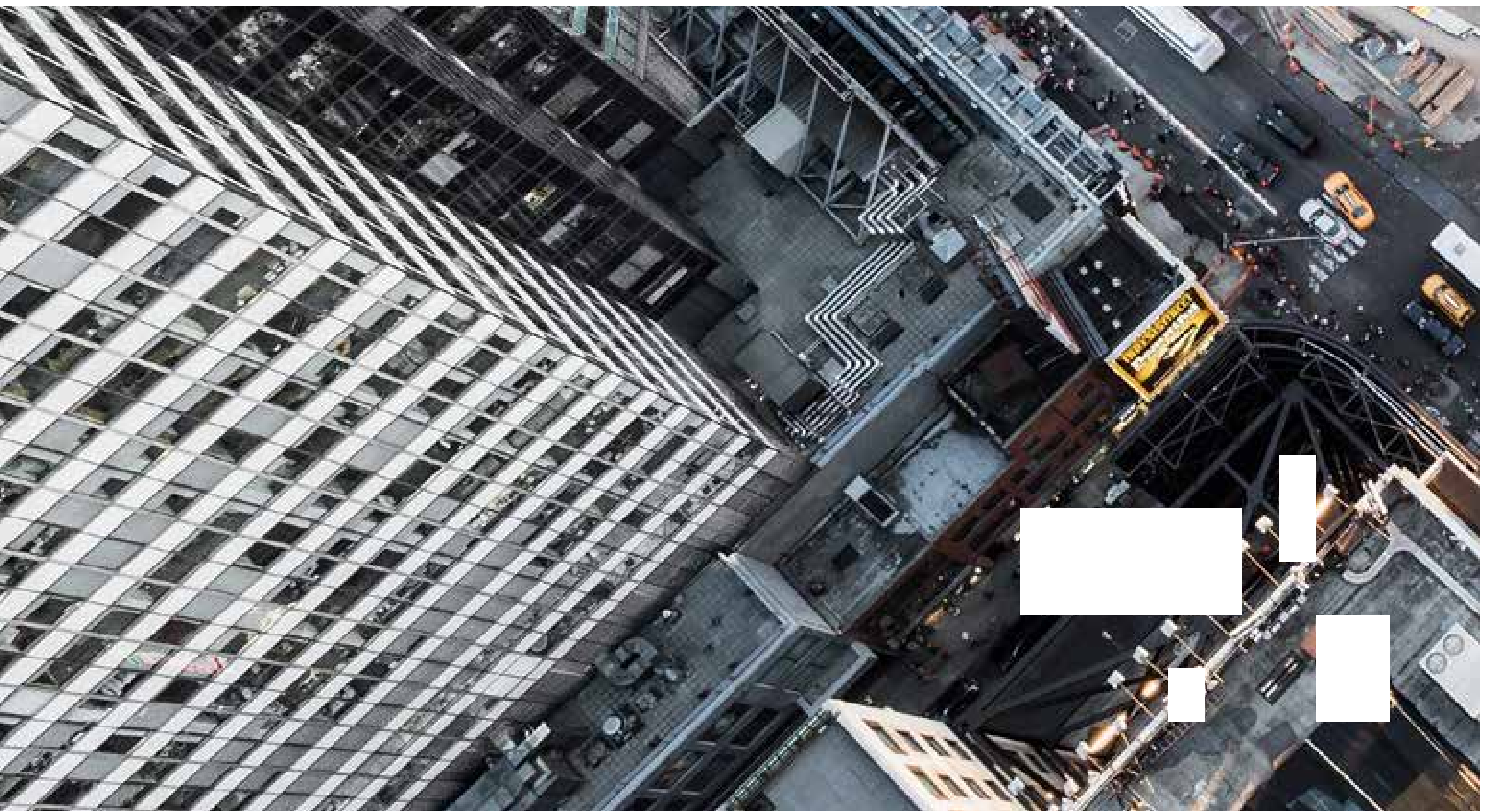
Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Peter Lowe
Chief Executive Officer, New Zealand
peter.lowe@willistowerswatson.com
D +64 9-356 9368

The direct market – general lines

Property



Many of the opportunities and challenges we reported in 2019 still held true as we started 2020. Globally, the property insurance market remained in good financial health and with a strong focus on underwriting profitability.

We noted that the re-underwriting cycle by major property insurers should largely be completed, however we expected insurers would seek to hold onto their strong position in this seller's market for as long as possible. Further, we expected normal market dynamics would play out as insurers started to look for some profitable growth across their portfolios.

But COVID-19 has changed the game. The turmoil it has created in the global insurance marketplace is significant, and insurers are scrambling to try and understand their exposure.

Insured loss estimates have been put at USD 80 billion across several policy classes and there will be significant investment income losses that will impact insurers' businesses.

Locally, the impact to date has been more muted as cover for infectious disease and pandemic is typically excluded from New Zealand policy wordings. As we entered the lockdown period the focus of New Zealand's major insurers moved to how they could support New Zealanders and our economy. They sought to be responsive to changing customer needs and to streamline renewal processes, particularly for the SME sector whose resilience to the economic impact of lockdown was more acute. The general sense has been that the local insurers are open for business, in good health and willing to innovate.

The following features of the Property market that we summarised earlier in the year still hold but with increased scrutiny as the need for profitable underwriting takes on more significance against global economic uncertainty..

Capacity is available – at a price

Global insurance capacity for all but the most challenged risk locations and industries remains generally stable, however, a hallmark of this market is the more judicious deployment of available capacity. Many insurers are choosing to write smaller shares on individual risks and closely manage their aggregate exposure to higher risk locations, which can create pricing pressure and require restructuring of insurance programmes.

Insurance market remains financially strong

The insurance market continues to be well capitalised, due in part to the ongoing low interest rate environment globally, and in strong financial health. Despite recent large loss years, it is estimated that policyholder surplus in the property & casualty insurance industry is sitting around USD 750 billion.

While COVID-19 will be another large loss to the industry, it is well placed to respond.

Underwriting is disciplined

There is a demonstrable discipline in the market and underwriting is rigorous. Increasing emphasis is being placed on risk control, safety, contractual risk management, cyber security and governance.

Core coverage terms and conditions, which have been relatively stable, are now under scrutiny and it is becoming commonplace for insurers to impose absolute communicable disease exclusions to avoid any future debate over unintended cover. There is also a focus on "soft" covers such as cyber, where losses are starting to manifest. Deductibles are under pressure where loss attrition is impacting the premium pool.

Wider climate-related issues such as extreme weather and fire events are now front of mind, viewed by insurers as systemic rather than an aberration and reviewed more closely as part of their underwriting process.

Due to the drive for underwriting discipline and profitability, decision making is becoming more centralised with greater central control over the risk selection process and deployment of capital. As a result, client centric underwriting by insurers is evident, with preferred clients being able to achieve their renewal requirements more easily than those viewed as non-core partners.

There is also clear evidence that insurers are focusing their capacity on renewals rather than new business. All major markets are swamped with submissions and, with many insurers still working remotely, they are being selective in the new opportunities they will consider. As we reported last year, those insureds who have looked for the cheapest transactional deal from one year to the next with no focus on improving their risk will continue to struggle to secure their insurance cover at attractive terms.

The Outlook

What remains uncertain is the longer-term impact of COVID-19, both locally and globally, and how that will affect the New Zealand insurance market as businesses move toward economic recovery. Falling premium income, depleted investment income, and potentially increased reinsurance costs could all lead to insurers seeking to shore up their profitability, particularly on the back of the hardening international insurance market.

We had predicted a disciplined and orderly market in 2020 with signs of competition returning for quality risks. The pandemic, global economic downturn, and the uncertainty this has created will very likely extend the hard market through 2021.

