



Insurance Market Insights

Q2, 2021

Overview

Many of the challenges of 2020 have continued into 2021 notably, poor underwriting performance and the still unclear impact of COVID-19 on the global insurance industry*, while risks such as social inflation may be on the rise.

The insurance market remains challenging, and insurance pricing continues to increase across most lines and classes globally as COVID-19 continues to impact. The global economic downturn from COVID-19 has resulted in heightened underwriting scrutiny and risk aversion from insurers, who are focused on profitability. However, the extent of pricing increase varies widely by line of business, sector, and renewal versus new business for some classes.

While capital and capacity are impacting market conditions, a confluence of factors are the key market drivers: namely increased frequency and severity of natural catastrophes, social inflation (rising cost of insurance claims resulting from things like increasing litigation, more plaintiff-friendly legal decisions and larger compensatory awards) and historically low interest/lower investment yields. Upward pricing momentum is expected to continue through 2021.

There are some positive signs that an insurance market transition is underway with the introduction of additional capacity into the market, which may result in an easing in the second half of 2021 of some of the challenges experienced in the risk and insurance environment during 2020 and the first half of 2021. That said, insurer focus will remain on profitability; risk complexity will continue to be impacted by supply chain vulnerability, a virtual workforce, ongoing economic uncertainty,

social inflation and weather volatility. We expect heightened scrutiny from underwriters on supply chain transparency and resilience, COVID-19 and communicable disease safety measures and cyber threat resilience. Pricing and coverage terms will continue to address these concerns.

Increasingly, Aon are working with clients on ways to manage cost and move from transactional to strategic purchasing of insurance. This includes risk reviews to understand exposures, loss modelling to manage capacity, and management of self-insured retentions. We advise clients to start early on the renewal process and explore alternatives such as different programme structures and captives and emerging markets in China, Singapore and Bermuda; communicate to insurers the differentiators that make them a 'better' risk; factor in to renewal timetables the additional time required by underwriters to evaluate underwriting information and set realistic expectations, including with internal stakeholders.

*In New Zealand, insurers largely exclude cover for infectious diseases, so the local impact of COVID-19 is forecast to be relatively minor; globally, however, the impact of claims related to COVID-19 for clients and insurers is not yet fully understood. The fluid situation regarding business interruption, driven by regulatory activity, litigation and the macro-economic environment will continue to add complexity to the insurance market for the rest of 2021. COVID-19 has also resulted in claims activity in 20 other lines of coverage, with numbers and costs likely to increase. Some analysts estimate that losses will be in the range of USD40-60 billion. However, some parties including Lloyd's of London have pegged the estimate could be over USD 100 billion when losses are fully formed.

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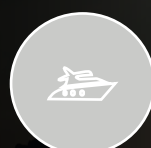
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Property | New Zealand Market

State of the Market

The property market is generally stable for clean risks with no high hazard exposure, with typically flat or single digit rates increases applied for quarter two renewals (i.e. premium rate increases have ‘decelerated’). This follows three to four years of significant premium increases in high earthquake risk regions, as insurers moved to technical ratings.

Capacity remains challenging in a number of areas including Wellington region natural disaster cover where capacity remains extremely limited. Insurers continue to look closely at risks where in recent years there have been significant global losses. This includes expanded polystyrene sandwich (EPS) type panelling, largely used in the primary and food processing sector and higher risk building materials such as aluminium composite panel (ACP) used to clad certain commercial buildings. There continues to be a shortfall in New Zealand insurance markets for these types of risks with companies with significant assets to insure needing to obtain options from overseas markets.















Looking Ahead

The trend for larger and new climate change-related natural catastrophe events and a low-interest-rate environment means insurers will remain very focussed on profitability and are likely be cautious when seeking growth than in past market cycles. We expect the current on average flat or single digit rate increases to continue.

Fire and Emergency Funding Review – FENZ Levy | Update

On 29 April 2021, the Government announced it had refined the scope of the review to focussing on improving the current insurance based funding model (initially also considering an alternative property funding model). The DIA will later this year make recommendations to the Government about what improvements, if any, can be made and further public consultation will take place before any change to the amount of levy payable is made. The new levy provisions in the Fire and Emergency New Zealand Act 2017 (the FENZ Act) are due to come into force 1 July 2024.

New Zealand Property Market Snapshot

Category	Outlook	Commentary
 <p>Claims</p>		<p>Natural disaster claims 2020: NZ insurers paid \$239 million, all weather-related including: Napier flooding; Marlborough-Nelson hailstorm; Upper North Island flooding (and in addition the Lake Ohau fire \$35 million). Comparison 2019: \$206 million, dominated by the Timaru hailstorm. (Source Insurance Council of New Zealand data). 2021 events include the Canterbury floods, Auckland tornado and most recently the July severe weather event, especially impacting the Westport region.</p>
 <p>Pricing</p>		<p>Typically, flat or single digit increases for clean risks with no high hazard exposure.</p>
 <p>Limits</p>		<p>For some risks, policy limits are being used as a means to manage pricing and capacity. Revision of over-inflated sub limits is a particular focus – especially business interruption coverage extensions such as supplier dependencies. Natural catastrophe aggregate limits can be imposed as a way insurers manage exposure.</p>
 <p>Retentions</p>		<p>For clean risks, trading a higher retention may assist manage a premium rate increase.</p>
 <p>Coverage</p>		<p>Insurers are imposing across the board clarifications and exclusions particularly related to infectious disease (although for most NZ policies this merely reinforces no cover is available), silent cyber and contingent business interruption.</p>
 <p>Capacity</p>		<p>Capacity is generally stable, however remains challenging in a number of areas including Wellington region natural disaster cover, locations with higher fire risk materials (such as expanded polystyrene sandwich (EPS) type panelling and aluminium composite panel (ACP) cladding).</p> <p>Emerging from some June 2021 renewals, where the insurer utilises facultative reinsurance, some have experienced difficulty with renewing their facultative reinsurance, requiring additional time to replace capacity if necessary.</p>
 <p>Underwriting</p>		<p>Insurers are increasingly focusing on growing climate change challenges and risks and its impact on risk profiles and looking very closely at regions and areas susceptible to flood or sea inundation and imposing underwriting discipline when considering risks.</p> <p>Information requests can continue to get ever-more detailed. Often insurers are unable to formalise quotes until all requests for detailed information and compliance with risk control recommendations are satisfied.</p>