Locally, pandemic aside, the pockets of distress we mentioned last year will remain as insurers continue to manage their exposure to certain locations such as Wellington and industries such as the food sector, both of

which will continue to be challenged in securing favourable terms.

With insurers underwriting on an account-by-account basis there is a real opportunity to differentiate your risk. Insureds who can demonstrate being proactive in minimising their risk through first class risk management practices will secure the most competitive pricing, terms and conditions from the insurance market. Those who have chosen to develop a long-term risk management philosophy will build relationships with insurers who in turn will look more favourably at their strategic clients.

In this difficult insurance market:

- Be prepared for further change in insurers' guidelines on policy coverage
- Be prepared for protracted negotiations with insurers and centralised decision making
- Be prepared for increased scrutiny on risk engineering and loss control practices
- Be proactive and get the renewal process started early.

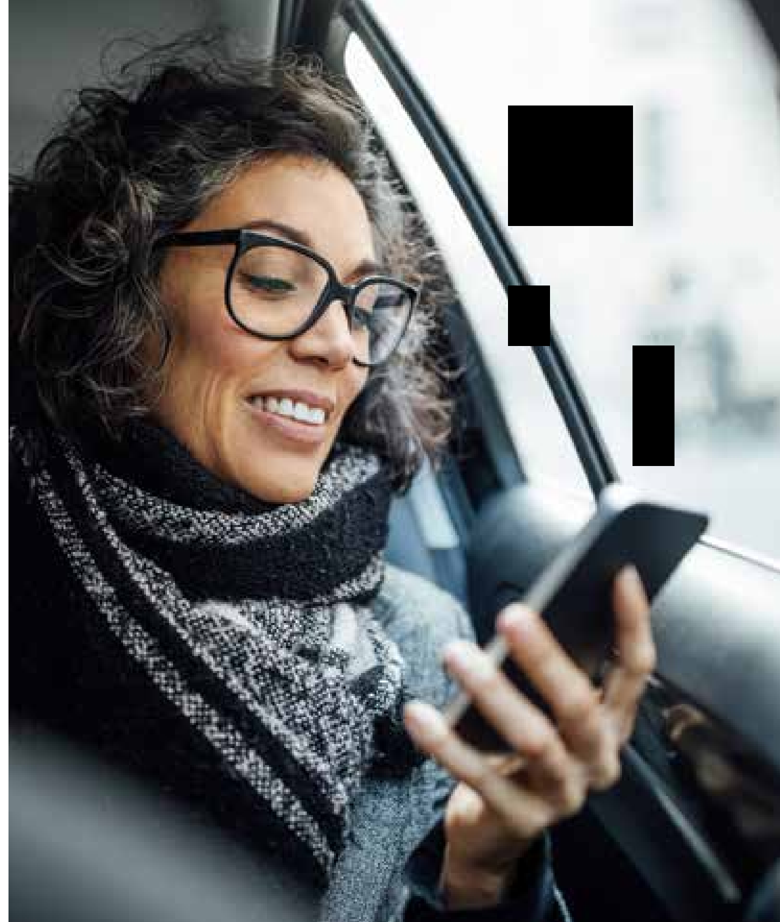
Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Craig Buckle
National Manager,
Corporate Risk Solutions
craig.buckle@willistowerswatson.com
D +64 9-356 9347

Motor

While insurers enjoyed a respite in claims activity during the COVID-19 lockdown, businesses in the transport and tourism sectors have been heavily impacted by the reduced activity, and closure of our borders. Insurers have responded to this unprecedented situation by offering options for laid up cover for those fleets significantly impacted. While the transport sector is starting to return to normality, tourism is likely to be impacted for an extended period. We will continue to work with insurers to structure programmes to reflect the reduced activity.



Insurers have shown less appetite for premium adjustments for smaller fleets that were impacted during the Level 4 lockdown, but we would expect that improved loss histories are taken into consideration when negotiating renewal terms.

For other fleets, loss histories continue to be a major driver in determining premiums with a continuing trend towards utilisation of analytics to determine trends and improved data from in-vehicle GPS technology. These analytics are helping fleet managers give stronger consideration towards self-insurance options in addition to the historical claims-driven structures.

Repair times continue to present challenges with increased technology in vehicles slowing down and increasing the cost of repairs. The withdrawal of Allianz has also had an impact as they were not a member of the “Knock for Knock” agreement between insurers, so not exposed to the same level of claims for clients with predominantly not-at-fault claims.

The Outlook

We expect insurers to continue to provide alternative options for fleets impacted by COVID-19. For other fleets, the remediation of the last couple of years is leading to more stable pricing levels for businesses with good loss histories.

While direct lodgement of claims with insurers and increasing use of digital assessments are speeding up the claims approval process, longer repair times due to limited capacity within the repair industry and more advanced vehicle technology will continue to weigh heavily.

The next 12 months will continue to see larger fleet operators consider alternative structures with higher deductibles and managed funds continuing to gain in prominence, while other operators battle with reduced post COVID-19 activity. The overall loss ratio across New Zealand improved slightly over the previous 12 months which should lead to more stable pricing.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Michael Brown
National Manager, Broking
michael.brown@willistowerswatson.com
D +64 9-356 9346

Marine

The New Zealand marine market has seen an increase in written premiums from $136 million to $149 million in the last 12 months, coupled with improved loss ratios from 64% to 59%. While this is an improvement, there remains uncertainty around the impact of COVID-19.

Many importers and exporters are showing reduced sendings as a consequence of the slowdown in activity during the early part of 2020, and expectations for a challenged economy. We have seen increased appetite and strengthening of Marine teams as newer entrants to the New Zealand market seek to obtain market share from the traditional leaders. However, there continues to be some challenges around capacity for stock throughput particularly in respect of polystyrene panelling.

Most Marine Cargo policies are written on a minimum and deposit basis (wherein the premium is set at a minimum amount and only adjusted upwards if the sendings exceed the original estimates). As a result, we are anticipating more conservative estimates to reflect the uncertain economic environment.

The local marine cargo market remains competitive, while on a global scale the Lloyd's market has seen several key syndicates cease underwriting. This has led to a tightening of pricing, a trend that we anticipate will continue in the short to medium term.

The Hull and Liability markets both seem to be looking for small increases on renewal business yet offering flat to slightly lower pricing for new business.

The Outlook

In the local market we anticipate relative stability for the balance of the year with flat to modest increases as insurers try to work with businesses managing their way through the COVID-19 crisis. Competitive tensions will remain, with increasing appetite for Marine business from newer entrants to the NZ Market.

Globally we expect to see modest rate increases and tightened terms and deductibles to continue for at least two more years. We see the Hull and Machinery market looking at increases in the range of 5 -10% year-on-year for shipowners with good loss records and by as much as 20% for those with poor loss records.

Inflationary pressures in the reinsurance market will force Marine Liability (Protection & Indemnity) clubs to raise fees for cover in the coming years, potentially by double digit percentages. As always, we will look to leverage local and international markets to find the best solutions for our clients.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Michael Brown
National Manager, Broking
michael.brown@willistowerswatson.com
D +64 9-356 9346

General Liability

In contrast to the Property market and some sectors of the Liability market (in particular Directors' & Officers' Liability), pricing and capacity for General Liability in New Zealand has remained competitive and stable. Insurers are maintaining a consistent approach to underwriting and there has been no discernible change in appetite.

Locally, COVID-19 has not had an impact on this class of insurance and traditional risk considerations such as client industry, territory, jurisdiction and loss history continue to dictate coverage and pricing. In New Zealand we are not encountering blanket exclusions or shrinking coverage options for this class of insurance.

Despite the stability, it should be noted that as insurers continue to monitor loss ratios, pricing corrections and higher deductibles will be applied to risks that have not performed well over time.