Property | Global Market

State of the Market

The global property insurance market continues to be strongly influenced by losses arising from natural disaster events. During 2020, natural disaster catastrophe losses were above average (insured loss USD 97 billion 40% above 21st century average/2019 USD 71 billion) and in addition many markets faced claims from the concurrent COVID-19 event. The last decade has featured record-breaking instances of each individual natural disaster peril including earthquakes, tsunamis, tropical cyclones, severe convective storms, inland flooding, wildfires, drought and extreme heat and cold. The impact of climate change is making pricing natural catastrophe risk more difficult, with forward-looking modelling now running alongside historical data by (re)insurers.

2020 was the hardest property and casualty market in 20 years for many sectors. Placements needed more carriers, longer negotiation, and a greater variety of structure options for clients to weigh up, many of whom were facing very challenging financial conditions in their own industries.

Based on outcomes for quarter two 2021 placements, for New Zealand programmes that faced significant re-rating during 2017–2020, there are signs that rating levels have peaked. This trend is being aided by sufficient, competitively-priced capacity available to deliver on average flat or low single-digit increases at renewal for clean accounts.

In addition to the London market, alternative market options are emerging for some, notably in Singapore, Bermuda and particularly China.















Looking Ahead

Our expectation is that current trends for property rates (on average flat or low single digit increases) for clean risks will continue, however subject to natural catastrophe level influences.

Insurers are very focused on profitability. The trend for larger and new climate change-related natural catastrophe events and a low-interest-rate environment means markets will likely be cautious when seeking growth than in past market cycles. We have observed examples of increased lines being offered on favourite accounts to achieve small signing increases, but in a way that doesn't add material competition.

Alternatively, the high levels of profitability for the best London and European insurers in the sector (Aon's international property claims data shows many have claims loss ratios below 50%) may awaken new levels of carrier competition from the mid-year point. If this does happen, and in past cycles we know it can happen quickly, it will impact the most profitable countries and industries first, before a broader market change.

Global Property Market Snapshot

Category	Outlook	Commentary
 <p>Claims</p>		<p>The global property insurance market continues to be strongly influenced by losses arising from natural disaster events. 2020 natural disaster insured losses - USD 97 billion (40% above 21st century average), 2019 - USD 71 billion. In addition, many markets faced business interruption claims from the concurrent COVID-19 event.</p>
 <p>Pricing</p>		<p>Stabilising. On average flat or low single-digit increases at renewal for clean accounts. Our expectation is that trend will continue, subject to natural catastrophe level influences. Insurers will remain very focused on profitability. Rate increases can still be significantly higher for some accounts e.g. with poor loss experience, high risk occupancy, poor risk management practices and those still well under technical rating. For some there is opportunistic facultative reinsurance pricing driving direct insurer costs. Follow markets are having an impact – variable rating across insurer panel becoming more common with new capacity entering at technical rating (not necessarily incumbent lead pricing).</p>
 <p>Limits</p>		<p>Policy limits are being used as a means to manage pricing and capacity. Revision of over-inflated sub limits is a particular focus – especially business interruption coverage extensions such as supplier dependencies. Natural catastrophe aggregate limits can be imposed as a way insurers manage exposure.</p>
 <p>Retentions</p>		<p>Push for increased retentions particularly for accounts with attrition loss activity or natural catastrophe exposure. Imposed natural catastrophe deductibles now becoming the norm particularly where high risk exposure. Some clients not affected by these factors are trading a higher retention to manage premium rate increases.</p>
 <p>Coverage</p>		<p>Insurers are imposing across the board clarifications and exclusions particularly related to silent cyber, infectious disease and contingent business interruption.</p>
 <p>Capacity</p>		<p>Compressed – but new capacity emerging in London markets and alternative market options are emerging for some, notably in Singapore, Bermuda and particularly China.</p>
 <p>Underwriting</p>		<p>Strong focus remains on disciplined underwriting and high-quality risk data is required in order to obtain terms. The impact of climate change is making pricing natural catastrophe risk more difficult, with forward-looking modelling now running alongside historical data by (re)insurers. There is ever increasing focus on risk arising from weather related events, particularly flood.</p>



Liability | Crime Market

State of the Market

The market is trending upwards, at generally moderate levels. Where a risk has been previously underwritten with rigor, moderate increases of circa 5–10% are now typical; for some risks, however, where increased underwriting scrutiny determines additional risk, increases can be circa 10–15%.