Where a client is operating outside of New Zealand, additional risk factors apply and will be underwritten accordingly. Liability for bodily injury, bushfires, worker-to-worker claims, labour hire and greater legislative risks in terms of product liability are but a few. Choosing the right insurer and tailoring appropriate cover is imperative. This is where your WTW adviser plays a vital role in helping you to select the most appropriate insurer and coverage for your specific risk profile.

Investing in a robust risk management process is a key part of managing exposure and loss for any business. The ability to clearly demonstrate such a process (and its effectiveness) to insurers will also have a beneficial impact on coverage and premium. Where required, we work closely with clients to assist with these initiatives, thereby improving performance.

The Outlook

Locally, the market does not look set to change in the short term, however globally, as reinsurance treaties renew, we expect to see rate increases being applied overseas.

It is inevitable then that some form of rate increase will also be demanded of NZ insurers by their global parents.

Despite this, we believe that capacity will remain plentiful for those with good claims records, however where there have been attritional losses, pricing and coverage corrections can be expected.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Rebecca Moller
Account Director
Financial, Executive &
Professional Risks
rebecca.moller@willistowerswatson.com
D +64 9-356 9336

The direct market – financial lines

Directors' and Officers' Liability

The D&O insurance market remains a challenge as the flow on effect of class action claims and increased regulatory scrutiny in Australia continues to be felt in the New Zealand market. The number of litigation funders in New Zealand has also increased as they seek to expand their activities across the Tasman.

The London D&O market which historically was able to provide more cost-effective capital has hardened for all insureds, with premium increases between 75% and 150% for risks without market exposure to the US, Canada and Australia. Increases are between 100% and 250% for risks exposed to those countries. Premium rates have increased even more in the excess layers where rates were traditionally low while some insureds have not been able to renew their securities entities coverage (commonly known as Side C) capacity.

There is ongoing pressure by insurers for increases in premiums and policy retentions and capacity continues to reduce as insurers manage the limits of indemnity, they are prepared to expose to any one risk. The key driver remains the adverse loss history across insurers' Australasian portfolios with leading D&O insurers highlighting that nearly 50% of all class actions ever filed are currently in the pipeline and it is estimated that this could equate to $1.8 billion in future settlements.

The market continues to retract, particularly in relation Side C where companies are dual-listed in New Zealand and Australia, and insurers are:

- Limiting their capacity on any one risk, with co-insurance structures becoming more commonplace
- Increasing company retentions substantially
- Increasing premiums with rate increases of 25% to 100+% being experienced
- Withdrawing support completely for existing clients in unfavourably perceived industries and/or jurisdictions
- Displaying limited appetite for new business risks especially on a primary layer basis.

There is also a greater focus on Side B (the company reimbursement provision) with insurers increasing premium rates, reducing capacity and increasing retentions on dual listed risks. Insurers are also taking firm stances on attachment points and walkaway pricing.

For companies that are not dual listed or requiring Side C cover, premiums remain competitive in New Zealand, as a reflection of the limited number of D&O claims experienced. However, the Mainzeal judgment of the High Court of New Zealand served as a reminder of the risks run by board members even in jurisdictions not renown for hostile litigation environments. The market is currently providing a mixed bag of outcomes (from expiring premiums to increases of between 5%-20%) depending on the insured's industry, financial results and claims record. Insurers are also paying attention to financial support and insolvency issues and underwriting accordingly.

Post COVID-19

Announcements of relief around continuous disclosure obligations, debt hibernation and safe harbour provisions from sections 135 and 136 of the Companies Act 1993 (trading while insolvent provisions) reflect the New Zealand government's concern about the difficulties companies face as a result of the pandemic. These difficulties exacerbate an already stressed D&O market and the travel, retail, hospitality, media and construction industries are under particular pressure.

This has made the D&O market become even more challenging; underwriting inquiries may now be tailored to company-specific concerns and may also drill down on COVID-19- related risk disclosures, the impact on financial results, operations, industry-wide concerns, liquidity/ solvency, and cybersecurity.

The Outlook

We are forecasting that premium rates will continue to increase and more dramatically so where clients have a dual listing in Australia and/or require Side C cover. Insurers will reduce capacity and we envisage more co-insurance among insurers to fill the capacity required by clients.

> **Additionally, insurers will closely review financials, COVID-19 disclosures and may apply exclusions across some areas of cover.**

In order to manage the severity of premium increases, it remains as important as ever to start the renewal process early and engage with your broker to differentiate your risk from others and remove negative assumptions regarding your business. We recommend larger insureds look at more creative options around retaining risk, via larger retentions or coinsurance in order to drive a more favourable renewal outcome.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Angelique Lotter
Account Director
Financial, Executive &
Professional Risks
angelique.lotter@willistowerswatson.com
D +64 9-356 9355

Cyber Liability

The cyber landscape continues to deteriorate with a significant increase in phishing and hacking activity as bad actors capitalise on the environment of uncertainty and fear created by COVID-19. Claims and losses are expected to continue as malicious cyber infections disguised as documents related to the health crisis are reported across the world. Organisations will also be more vulnerable than usual, as employees work remotely through networks and using hardware that both are potentially less secure. A recent example of this was the Nefilim ransomware which attacks information systems through remote desktop protocols.

The human element continues to be the leading cause of cyber loss, contributing to most claims reported. Organisations need to constantly review their cyber risk management and mitigation strategies and align them to their unique and individual risks. Pre-breach consultation services and monitoring is just one way that organisations can become more cyber resilient.

The cyber insurance market continues to mature and while capacity is still available, with incidents and losses on the increase, insurers have been re-evaluating their rates and tightening the amount of capacity they provide. Heavily-exposed industries are likely to see larger rate increases including healthcare, higher education, public entities, manufacturing, financial institutions, construction, and large media and technology companies.

Cyber coverage continues to evolve and expand to cover regulatory risk, reputational damage, forensic accounting and gap exposures. Cyber underwriters are also working more closely with their colleagues in other lines to address the issue of silent cyber coverage and concerns over aggregation.

The Outlook

Given the dramatic increase in cyber incidents, both in frequency and magnitude across all industries over the past year, organisations need to be proactive in assessing their cyber resilience and able to demonstrate this to their shareholders and to insurers. Limits should be carefully reviewed in light of the recently published ransomware attacks, and the consequent business interruption and associated costs of restoring systems. Despite the potential rise in risk for many organisations, the marketplace for cyber insurance has yet to react strongly, however we do expect this position to change.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Callum Hyde
Account Director
Financial, Executive &
Professional Risks
callum.hyde@willistowerswatson.com
D +64 9-356 9364

Professional Indemnity

The PI market has continued to firm with insurers being far more selective on risk and applying punitive measures where clients have experienced claims in recent years.

Premium rates in prior years have proved to be unprofitable as insurers strategy was to compete vigorously to grow market share. Now there is more scrutiny on risk selection and insurers are being more cautious with deployment of underwriting capacity. There is more immediacy with turning unprofitable segments of their portfolios around quickly, as opposed to a longer time frame in the past. This has led to some large spikes in premium.

One global insurer has exited the market over the last 12 months through unsustainable losses. Other markets have redefined their portfolios with:

1. Some preferring to operate in the SME space
2. Some withdrawing from writing certain classes of business completely, such as real estate agents, financial planners, valuers and engineers.
3. Reducing their capacity leading to an increase in the requirement for co-insurance – multiple insurers participating in a placement.

This market compression leads to higher pricing and restrictions in coverage from fewer competitors.

PI premiums are usually rated on the previous financial year end. Many clients have experienced growth in the last financial year but are forecasting a reduction in revenue due to COVID-19.

> **Clients are therefore confronted with an increase in premium rate based on last year's financials but facing current year revenue decline – an unsavoury experience.**

Lead time to obtain terms from insurers, combined with the requirement to provide more detailed information, have led to final terms in many instances delivered very close to renewal.