Insurers are also increasing minimum retentions – typically \$10,000 for a small to medium enterprise (SME) and \$25,000 plus for a larger organisation.

Whilst embezzlement is the main risk (most commonly the misappropriation of money by an employee), social engineering fraud is on the rise involving increasing levels of sophistication, and driven by the continued frequency and severity of loss crime insurers are focused on this area.

Insurers have offered extensions for social engineering fraud exposure for the past five years and, where cover is included, a sub limit generally applies. Insurers continue to evaluate their exposure and, in order to manage, in some cases are reducing sub limits or narrowing cover.

Typically, a crime policy includes extensions for computer fraud and wire transfer fraud, as well as social engineering. Insurers are also evaluating their cyber aggregation; with some are looking to delete, exclude or clarify cyber-related coverages. How the two policies align for certain types of losses should be considered.




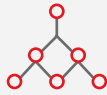



Some insurers are concerned with a possible increase in crime losses emerging in the longer term, arising out of remote ‘work from home’ arrangements and an increase in electronic processes as a result of COVID-19, due to the risk of controls, checks and balances not being as stringent with employees ‘working alone’.

Looking Ahead

Premiums are likely to continue to increase at similar levels, with insurers also reviewing retentions upwards and introducing a scale of sub limits up to usually a maximum of \$250,000 for social engineering loss.

Insurers are seeking to better manage capacity by imposing aggregate limits across all insuring clauses. For some policies with high limits, an insurer may reduce the limit, with the required limit achieved with the placement of an excess layer policy.

Crime Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Social engineering fraud claims are increasing in both frequency and severity.
 Pricing	↑	General upward tendency minimum 5%–10%.
 Limits	↔	Limits up to \$50 million available from a limited number of insurers.
 Retentions	↑	General upward tendency, typically the minimum for a SME is \$10,000 and \$25,000 plus for larger organisations.
 Coverage	↓	Insurers are managing exposure by restricting cover terms in some areas e.g. imposing clarification clauses in respect of social engineering.
 Capacity	↔	Access to good levels of capacity are available from a limited number of insurers; some are seeking to better manage capacity by imposing aggregate limits across all insuring clauses.
 Underwriting	↔	Insurers generally seek additional information in the form of auditor's reports to management and management's response in relation to controls, and are increasingly focused on social engineering fraud-related controls and processes.



Liability | Directors and Officers Market

Terminology

Side A | Directors' and Officers' Liability insurance provides indemnity to directors and officers for claims brought against them where they are not indemnified by their company (natural person protection);

Side B | Company Reimbursement provides indemnity to the company where the company grants indemnification to its directors and officers in respect of claims brought against them (balance sheet protection);

Side C | Securities Entity provides indemnity to the company in respect of securities claims brought against the company by security holders (balance sheet protection).

State of the Market

A substantial premium re-alignment, particularly over the 2020 renewal cycle, was driven by reduced capacity, reduced risk appetite and insurers' perceived claims exposure enhanced by the COVID-19 pandemic. Whilst there appears to be some stabilisation of the market, we are still anticipating premium and retention increases to continue.

Tips for Clients







In order to improve your renewal outcome, we recommend being proactive and providing information regarding the company's corporate governance, in addition to the completed proposal form.

The key issues directors should be considering are whether coverage has separate defence costs, as well as whether there are exclusions for insolvency-related claims, cover for capital raisings, or claims by majority shareholders.

Looking Ahead

We anticipate ongoing upward premium pressure for the rest of 2021, with some easing in the rate of change relative to 2020. We also anticipate greater capacity stability as insurers reach their portfolio strategies for their preferred positions on directors' and officers' programmes and premium requirements. For most insurers, changes in appetite are likely to be risk specific or globally directed as a result of further unanticipated deterioration of their claims portfolios.

Directors and Officers Liability Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Globally, claims continue to increase, with insurers continuing to point the finger at securities class action activity as a key driver for premium and capacity re-alignment, as well as a perceived increase in risk from 'event driven' claims exposure arising from cyber incidents; COVID-19; the #MeToo Movement; Modern Slavery/Fair Labour legislation; and the spotlight on the Environment, Sustainability and Governance (ESG). New Zealand has an evolving class action environment with active litigation funders which is a concern for directors and officers of both listed and private companies.
 Pricing	↑	Ongoing upward premium pressure anticipated for the rest of 2021, with some easing in the rate of change relative to 2020.
 Limits	↔	Due to significant premium increases, some insureds are reviewing the total limit purchased; however, it is generally only Side C cover where insureds are considering reducing or removing the cover entirely in order to lessen the size of the premium increase.
 Retentions	↑	Insurers' minimum retentions are increasing. For public companies Side B cover minimum excesses are typically \$100,000 and Side C \$1 million. For private companies, Side B deductibles are also subject to upward pressure.
 Coverage	↔	Notwithstanding the harder market conditions, directors' and officers' coverage continues to remain generally stable for large financially robust organisations; however, insurers are reviewing enhancements in cover provided in the soft market to tighten back coverage. Insurers have continued to maintain a strict underwriting approach with securities offering exclusions and increasing the premium applicable for Extended Reporting Period Extensions. Some insurers are also taking a more considered approach to backdating the continuity on new business. For less robust organisations, or those in more challenging sectors, insolvency exclusions may be applied. With effect from 1 January 2021, Lloyd's markets were required to be clear on the extent of cover provided in their policies emanating from a cyber incident. For directors' and officers' insurance a cyber endorsement will be applied providing affirmative cover for a cyber act or cyber incident.
 Capacity	↓	Insurers continue to be selective as to where they are willing to provide capacity. We are now seeing 'green shoots' of new excess capacity emanating from the London and Australian insurance markets; however, these markets are tending to take advantage of the upward premium trend, rather than create pricing competition. For private companies, insurer preparedness to outlay capacity has also become more considered and the perceived quality of the risk and industry sector plays a significant part in their decision making. In respect of publicly listed companies, insurers are reducing their capacity to \$10 million to \$20 million in order to control their loss exposure.



Liability | Employers Liability Market

State of the Market

Employers Liability insurance protects employers against settlements or damages payable where an employee sues for work-related illness compensation not covered by ACC *. The policy also covers defence costs.




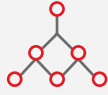



Generally there is a low claim frequency and quantum for insurers given ACC and the bar on suing for personal injury in New Zealand. Consequently, premiums are stable with plentiful capacity.

*Employers face exposure from a variety of conditions, including: injury caused by occupational stress, depression, anxiety, or mental anguish; disease or infection caused by gradual process, particularly where the employer's obligation to provide a safe workplace has not been met; disease or infection caused by air conditioning systems or passive smoking; and bystander claims caused by witnessing a traumatic injury or fatality.

Looking Ahead

The market is expected to remain stable, with nominal inflationary increases in premium of approximately 5% (if any) assuming no change in the risk.

Employers Liability Market Snapshot

Category	Outlook	Commentary
 Claims	↔	Stable.
 Pricing	↔	Stable, generally only nominal inflationary increases of approximately 5% (if any), assuming no change in risk.
 Limits	↔	Stable.
 Retentions	↔	Stable.
 Coverage	↔	Stable.
 Capacity	↔	Stable.
 Underwriting	↔	Generally straightforward.



Liability | General Liability Market

State of the Market

The general liability insurance market remains competitive and stable, with most insurers offering reasonable limits to most business/industry sectors.

Where insurers consider the risk has been correctly rated in the past, rate increases of around 5% can be expected based on similar revenue and risk profiles, and subject to satisfactory claims experience of both the insured and the business/industry sector.

Several local insurers have offered 'softer' renewals during 2020 in recognition of business uncertainty caused by COVID-19, especially for small to medium enterprises (SMEs). Some are seeking targeted redress in 2021.








Insurers are reluctant to consider coverage enhancements.

Looking Ahead

Insurers are increasingly requiring more detailed underwriting information, and time to go through the underwriting process.

Businesses exporting to or conducting business in the USA may struggle to retain cover or otherwise avoid premium and retention increases or restrictions in capacity in relation to the USA exposure.

General Liability Market Snapshot

Category	Outlook	Commentary
 Claims	↔	Claims are stable. However, with the rise of class action litigation in NZ, some insurers are anticipating potential for increased claims (class actions) in respect of products exposures.
 Pricing	↑	General upward tendency minimum 5% assuming no change in risk.
 Limits	↔	Limits up to \$100 million generally available.
 Retentions	↔	Expiring levels generally being maintained.
 Coverage	↔	Insurers reluctant to expand coverage.
 Capacity	↔	Generally available, but business sector may influence extent.
 Underwriting	↑	Increased scrutiny with insurers conservative in their approach to underwriting, particularly where there is material change to the risk, e.g., business activity/claims/turnover. Some insurers are now requiring a full proposal form and additional information to be provided at each renewal, depending on business/industry sector and claims experience. Insurers require more time to go through the underwriting process.



Liability | Professional Indemnity Market

State of the Market

The professional indemnity insurance market continues to show signs of hardening for some professions and sectors such as design and construction due to ongoing claims severity. Several Lloyd's syndicates are still grappling with the implications of the Lloyd's thematic review which identified Design/Construct and International Professional Indemnity as the two poorest performing classes. This has led to increased premium rates and a significant reduction in capacity and new business appetite. In addition, aspects of cover continue to be reviewed and exclusions applied in some policies such as defective building product/ aluminium composite panels (ACP) exclusions in the construction sector. Increased self-insured retentions are also being imposed for larger risks.

The local market continues to focus primarily on account retention, and we have seen some insurers shift their focus from corporate to small and medium-sized enterprises (SME) accounts with bundled liability packages offering lower policy limits. Rates remain relatively flat for smaller professional services firms such as lawyers and accountants buying more modest limits under \$5 million.




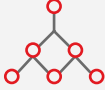



Regulatory scrutiny and change

Ongoing regulatory scrutiny and investigations from organisations such as the Financial Markets Authority (FMA), Commerce Commission and Real Estate Authority (REA), continues to place some sectors such as fund managers, financial advisers and real estate agents on insurers' watch lists. Regulatory change has affected the way financial advisers are licenced and can provide advice. There are a limited number of insurers who underwrite this class and they are currently reviewing their portfolios. All have flagged that premium increases are highly likely.

Looking Ahead

We anticipate the hardening market to continue for the rest of 2021, especially at Lloyd's where many syndicates will have filled their capacity quotas for the year. Risk selection and the application of more technical rating will continue to be focal points. Voluntary increased excesses and a demonstration of genuine risk management policies may off-set some of the premium increases. For some professions, the Professional Indemnity policy will need to be considered a catastrophe claim response tool rather than to fund smaller ground-up attrition losses.