Clients with renewals approaching where their revenue has been adversely affected by COVID-19 are likely to be offered renewal premiums as expiring, provided no claims notified or deterioration of existing matters in the prior 12-month period.

Premium rates in prior years have proved to be unprofitable as the insurers' strategy was to grow market share. Now, there is more scrutiny on risk selection and insurers are being more cautious with deployment of capacity. There is more immediacy with turning unprofitable segments of their portfolios, leading to large spikes in premiums.

The Outlook

With COVID-19 impacts still to be fully felt, there will be increased uncertainty around pricing, coverage and capacity. The New Zealand market though has been resilient through other crises, such as 9/11, and with improving loss ratios through price remediation in the last two years, we expect a higher degree of flexibility and tolerance with our insurance market than in many overseas jurisdictions.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Nigel Grantham
National Manager
Financial, Executive &
Professional Risks
nigel.grantham@willistowerswatson.com
D +64 9-356 9356

Our specialities
Agriculture & Dairy

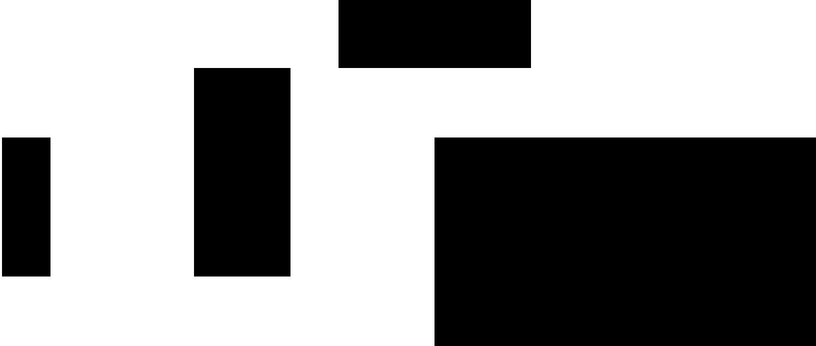
Weather-related insurance losses are typically low frequency/high severity type claims in the agriculture and dairy sectors and when taking a longer-term view, unfortunately appear to be on the increase

Having said that, 2019 saw a relatively low incidence of claims, according to New Zealand Insurance Council data. Non weather related or natural disaster losses have not been severe in very recent times, despite the severity of losses being potentially very significant risk. Whole milk powder dryers (and many other variants), cheese production plants, meat plants etc hold significant values at risk.

While specific sectors have not been identified in the Insurance Council data, overall 2019 property showed the loss ratio improving from 59.58% to 52.15% and the combined ratio decreasing from 92.19% to 90.27%. In the absence of any large natural disaster losses, this is a positive trend.

An ongoing issue that has affected the dairy industry is the debilitating Mycoplasma Bovis disease. While still present in NZ, the disease has mostly been contained via stringent stock and movement controls by Government agencies. Currently 14 farms in NZ remain active and are yet to be depopulated and cleaned.

The COVID-19 pandemic has impacted the food sector from an operational perspective, however the food sector being deemed an essential service have not adversely affected many business results. Some businesses have in fact achieved increased revenues with the different primary and secondary waves of COVID-19 infection sweeping through different global continents providing different increased demand levels for New Zealand food products.



Property insurance risks

The major property insurance risks associated with the dairy and agriculture industry are similar to other manufacturing risks. However, the widespread existence of Expanded Polystyrene (EPS and similar) products in building structures, used due to their hygienic and thermal efficiencies, remains a key exposure for insurers and clients.

The main objective for the food sector is to manage fire risk and mitigate potential ignition sources for panel and other combustible materials. The use of fire sprinkler protection, thermographic imaging and sound maintenance and housekeeping programs assist in preventing fire losses, including the use of alternative, less combustible products in internal and structural buildings.

While capacity, premiums and deductibles have been impacted by some recent losses in Australasia, the critical factor in seeking cover will be the ability to demonstrate first-class risk management and maintenance practices, disaster/ crisis recovery strategies and the strength of business continuity plans.

Commitment is required by clients to manage external and internal high-risk sites by improved risk management processes and investment in additional fire protection, namely, fire sprinkler protection and where possible and practical, the use of alternative panel products that are less combustible.

The Outlook

The insurance markets are still struggling with unprotected sites in the food sector from a fire loss perspective. New capacity is scarce with existing insured risks being carefully underwritten by insurers. A handful of insurers continue to support these risks though every year seems to bring on a new challenge.

We have seen some recent signs of local market rates easing since the last two years of significant rate increases and the revision of available capacity. Though we have seen insurers being more selective on the risks they write, it's important to involve your insurer so you can build a mutually- beneficial relationship around risk management which will help drive an efficient placement strategy.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Vedi Angjelinovic
Account Director,
Corporate Risk Solutions
vedi.angjelinovic@willistowerswatson.com
D +64 9-356 9341

Alternative Risk Transfer & Captives

The Alternative Risk Transfer (ART) market is a steady force throughout the traditional insurance market cycle. During challenging market conditions such as we are currently navigating, ART solutions often deliver the most value and receive the most attention from risk managers.

Turmoil continues to spread across many lines of insurance as insurers struggle to address high combined ratios, low interest rates and the economic upheaval brought on by the COVID-19 pandemic. Traditional insurers are seeking to manage their aggregate exposures, re-underwrite policy coverage and re-price risk, all of which creates inflexibility and hampers the delivery of what many insurance buyers need.

Developing a successful ART vehicle or captive product requires careful analysis of individual company needs, striking the optimal balance between risk transfer and retention and creating bespoke products and solutions with the potential to save significantly on their total cost of risk.

We have worked with clients to create captive solutions in the distressed areas of risk including Wellington earthquake, Professional Liability and agricultural exposures. This has created additional capacity, better pricing and a more resilient risk programme.

The Outlook

The current economic environment is a catalyst for increased interest in ART through 2020 and beyond as many insurance buyers seek to find their 'new normal' in a post COVID-19 world. As companies seek to recover losses incurred through shutdowns or limited trading a greater emphasis will be placed on bespoke solutions that deliver where the traditional insurance market and product offerings can or will not.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Jessica Schade
Practice Leader,
Captives & ART Solutions
jessica.schade@willistowerswatson.com
D +64 9-356 9377

Construction

The construction insurance market continues to show signs of firming through the first half of 2020 and will likely to do so for the remainder of the year.

The London market has continued to experience change following the Lloyd's Review and the exit of many long-standing construction insurers. Those that remain are reducing capacity, increasing rates and tightening policy terms and conditions. Global insurers with local operations have not been immune to change; we have seen several significant insurers change their underwriting appetite, reduce capacity and/or exiting this industry sector completely.

While the frequency of losses locally remains within reason, several large losses have impacted insurers' portfolios, with what could turn out to be New Zealand's largest construction fire loss in late 2019, putting the spotlight again on hot work procedures and permits. Insurers will likely apply compulsory hot work conditions for all vertical works and, in some cases, even civil work projects. In order to preserve cover, organisations need to be aware of the hot work conditions imposed by insurers, as often they could vary from existing operating procedures.

Looking at COVID-19 from a construction experience perspective, the longer-term impact remains uncertain, but we have recently seen insurers imposing communicable disease exclusions as a mechanism to manage their exposure. It is important these exclusions are understood in full, as the intended application can be wide reaching.

The Outlook

Challenges in the construction sector can be met by early strategic planning, and by heightened focus on the quality of information being supplied to an increasingly discerning underwriting community.

In addition, it is imperative to evaluate the insurance placement strategy to ensure overall project success and to consider alternative risk transfer techniques, including parametric solutions for addressing project risks stemming from extreme events.