Professional Indemnity Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Claims severity as opposed to frequency continues to be more of an issue for most professions.
 Pricing	↑	Both local and, particularly, Lloyd's markets, are generally continuing to seek premium/rate increases; however, for some professional services firms buying more modest limits under \$5 million, rates can remain relatively flat assuming no material change in the risk.
 Limits	↔	Several insurers are looking at paring back capacity so new excess layers or co-insurance participation needs to be sought above either \$5 million or \$10 million.
 Retentions	↑	Increased self-insured retention is being imposed by insurers for larger risks.
 Coverage	↓	'Silent cyber' remains a major issue. With effect from 1 January 2021, a significant development has been the drafting and application of Cyber Endorsements (often referred to as 'silent cyber') by Lloyd's of London. The driver for this initiative is the ongoing regulatory scrutiny into cyber risks provided in the non-standalone cyber markets and their requirement that insurers suitably identify, assess and manage their cyber liabilities. Accordingly, affirmative language has been introduced as to what cyber/data protection coverage is afforded under the Professional Indemnity policy and what should be catered for elsewhere, most commonly under a standalone Cyber Risk policy. There are two endorsements in the market. The International Underwriting Association of London (IUA) standard market wording and an Aon-amended version which provides broader affirmative third-party cover. Only a small number of syndicates have agreed to the Aon version, which has necessitated a restructure of participating markets for some clients. The local market is still yet to address this issue.
 Capacity	↓	Insurers continue to carefully manage capacity on larger risks. From recent remarketing activity, it appears that competition amongst insurers is not as active as in previous years, demonstrating a widespread reticence in the market to aggressively write new risks. Most insurers are focusing on client retention and remedial action on poorer performing clients or sectors.
 Underwriting	↔	Some domestic markets are challenged by a shortage of underwriting resource which has slowed response times and reduced new business appetites.



Liability | Statutory Liability Market

State of the Market

The Statutory Liability market is generally stable, with the following exceptions:

- Firstly, the continuation of higher defence costs and reparation orders under the Health and Safety at Work Act 2015. The starting point for reparation orders is between \$80,000 and \$250,000 (depending on the injury) and for severe life-changing injuries the courts are now including the 20% of victims' wages which is not covered by ACC as part of the Reparation Order. Consequently, insurers are requiring premium increases and, depending on the industry and/or claims history, a higher excess is being applied for breaches of the Health and Safety at Work Act.
- Secondly, in respect of organisations regulated by the Financial Markets Authority (FMA) and to whom the new regime for the regulation of financial advice applies or the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) regulation changes apply, due to increased risk exposure, where cover is included, insurers are increasing premiums or imposing a higher excess or a combination of both in response.








Looking Ahead

High-risk industries such as primary producers, forestry and manufacturing can expect increases in premium and retention based on industry claims' experience and their own claims experience.

Organisations for whom the new FMA regime for the regulation of financial advice applies or the AML/CFT changes apply can also expect increases in premium or retention, or a combination of both.

Other businesses can expect nominal inflationary premium increases in the area of 5%, assuming no material change in the risk.

Statutory Liability Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Reparation awards are growing under the Health and Safety at Work Act. Recent new FMA legislation applicable to the financial sector creates greater risk, and insurers may face increased claims as a result.
 Pricing	↑	General upward tendency minimum 5% assuming no material change in the risk.
 Limits	↔	Limits up to \$10 million generally available. A trend is for insureds to initiate an increase in limit with \$1 million now generally viewed as a minimum limit.
 Retentions	↔	Expiring levels generally being maintained, with a minimum of \$2,500 for WorkSafe and higher for at-risk industries.
 Coverage	↔	No change generally, except the finance sector which is subject to recent legislation change e.g. Financial Markets (FMA) and The Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT), where insurers are carefully considering cover provided and terms.
 Capacity	↔	Generally available, but the business sector may influence extent.
 Underwriting	↔	Generally straightforward, with the exception of at risk industries and finance sector.



Cyber Market

State of the Market

High-profile cyber events continue to dominate the cyber insurance space globally. With the increased volume of actual and potential cyber-attacks reported and publicised over the past 12–24 months, awareness of the real risk a cyber-attack poses to a business is at an all-time high. This translates to cyber insurance buyers having heightened motivation to review their exposure levels and potential policy response and, in turn, driving an increase in coverage limits required.

Conversely, for underwriters, the increased demand for cyber insurance (new risks and increased limits) is proving a challenge in respect of ensuring that there is enough capacity available. This, coupled with the frequency of cyber events and the significant claims costs that follow, continues to place upward pressure on the pricing and deductibles offered.

While we continue to see upward pressure on pricing and deductibles (and, in some instances, also diminishing coverage availability), we are also starting to see a fragmentation of the cyber insurance market – commercial/SME clients are generally still able to access broad cyber coverage via facilities and schemes at competitive pricing, while larger organisations are subject to increased underwriting scrutiny with pricing, deductible and coverage terms more tailored to their specific risks.




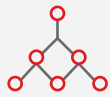



Looking Ahead

The momentum and prevalence of cyber-attacks and the response in cyber insurance will, without doubt, continue to build in the short to medium term. The implications will unquestionably alter insurers attitudes towards cyber risk with significant re-adjustment expected.