Creativity and innovation will be essential to building leading edge approaches to risk management.

Contract Works – Material Damage

While we are still experiencing hardening pressure, most local insurers have adjusted their premium rating on new and renewing risks. Previously available coverage enhancements such as Guarantee Maintenance and Design Exclusion (DE5 or LEG3) are either no longer available or are only offered with increased rating and deductibles.

Annual programmes with repeat loss history and exposure to extreme natural events continue to face changes to coverage and insurer capacity availability – in some instances, insurers are imposing separate Major Perils deductibles.

Large infrastructure and major projects still have a supply of capacity available, however rating and deductibles are higher than 12 months ago, and policy terms and conditions are narrower. Insurers are underwriting with greater scrutiny given to Contractor performance on previous projects.

The Outlook

The theme has not changed too significantly since 2019 and we expect this to continue for the remainder of 2020. Organisations must continue to work closely with their brokers on a short to medium-term plan, ensuring early engagement with insurer partners.

Construction Liability

Construction liability pricing on annual policies for programmes with a favourable claims history has been positive, however insurer selection and competition remains for quality business from local markets.

The Outlook

Clients with a deteriorating performance on claims can expect remediation via either increases in premiums or deductibles. Clients who are willing to accept higher deductibles will continue to receive competitive pricing from the market.

Design and Construct Professional Indemnity

Professional Indemnity (PI) continues to be the most affected construction class in 2019 and 2020. With further sustained losses, this has impacted insurers' appetite, pricing, coverage and deductibles for clients.

Insurers are continuing to tighten up areas of cover including nonconforming building products, loss mitigation and rectification costs as well as express fitness for purpose. Aluminium composite panels continue to be an issue for insurers as they impose exclusions and conditions to address the increasing level of claims experienced overseas.

The Project Specific PI market continues to be a heavily scrutinised class of insurance with local and overseas insurers re-thinking their approach to participating on large infrastructure projects for multi-year periods – particularly those delivered under a project alliance structure. This has significantly reduced the available capacity and coverage available for these projects. Long lead in time is required working with all project sponsors and both the local and international markets to ensure a robust project PI programme is built.

The Outlook

The market capacity available for Project Specific PI placements has reduced significantly. This makes achieving the contractually required limits increasingly challenging, with additional insurers required and resulting in a consequential increase in pricing.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Tony Seto
National Manager,
Construction
tony.seto@willistowerswatson.com
D +64 9-356 9378

Health & Benefits

Benefits Strategy

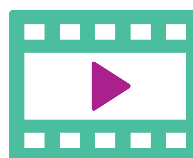
Current world events have accelerated new ways of working and from an employee benefits perspective have increased the need to make the most from a benefits spend/budget.

It is therefore timely for employers to review their benefits strategy to move from a transactional approach to an ever-evolving strategy that can help to navigate the future of benefits.

Willis Towers Watson has developed the Benefits Navigator, which is an operating model to make, execute and monitor strategic decisions related to benefit programs.

The Benefits Navigator

An operating model to make, execute and monitor strategic decisions related to benefit programs.



Video & downloadable content

Click on the image to be directed to our video about modernising benefits in asia pacific, here you can also navigate to other relevant articles and link to download our survey report!

Insurance market

Risk Benefits insurers (Group Life, Income Protection, Trauma), are taking a cautious approach to new business in the current environment. While New Zealand has been relatively unscathed by COVID-19 from a Risk Benefits insurance perspective, insurers in this market are clearly of the view that the adverse impacts on the economy will continue as a result of lockdown in New Zealand, the ongoing border restrictions, and impacts in other world economies leading to issues for New Zealand importing and exporting.

Economic impacts are likely to continue to lead to restructuring of business and employee impacts including redundancies. As a result, the market anticipates increases in mental health related claims across Income Protection and Total & Permanent Disablement Insurance policies.

From a Medical Insurance perspective, medical insurers have experienced a low claims period over the recent past due in particular to the deferral of elective medical procedures during the lockdown period. Medical insurers have looked to engage with their members over this period through the provision of a multitude of ancillary services. In some cases, the insurers have also been able to apply premium credits to insured members.

Such a low claims period will inevitably mean, in the short term that the costs of insurance are relatively lower than expected for the 2020-21 renewal year.

> **As the country returns to a new state of normal, there may be some inevitability that results in claims patterns returning to more expected levels.**

The flow on effect for businesses may mean some more prudent forecasting of medical insurance costs into 2021 and 2022.

We expect this trend of increasing 'member engagement' to continue into the future as the insurers look to utilise increased engagement to retain business and to impact behaviours in a positive manner.

The Outlook

- Employers are looking to enhance focus on benefit programmes across all dimensions.
- From the most recent Willis Towers Watson 2019/20 Benefit Trends survey in New Zealand, four in five of the New Zealand employers surveyed are focusing on their talent experience, then looking at administration and operations, followed by benefits portfolio and analytics and reporting.
- Looking ahead three years, employers are looking for more efficient forms for benefits management, planning to use new technology to deliver a more targeted benefits message and increasing their efforts around a value of investment approach to benefits.
- Globally, employers are particularly focused on enhanced talent experience (to better address employees wants and needs) and analytics, insights and reporting (to assess current programmes and to understand where best to deploy resources in the future).

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Niall Martin
Head of Health & Benefits
niall.martin@willistowerswatson.com
D +64 9-356 9353

Irrigation

Irrespective of their size and composition, irrigation schemes across the country continue to contend with widespread industry issues around water use, freshwater reforms and the looming taxation debate.

In our 2019 update we provided commentary regarding the potential introduction of a water abstraction tax. The government's Tax Working Group presented a series of recommendations with significant implications for the agriculture sector; proposed new costs would have flow-on effects to power prices, food and for ratepayers. The Government's decision to take these options off the table was met with much relief, however, caution remains as to the prospect of alternative future taxation options. For instance, an environmental footprint tax is something the present government has refused to entirely rule out as notionally forming part of a longer-term industry taxation strategy.

In contrast to these wider industry subjects, the insurance market for irrigation schemes has been relatively uneventful over the course of the past year. Moderate infrastructure premium increases have been commonplace, although some specific schemes would have incurred bigger rises in asset premium beyond the present generally accepted norms. Double-digit percentage rate increases would be unusual but, were they to occur, we expect this to be predicated by either an uplift in replacement values, poor loss history or geographic exposure, or any combination of these three price drivers.

Infrastructure risks and irrigation schemes in particular are increasingly confronted with tightening insurance capacity constraints for assets cover. Since the beginning of 2019 this has been an issue on the horizon, which, as we had predicted, is now a real "front and centre" challenge.

Essentially, there are two main factors at play. Market appetite continues to wane among the relatively small band of insurers that continue to be actively engaged with irrigation scheme risks. In part this lack of eagerness is a direct impact of insurance companies holding a stringent approach toward natural catastrophe exposures. The current levels of caution are not unique to irrigation risks and are being applied across the large proportion of property risks.

Geographic aggregation is an increasingly common obstacle. Now more than ever, insurers closely monitor how much risk they retain in different regions of the country. This is directly impacting the respective abilities of underwriters to meaningfully compete for new risks, if it is established, they already hold sizeable financial exposure by way of providing capacity to insure other asset risks in the same proximity.

As a result, it is increasingly the case that clients will more commonly rely upon a blend of two or three participating markets for their asset risk insurance placements. This type of structured placement will not necessarily manifest among just larger irrigation schemes; while it will neither introduce greatly more attractive pricing, it will go some way to alleviate the challenge of securing required market capacity.

Beyond this familiar co-insurance model, constrained capacity will hinder advancement of practical alternatives in the immediate future. Longer-term solutions in the form of group buying, or collectives, may provide some pricing and capacity relief. These types of arrangements are not without their own challenges, however, and other industry sectors have attempted to sustain similar types of insurance provisions. Creating critical mass does not surmount the prevailing insurance market obstacles. The potential viability of a sustainable solution will hinge heavily upon achieving an equitable distribution of benefits among all participating insured parties and calibrating a programme which can adequately manage variances of size, value, topography and risk profile of different irrigation schemes.

The Outlook

New Zealand and Australian-domiciled insurance markets will likely remain at the forefront for irrigation scheme risks. We do not anticipate this to change over the next 12 to 18 months at least. New markets have indicated muted interest in entering this segment, however, a fresh push to gain increased market share and profitability may change this and be the catalyst for healthier competition. If this scenario transpires, we would anticipate any new entrants

will act initially on a very selective basis and at a modest pace.

Otherwise, our general expectation is for underwriters wanting to hold on to existing clients wherever they can and stave off the frictional costs incurred from any upheaval to their respective portfolios.

For international markets the price point and entry level for infrastructure risks remains unfavourable in comparison to local competitors. We perceive little prospect of this changing if the present underwriting environment remains in its current state.

Liability markets are relatively flat and premium variations only slight. We foresee minimal fluctuations in cost or coverage availability in the short-to-medium term of the next 12-18 months.

As was the case 12 months ago, the key for clients in the irrigation sector will be to retain leader markets and take benefit from continuity and consistency of coverage.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

George Byrne
Business Development Manager,
South Island
george.byrne@willistowerswatson.com
D +64 3-339 5010

Iwi

Willis Towers Watson has developed a strong relationship with Tangata whenua. We continue to grow our marae insurance schemes that provides insurance solutions to meet the cultural needs of marae, specifically around basis of settlement for Taonga, cultural artwork and risk management solutions. We also provide assistance with protection and advice for financial literacy, health and education needs.

With many iwi well into post and pre-settlement mode, the opportunities are significant. Several hundred million dollars have been paid by the New Zealand Government to settle past grievances, allowing iwi to invest, and generate wealth and opportunity for Tangata whenua. Therefore, iwi business will continue to become a major player in the New Zealand economy with investments in dairy, agribusiness, fishing, transport logistics and major property developments. Sixty iwi who have settled with the New Zealand government manage combined assets of $6 billion.

The Outlook

With our involvement in the maori sector being quite significant in addressing the needs for business-related insurance requirements, our focus on marae has been very successful. We have seen a changing perspective in providing insurance solutions to marae from many insurance markets. Marae are an important part of the Tangata whenua community. The ability to leverage the insurance purchasing power for iwi has significant cost benefits

The changing perceptions of marae risks, which are an important base for iwi, has changed where it has been acknowledged that a collective approach to insuring is beneficial for both clients and insurers.

We continue to grow our presence this sector providing sound and reasonable solutions to iwi. Willis Towers Watson's iwi practice continues to assist iwi to achieve their collective goals, with insurers keen to align themselves with Tangata whenua.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Vedi Angjelinovic
Account Director,
Corporate Risk Solutions
vedi.angjelinovic@willistowerswatson.com
D +64 9-356 9341

Pacific Islands

Globally the insurance landscape for the Pacific Islands has changed significantly over the past 12 to 18 months, particularly for the insurance of assets and revenues.

Insurers and reinsurers have continued to remediate their underwriting portfolios in natural catastrophe affected areas. This addresses the fact that they have had little to no return on their capital investment in recent years due to many cyclones, storms, earthquakes, fires and now COVID-19.

While many of the specific events have occurred in territories outside the Pacific region, such as. wild fires in Australia and the US and hurricanes in the Caribbean, the region is seeing the fallout from the realities of the global insurance market. Essentially that means, from a risk evaluation perspective, underwriters are applying the impact of their wider loss experience to all territories where the underlying risk profile is deemed to be similar. This reluctance to view the Pacific Islands risk in its own right has led to a significant reduction in underwriter appetite for the territory and this, in turn, has resulted in a rise in the premium and deductible levels for Pacific property risks.

Pacific Island nations have traditionally looked to the London insurance markets for cover, be it providing 100% capacity for 'hard to place' business risks or providing individual support behind a local insurance market that is only able to provide a finite amount of capacity for a given risk. It is worth noting here that there is limited to no capacity for Pacific risks available from the New Zealand and Australian insurers as both these in markets have their hands full with their own natural catastrophe risk exposures such as earthquake (NZ), and fire and wind (Australia).

There is a number of 'local' underwriters operating throughout the Pacific Islands but many of these are unrated by the international financial ratings companies such as Standard & Poor's. WTW does work with several of these companies and we are striving to develop new insurer relationships with a view to developing new placement capacity. However, many of these new local underwriting markets must provide a secure financial footing and it has proven difficult to get the required information to ensure these companies meet our criteria for solvency/security of market.

Our overriding concern is that the Pacific is in danger of becoming a B-rated insurance market. While bigger businesses may have the resources to attract A-rated capacity, small to medium enterprises will likely struggle with the same increases, forcing these businesses to consider heading away from 100% cover or adopting increasing self-insurance levels in an attempt to manage premium costs.

In saying this, establishing the financial security of insurance provider is very important in the evaluation process and we recommend that this be kept 'front of mind' when our clients are developing their premium management strategies.

These are purely market forces at play – we are working with clients to help them to develop risk management strategies that focus on minimising risk rather than just premium management. These strategies might include design of new building structures to appropriate wind/seismic codes, using new cyclone protection measures to enhance protection for wind perils, or including automated fire protection measures to improve the fire risk profile – a line of first defence, if you will. Of course, such strategies cannot remove all risk especially for the major perils of fire, earthquake and storm/cyclone, but in the long term, this risk mitigation work will deliver benefit to insureds. be it through increased insurability or more competitive policy terms conditions or premium.

The Outlook

In light of the current challenges posed by the international market place and, now, COVID 19, and the associated negative cost implications, we strongly encourage our Pacific Islands clients to maintain their asset and revenue insurance programmes but review the level of covers. They should do this with a focus on effective balance sheet protection rather than attritional loss management.

Also, we suggest they consider self-insurance options as a means of premium cost control while the insurance market is tight and be prepared to provide a lot more underwriting/ business risk information to present their business in the best possible light and thereby attract new underwriter capacity.

Are the current market conditions frustrating? Absolutely! Is the Pacific being measured by its own performance by the global insurance markets? Absolutely not!

It's a long time since conditions have felt this hard in the Pacific and changing the insurance market's hardened attitude to the acceptance of Pacific risk is a huge challenge, certainly in the short to medium term at least.

However, our solution is to find other markets. Willis Towers Watson is working with its global colleagues, looking at new capacity in markets such as Singapore, Hong Kong, Malaysia and China. We are also looking to re-establish some of the property placement facilities that will help aggregate our territory property portfolios and move the underwriters away from their 'minimum' premium for each individual risk position. We need these insurers to find profitability in the Pacific Island market; when they see that, that will encourage others to look at the risk on its own merits.

When we achieve the above objectives, we will be able to secure more favourable terms for the Pacific insurance portfolio.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Ged McCombie
Practice Manager,
Pacific Islands
ged.mccombie@willistowerswatson.com
D +64 9-356 9398

Power & Renewable Energy

Property

Power insurance markets have continued to harden significantly in 2020. The underlying dynamics which have led to this and were signalled in 2019 – a general centralisation of underwriting authority, a determination by senior management to effect change, significant loss levels – have simply accentuated during the last 12 months.

2019 saw a retrenchment of available capacity and the creation of deliberately centralised underwriting strategies in the international power market, as it turned from being a market that had begun to harden from a soft base into a truly hard and challenging business environment from a buyer perspective.