With each cyber incident, underwriters gain a greater understanding of cyber risk and the potential cost of these risks. Moving forward, we expect underwriters to focus on an organisation's overall cybersecurity posture, and specific minimum cybersecurity measures, i.e. multi-factor authentication, encryption of data storage, tested business continuity plans and employee training. It is vital for organisations to present to underwriters a clear and comprehensive summary of their cybersecurity maturity level during this period of market realignment to secure favourable coverage, pricing and deductibles. In addition, the openness of organisations to take on feedback from underwriters regarding risk aspect concerns and potential remediation of these will aid in exhibiting a desired attitude toward cybersecurity.

As market realignment plays out, so will cyber insurance buyers' expectations. In order to combat the higher frequency and respectively lower cost attrition claims, market wide deductibles are expected to increase. With claim incidences unlikely to diminish, rate increases will continue through this realignment period.

Cyber Market Snapshot

Category	Outlook	Commentary
 Claims	↑	The frequency and severity of ransomware events has resulted in increased business interruption. Whilst locally high-profile attacks such as that on a District Health Board, have heightened awareness of the risk, hackers' strategies have also adapted to recognise smaller 'low hanging fruit' opportunities with adjusted ransom demands. Globally, the emergence of alleged state sponsored cyber-attacks adds an additional dimension to claim occurrence, risk and business disruption.
 Pricing	↑	Continues to firm with a notable acceleration in Q2 2021. Aon anticipates rate pressure for all organisations, with many insurers suggesting rate increases of +40%, while certain 'high risk' industries (including manufacturing, logistics and professional services) may be subject to even greater increases.
 Limits	↑	Clients' better understanding of cybersecurity risks and the cost of a disruption, including incident management costs, has translated into increased limits. Aon anticipates that this will continue throughout the second half of 2021, with clients looking to tailored limit adequacy engagements (such as risk workshops) in order to support cyber insurance purchasing decisions, validate premium spend, and ensure alignment with their overall risk transfer strategy.
 Retentions	↑	Insurers are reviewing and generally pushing for retention/deductible level increases, seeking to combat losses incurred from higher frequency, lower cost claim incidences.
 Coverage	↔	Coverage mostly remains consistent. Increasingly, especially given USA and EU scrutiny on sanctions and ransomware payments, coverage concerning ransomware is changing with some markets adopting sub-limits, co-insurance arrangements or additional restrictive conditions.
 Capacity	↓	Capacity has commenced a slow but steady retraction globally and locally, with some Lloyd's markets exiting the space entirely or reducing their maximum line sizes, with all insurers now focused on profitability.
 Underwriting	↑	With ever-increasing cognizance, insurers are increasing scrutiny of organisations' overall cybersecurity posture and, in some instances, specific cybersecurity measures, e.g., multi-factor authentication. The key to accessing competitive pricing and coverage terms is the ability to present a quality underwriting submission that is comprehensive and well-structured and showcases the organisation's cybersecurity maturity level.



Motor Vehicle Market








State of the Market

There is a level of competitiveness amongst motor vehicle insurers, leading to reductions for some profitable fleets. Insurers experienced lower claim costs in 2020, due to fewer motor vehicle accidents with fewer vehicles on the road over the COVID-19 lockdown periods and restrictions. However, motor insurers remain cautious particularly as the overall volume of vehicles on the roads continues to increase, as does the sophistication of technology contained within vehicles forcing up repair and claim costs. Heavy motor fleets continue to face challenges with a restricted appetite from insurers. Fleet risk management, including driver training and driver monitoring devices remain key tools in reducing claims and managing premiums. Most commercial motor fleet policies' premiums are driven by their own claims histories. Managed funds continue to be an option for larger fleets.

Looking Ahead

We anticipate fleets with good loss ratios to achieve expiring rates or in some cases rate reductions, assuming no change in risk profile.

Motor Vehicle Market Snapshot

Category	Outlook	Commentary
 Claims	↔	The cost of claims has increased due to new technology in vehicles resulting in increased repair costs, however insurers in 2020 experienced lower claims costs with fewer accidents due to fewer vehicles on the road during COVID-19 lockdown periods.
 Pricing	↔	For profitable business, rates are trending flat or for some there are reductions. Generally, fleet premiums are driven by their own claim's history. Good fleet risk management to reduce accidents and claims costs is key to managing premium cost.
 Limits	↔	Stable.
 Retentions	↔	Can be utilised by an insured as a way to manage the overall cost of motor vehicle accidents. For poor performing fleets, insurers may impose higher required retentions.
 Coverage	↔	Stable.
 Capacity	↔	Stable.
 Underwriting	↔	Providing fleet risk management information, can assist in achieving a better renewal outcome. particularly if there have been improvements resulting from a poor claims history/loss ratio.



Aviation Market

State of the Market

The general aviation market is still undergoing remedial measures, with a trend of increased pricing, driven in part by the COVID-19 pandemic; however, the increases are easing and now generally range between 25–35%. Since 2018, some insureds experienced increases of up to 300% depending on the risk, as insurers sought profitability after seven consecutive years of losses.

The aviation market has undergone several changes over the past few years. After a significant review of their exposures, most markets drastically cut their capacity at the same time and required significant rate and premium increases to achieve the minimum premiums expected by stakeholders. Some markets also withdrew from providing this class of insurance. This had a significant impact on aircraft owner/operator's insurance cover on higher valued aircraft between USD10 million and USD70 million.

For aircraft with a value below USD10 million, markets also undertook a comprehensive review of exposures and the risk/reward ratio. Each market applied their own rationale and established their own strategies ranging from increasing premium and deductible levels, to factoring in greater potential of a constructive total loss.

Another major impact on the aviation market is the retraction of additional coverages provided in the prior soft market 'want to win and maintain business' cycle, e.g., Lay-Up and Betterment Clauses.




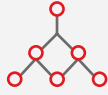



The result is a reduction in the number of recognised aviation markets, with these and peripheral markets charging a much higher premium to match exposure. After two years of some major premium increases and vast disparities between markets we are now seeing the gap close.

Looking Ahead

The market is expected to continue to be challenging with continued increases in rates as markets rebalance. However, the trajectory of increases is likely to ease subject to stable claims. There is concern that accidents may occur as flying restarts, following prolonged groundings due to COVID-19 due to the higher likelihood of maintenance issues, planes no longer deemed 'airworthy', and pilots' loss of skill.

Across fixed wing, rotor wing and airlines, underwriters are scrutinising the substantiation of aircraft values, resulting from claims highlighting where values may have been under declared in the past.

Aviation Market Snapshot

Category	Outlook	Commentary
 Claims	↓	Reduced claims in 2020; however, this must be viewed in the context of reduced exposure stemming from the COVID-19 pandemic.
 Pricing	↑	Increases continue, but are now more gradual and controlled, generally ranging between 25-35%. Minimum premiums are increasing excluding or limiting grounding returns.
 Limits	↔	Stable, however, one insurer has changed its standard liability limit to include a sub limit in respect of damage to aircraft. This is not common, but inconsistencies in the market are becoming apparent.
 Retentions	↔	Stable for low claims accounts. For accounts with claims history, higher standard deductibles apply, or higher deductibles for specific pilots/claims scenarios.
 Coverage	↓	There is a trend back towards standard market policy wordings with an emphasis on removal additional coverages, e.g., Lay-Up and Betterment Clauses under review.
 Capacity	↓	Restricted due to markets either reducing capacity or withdrawing capacity. Where a market in the past provided 100% capacity, some risks have been reduced down to 25%. Capacity continues to be an issue for certain industry sectors, large helicopter fleets, claims active accounts, offshore risks and amphibious aircraft.
 Underwriting	↑	Insurers maintain a strict approach to underwriting with detailed underwriting information required. Increased scrutiny on the declared values of aircraft and claim payments have highlighted a general issue of values declared often being too low.



Construction Contract Works Market



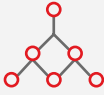

State of the Market

The construction insurance market continues to tighten from where it finished at the end of 2020. This means we are seeing policy coverage restrictions continue, coupled with premium and excess increases. This may lead to a requirement for insureds to retain more risk. In addition, some insurers have retreated from providing lines of insurance in New Zealand and/or to the construction market segment, reducing competition between the remaining insurers for construction-based risks.

Looking Ahead

It is expected to be more of the same; however, on larger projects where capacity is required from overseas-based insurers, we could start to see a situation whereby the need to complete the placement could come with more punitive terms being imposed by the follow markets, which could then in turn apply to the entire placement. Especially in relation to defects and design issues.

Construction Contract Works Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Increased (complex) claims activity on large projects. Normal activity on all other projects – generally theft and water damage-related.
 Pricing	↑	Pressure remains on premium levels and rates.
 Retentions	↑	Deductibles are increasing, particularly for larger projects where minimums will apply. Insurers (driven by Australian markets) also looking to apply increased deductibles for water damage, performance testing, and maintenance period claims.
 Coverage	↓	The current market conditions mean there are restrictions in cover, particularly regarding cover for defects and sub limits, and other extensions are under scrutiny. Insurer expectations around hot work procedures and permits remain and, in many cases, conditions will be added to the policy to enforce them. Some insurers have introduced a Communicable Disease Exclusion and Cyber and Data restrictions. As the exclusions are applied by reinsurers, this often makes the application of the exclusion and their format non-negotiable.
 Capacity	↓	Trending downwards, noting that access points into insurers are now also more centralised.
 Underwriting	↑	Increased scrutiny and information requirements.



Construction Liability Market

State of the Market

Public Liability

There is pressure on public liability rates and minimum excesses are being applied. The focus is on products and, in particular, where products are procured from, as well as the quality assurance process they undergo. Defective product cover is becoming extremely restrictive, and there will probably be further application of non-conforming product exclusions.

Professional Indemnity

Professional Indemnity insurance is one of the hardest hit classes of insurance following the Lloyd's Thematic review, with construction project professional indemnity insurance significantly affected. Many insurers have completely withdrawn from underwriting these risks, with some syndicates closing permanently. Locally, we have seen a push for negligence-based policy coverage (rather than wider civil liability coverage) and, in general, insurers are being more selective of the risks they underwrite. Non-conforming materials exclusions are present. Project-specific professional indemnity insurance is more difficult to procure (especially for alliances) and significantly more expensive to obtain, with real restrictions on the extent of limits available.




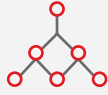



Directors and Officers

The insurers approach to Directors' and Officers' liability insurance for construction companies remains very cautious and is largely driven by insolvencies. There is a reluctance to either increase a policy limit beyond what is currently purchased or offer terms on new business. Full financial accounts and statements are required as part of the underwriting submission.

Looking Ahead

It is expected to be more of the same. Each of the above classes of insurance has its own pitch points, and careful navigation (including adequate time) is required in order to achieve the best outcome.