Previous losses caused only temporary hardening phases

For the last two decades, Power market pricing had been on a softening trajectory year on year, punctuated occasionally with brief periods of hardening, such as the global financial crisis in 2008-9, natural disasters in New Zealand and Japan in 2011, and US hurricanes in 2017.

Aside from these periods, the market had experienced years of double-digit reductions; while this may be sustainable in a loss-free environment, the sector has seen year-on-year deterioration in global losses, often surpassing or equalling the global premium available for the sector.

This has left insurers with a dwindling pool of premium to counter loss reserves; while the fluctuations of loss quantum has also increased in that time, the loss development pattern continues to bring more sustained challenges to the Power sector.

The hard market has lift-off

Market pricing for non-loss making, low catastrophe exposed business therefore accelerated from flat renewals during the last quarter of 2018 to mid-single digit percentage increases by mid-2019; by the end of the year the pace and variance of these rating increases had increased significantly.

Insurers were able to close their new business budgets; in some cases, even their renewal portfolios managed to hit and surpass their premium income targets for the year, as a result of the rate increases far surpassing what they

had originally projected and agreed with management. Consequently, this provided further momentum to the drive to increase rates still further at the beginning of 2020, as the available supply of capacity continued to reduce.

Capacity retrenchment across the market

In line with the Lloyd's review into the sector, there has been a retrenchment of those syndicates that are able to insure this class. The General Property Lloyd's syndicates that have previously provided capacity to the Power sector have had their existing capacities largely reduced; in addition, more specialist underwriters that continue to support the sector have also reduced their deployable capacity. The overall global theoretical capacity has always been at a far higher number than the actual "realistically" deployed capacity, and as the Lloyd's review has pushed this figure lower, London market composite insurer appetite has also tempered the realistic capacity available to buyers.

15% reduction in global capacity at a stroke

During the past 10 years, an average year would generally see a theoretical global capacity total of approximately US$3.5 billion, with a realistic capacity figure of approximately US$2 billion. Now in 2020, the total global capacity is approximately US$3 billion, with a realistic capacity figure of approximately US$1.5 billion. Insurers such as Axis, Mapfre Re, Neon, Hartford and Argo have closed their Power portfolios entirely in London, following the trend set by Pioneer, Priority and Aviva from previous years.

The sector continues to have a broad range of losses that are not solely down to risk management failures. In the past five years losses have been equal to or exceeded premium income.

An Incurred Ratio in excess of 100% (and probably in excess of 80%) guarantees portfolio unprofitability; however, due to the reduced premium income pool and the gradual escalation of operating costs, we now think that any Incurred Ratio within 50-80% is also likely to produce an overall underwriting loss.

History suggests an unprofitable portfolio for several years

The percentage loss ratios for the majority of the lead insurers has been consistently in excess of 50% for the last decade, and during the soft market these high ratios were often due to the continual downward rating levels. With the rates annually falling anywhere from 10-20% up to 2017/18, albeit the brief periods of hardening, with average global annual losses being approximately US$2.5 billion, we can conclude that the global premium for the Power sector has been below the average annual loss amount for some time. This has made it unsustainable for carriers to continue the downward curve on rating and to continue insuring the class.

Moving further into 2020, insurers are therefore under less pressure to insure all the business presented to them and are more selective than when there was a premium push in the soft cycle environment.

Rating level increases

The sector has hit a hard cycle after years of downward pressure. Below is a summary, quarter by quarter, where rating expectancy has been on loss-free business:

- **Q4 2019:** 10% rate increases were a starting point, with higher demand of 20% in some cases. The higher end of this was in part due to insurers having underwritten their income for the year and as such only continuing with risks where there was high return on capital.
- **Q1 2020:** The starting point had increased to 15%. With their treaty renewals, in the main, in place post 1 January 2020 and their business targets set, insurers quickly moved from a starting point of plus 10% on rate for loss free business to plus 15% on the same basis.
- **Q2 2020:** Most programmes saw rating increases of between 15-20%. At the time of writing, this has stayed relatively stable on a risk rating basis based on occupancy. The COVID-19 global pandemic has led to the global market place operating in uncertain times which has led to some previously unseen challenges and variances in offers.

Other developments

Centralisation of underwriting authority

In 2019 there was a push by insurers to synergise their offering globally in the sector. This has become more evident in recent months, with Power leaders becoming more consistent in their underwriting philosophy across their global offices. AIG has multi-tier approval levels set in place, while Zurich has a committee to review referrals from their global hubs, with the message shared and analysed between the various committees. Liberty has closed its US Power portfolio in the region and responsibility now sits solely in London, as it does for the MENA region.

In previous years there has been a fragmented approach from insurers in different global hubs; while this didn't exactly duplicate available capacity, it has previously led to differing products being available due to the simple geometrics of a market dynamic and was endemic of a soft market cycle. The requirement for underwriters based in local hubs to be responsible for insuring the risks in their territory has reduced; in certain cases, these hubs have been closed to limit these insurers to one point of contact for the sector.

Review of coverages and contracts

During the soft market, terms and conditions remained relatively stable. A notable development, first evident towards the end of 2019 and at the start of 2020, has been the changes to the coverages offered by the market. Sub-limits and extensions are being reviewed more carefully and reduced or removed where they are considered too high or where insufficient underwriting information has been provided to support previous levels.

Data protection coverages have reduced, with Lloyd's introducing the LMA 5401 (a total cyber exclusion) and a general restriction from the wider market of writebacks such as Machinery Breakdown on the NMA 2915 clause. There is an overall increased desire from lead markets for claims authority, with Claims Control clauses being demanded as opposed to the Claims Co-Operation clauses more often accepted during the softer part of the market cycle.

More selective underwriting

Considering the increased rating levels evident in the sector, insurers have been able to be more selective in the risk exposure of their individual portfolios. Diverse multi-location portfolios will be analysed based on the catastrophe exposure and a given buyer's variance in occupancy. There has been a reduction in the overall capacity available to write risks spread over multi-locations, geographically in high natural catastrophe exposed territories, as insurers can achieve better return from less exposed risks.

Insurers continue to insure assets located in these territories, but their preference will be to do it on an individual site basis and/or where buyers have significant self-insured retentions and/or limitations on natural catastrophe coverage. Greater modelling by buyers of their portfolios for natural catastrophe exposure is recommended to ensure a better understanding of exposures and limits required and to support renewal negotiations.

The Outlook

Hardening trend to continue through 2020

With further global economic pressures apparent, especially from COVID-19, the reality is that the hardening market is set to continue for the remainder of 2020. While the back end of 2019 saw insurers expose the lack of capacity available due to their closing portfolios early by increasing rates exponentially, going forward there should be a more consistent market 'norm'.

Anticipated rate increases will have been mainly set through the 1 January treaty renewals and the extent to which increased reinsurance costs are passed on to the direct buyer. Double digit rate increases will continue as a starting point on loss free, well risk managed business; coverages currently in place will receive further scrutiny than in 2019, and third-party agreements with original manufacturers will also come under the spotlight.

Be prepared!

It should also be noted that while the global Power market has hardened and underwriters will scrutinise risks still further, there is still a strong pool of insurers underwriting the sector who continue to support the industry and the clients within it.

It is important for buyers and their brokers to engage with insurers as early as possible and provide risk management protocols and up to date underwriting information such as survey reports and detailed Business Interruption breakdowns.

In these challenging conditions, we think that buyers should also think very carefully about which market relationships they value as we think a relentless focus on price above any other factor may run the risk of backfiring – especially if a loss is incurred.

General Third-Party Liability

The second half of 2019 saw a noticeable change in market dynamics for the international General Liability market and this momentum has been carried forward into 2020. The further deterioration of underwriting performance, driven by a series of losses and rising social inflation costs, has prompted insurers to reconsider reserving adequacy and shifted the focus from 'top line' growth to stronger underwriting discipline.

Technical Rating

Consequently, we have seen a much greater focus on technical rating and benchmarking as part of the underwriting process. Primary placements are being subjected to more measured increases, with insurers tending to apply base rate increases of 10% to 20% prior to factoring in further rate adjustments for poor loss records and/or historic under-pricing. This said, with the full impact of COVID-19 still unknown at the time of writing, it is likely that underwriters will be under even greater pressure to deliver rate increases to their management and consequently average base rate increases could be more pronounced in the second half of the year.

Capacity

The stronger underwriting discipline being applied is also leading to insurers reconsidering capacity deployment, often limiting or reducing line sizes on programmes where there is a perceived catastrophe-risk exposure. The impact of this is mitigated for programmes which require less capacity but for those buyers that purchase more significant limits the lack of arbitrage can serve as a further factor in pushing up costs.

The combination of all these factors, coupled with the substantial increase in new business flow to the London market this year, is resulting in a much more selective approach from underwriters in terms of what type of risks they are willing to write and – importantly – how prepared they are to negotiate.

Whilst in theory the global capacity for International Casualty risks remains high at approximately US$3 billion, the realistically available capacity is ultimately closer to around a third of this amount. This notable delta is due to several key factors including insurers':

- unwillingness to deploy their maximum theoretical capacity
- minimum and/or preferred attachment points
- requirements to only provide coverage on a designated form (e.g. Occurrence Reported rather than Losses Occurring)
- application of minimum rates that are economically unviable in the context of overall insurance programme costs
- lack of appetite for specific aspects of the coverage requirements.

Coverage Considerations

In addition to a focus on rate and capacity deployment, greater attention is also being paid to policy coverage and, depending on the premium adequacy of the risk, insurers may look to rule out soft market coverage extensions in a bid to achieve – or at least get closer to – rate adequacy.

For example, underwriters are now taking a firm position on cyber coverage and ensuring it is either excluded from policy wordings or provided on an affirmative basis, although there remains some inconsistency in the clauses preferred by insurers.

The most recent coverage development, deriving from the COVID-19 pandemic, is the introduction of Communicable Disease exclusions. Whilst at the timing of writing this is very much an evolving landscape, the responses from insurers have varied, ranging from blanket exclusions for all forms of communicable diseases to some insurers preferring to abstain from applying any exclusionary language altogether.

While Power business continues to be within most insurers' general underwriting appetite, Transmission & Distribution and Bushfire exposures continue to make up the complement of most challenging Power placements, with certain insurers not willing to provide cover at all and others only willing to consider providing cover on the basis of a particular attachment point or territory. The recent bushfires in Australia are likely to exacerbate these underwriting challenges further.

The Outlook

Notwithstanding the considerable amount of capacity still available for Power risks, buyers should be prepared for the upward rate momentum that we witnessed in 2019 to continue and for underwriters to take a much firmer stance on risks that do not fall within their underwriting appetite.

Larger programmes are likely to face a significant challenge when it comes to maintaining existing limits as the pressure of market contraction and reduced capacity deployment takes effect.

Overall it is clear that it will take more than 12 or so months of a 'hardened' market for conditions to settle.

Contact Us

For more information please speak with your Willis Towers Watson broker, or contact:

Clive Berry
Branch Manager - Wellington
clive.berry@willistowerswatson.com
D +64 4-494 7939

Surety

An alternative to traditional secured bank guarantee facilities, Surety Bonds are designed to deliver a flexible bonding programme operating alongside traditional banking lines of credit.

Facilities do not require tangible forms of security which, in turn, allows a company to leverage off its capital base, thus enhancing working capital and liquidity opportunities. It provides the company the capacity to take advantage of opportunities as they arise without being restricted by capital restraints.

Surety Bonds can be utilised across a wide range of contract types including commercial, infrastructural, civil, engineering and industrial with Bonds being an accepted form of contract security for most principals including local councils and state-run agencies.

The Outlook

Given the small size of the New Zealand market there is only a limited number of providers willing to issue bond facilities. The recent global slowdown in commercial activity means bond providers have received many claims, resulting in a dramatic tightening of qualifying criteria and increased premium price requirements. Surety Bond facilities can still be obtained for experienced, well capitalised and profitable businesses.

For more information please speak with your Willis Towers Watson broker, or contact:

Michael Kayes
National Manager
Credit Specialities
michael.kayes@willistowerswatson.com
D +64 9-356 9374

Trade Credit

Trade credit insurance supports self-liquidating business-to-business trade across both domestic and export categories.

Apart from providing indemnification for a bad debt, policies are often used to identify new markets and ensure customers are safe in the knowledge the Insurer will support this increased trade. Financiers often look to enhance their security by taking a lien over policies issued, in turn providing support for additional funding options or reduced interest rates.

Since the beginning of 2020 the trade credit insurance market has experienced a significant reduction in available credit limit and country risk capacity. Further reductions have been experienced as a result of COVID-19 with a tightening of policy terms and conditions. and insurers becoming more selective with risks.

Trade credit insurance has always played a vital role in protecting the supply chain however insurers are now insisting on improved visibility of customers' financial information before committing to their ongoing support. New Zealand businesses are not used to sharing this information but, it is a common practice across most advanced economies. Business here will need to accept and adapt to these new requirements, which will create challenges for some industry sectors that are undercapitalised or have performed poorly.

> **Both the building and construction and retail sectors continue to be difficult for the trade credit market with some high-profile insolvencies. This will also lead to a tightening of capacity, against a backdrop of increasing demand.**

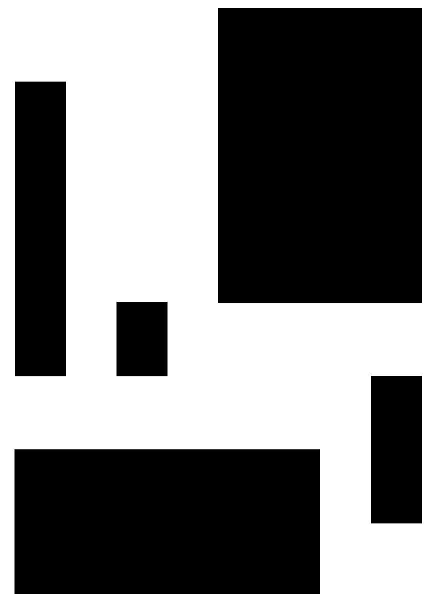
The Outlook

Premium prices have decreased over the past three to four years, but this trend has reversed at pace. Payment defaults and claims volumes have increased, resulting in insurers looking to bolster their balance sheet capital and limit their exposure to riskier markets and industries.

Insurers have become far more selective around the business they consider, the credit risks they are being asked to assume and the policy terms being offered. These changes create a challenging environment in a volatile global economy.

For more information please speak with your Willis Towers Watson broker, or contact:

Michael Kayes
National Manager
Credit Specialities
michael.kayes@willistowerswatson.com
D +64 9-356 9374



About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

Disclaimer: This document has been produced by Willis New Zealand Limited (WNZL) for your information and education and contains factual information only. While all reasonable skill and care has been taken in the preparation of this document, it should be noted that some of the information in this document involves financial, legal, tax, accounting or other similar issues and it should not be construed or relied upon as a substitute for financial, legal, tax, accounting or other professional advice as it does not take into account the objectives, financial situation or needs of any person. No warranty or liability is accepted by WNZL its shareholders, directors, employees, other affiliated companies for any statement, error or omission. WNZL expressly disclaims all responsibility and liability for any action or inaction by any person in reliance on this document.

Copyright © 2020 Willis Towers Watson. All rights reserved.
Willis New Zealand Limited | Company No. 111584 | FSP No. FSP37782
WTW650NZ

willistowerswatson.co.nz

Willis Towers Watson