Construction Liability Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Claim activity remains steady across Public Liability with some legacy large Professional Indemnity and Directors' and Officers' claims being worked through by insurers.
 Pricing	↑	Pressure remains on premium levels and rates.
 Limits	↔	Other than Alliance Professional Indemnity, there is generally adequate capacity for all other annual insurance requirements.
 Retentions	↑	Increasing for Professional Indemnity. All other excess levels are generally manageable, even if increasing.
 Coverage	↓	More specific to Professional Indemnity and Public Liability insurance.
 Capacity	↔	Fairly static, other than Alliance Professional Indemnity insurance which is above \$20 million.
 Underwriting	↔	Fairly static, however, given the state of the market, additional risk mitigate information should be considered and provided to aid discussion and negotiation.



Marine | Cargo Market

State of the Market

In contrast to the global Marine market, Marine Cargo insurance is ‘weathering the storm’, with local insurers competing on well performing accounts where clients can demonstrate a strong approach to risk management.

Interest from clients around Stock Throughput (STP) placements is increasing, with a desire to move stock or inventory from a traditional material damage/property placement to a marine policy. There are market capacity and appetite challenges associated with this development, with many marine insurers struggling with accumulation exposure at various central cool stores and warehouses around the country.




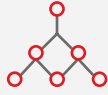


From a shipping perspective, we have seen an increasing number of container ship losses over the past 12–24 months, triggering concerns over international trade. Shipping companies maximised their vessel capacity to keep up with demand brought on by COVID-19, ultimately to the detriment of cargo owners. Adding to the mounting pressure to move cargo, we continue to see major delays in shipping caused by heavy weather where container ships are being either slowed down or, in the case of the Ever Given on the Suez Canal, running aground.

Looking Ahead

Over the next 12 months, we expect accounts with good loss experience to achieve expiring rates with minimal general increases being applied.

Beyond this, however, we anticipate rate increases of between 5–10% due to the increasing frequency of large loss events affecting the global marine industry, as well as following general increases being experienced in the Australian market.

Marine Cargo Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Container losses, general average and port losses are driving loss ratios globally, which will ultimately affect the smaller New Zealand marine market.
 Pricing	↔	For accounts with good loss experience, pricing remains stable. For accounts with poor claims records, we are seeing increases of over 10%, with some premium consideration being given for increased excesses.
 Limits	↔	Policy sub limits are being more regularly used to manage pricing with increased sub-limits coming at a cost.
 Retentions	↔	Retention limits should be assessed on a case-by-case basis in order to influence markets. Aggregate deductibles remain one of the cost-effective methods of managing retentions.
 Coverage	↓	Insurers are imposing Cyber and COVID-19/communicable diseases exclusions on all cargo policies.
 Capacity	↔	Overall, capacity remains stable with insurers willing to write Cargo business.



Marine | Commercial Hull Market

State of the Market

Globally, commercial hull continues to be one of the poorest performing classes of business and is consequently experiencing its hardest market in the last 20 years.

Local insurers are cautious in their approach to new business, especially for larger fleets, and whilst supportive for renewals, we are seeing a continued push for 5–10% rate increases on accounts with good claims experience whilst also imposing cyber and COVID-19/communicable diseases exclusions on policies.

Further, appetite for blue-water voyages remains limited, with only a couple of markets willing to consider writing this. Generally, this is restricted to voyages to/from the Pacific Islands only.

In addition, insurers are requiring substantially more underwriting information for renewals and new business and when combined with the high numbers of clients remarketing their business, it is overwhelming underwriters.







Consequently, it is recommended that renewal and new business negotiations are started well in advanced of policy expiry. A focus on vessel risk management is key to ensuring a successful outcome.

Looking Ahead

Although insurers are continuing to push through rate increases, it is expected that these will decrease over the next 12 months, as the earned premium flows through onto their balance sheets.

As such, we expect at this time more buyer friendly trends in early 2022.

Marine Commercial Hull Market Snapshot

Category	Outlook	Commentary
 Claims	↑	With the number of large loss events occurring this year, these will drive loss ratios globally which will ultimately affect the smaller New Zealand marine market.
 Pricing	↑	For accounts with a good loss experience we are seeing a minimum rate increase of 5–10% being applied. For those with a poor loss history rate increases can be exponentially higher.
 Limits	↔	For existing accounts that have a high standard of risk management, insurers are willing to accept increased fleet values (i.e., additional vessels, increased sums insured due to refits).
 Retentions	↔	Excess structures, such as Additional Machinery Deductibles (AMDs), should be reviewed on a case-by-case basis, as they can be used to influence markets and pricing.
 Coverage	↓	Insurers are imposing Cyber and COVID-19/communicable disease exclusions on all policies, as well as removing/restricting Additional Perils cover for older vessels or those with a low standard of maintenance.
 Capacity	↓	Due to Marine Hull being one of the poorest performing classes, capacity is proving challenging to source. Insurers are focusing on good performing fleets with a proven track record of vessel maintenance and risk management.



Marine | Protection and Indemnity Market

State of the Market

2021 was always going to be a challenging year, with every Club seeking increases with a number of large loss events including the grounding of the Ever Given, the tragic capsizing of the Seacor Power off the coast of Louisiana and the X-press Pearl containership fire to name but a few.

The stark increase in pool claims, volatile investment market, years of premium erosion, and the watchful eye of Standard and Poor's has left little option for markets but to address premium levels.











This has resulted in general increases falling within a range of 5–10% for Clubs such as North, Standard and UK. For those that did not formally call a general increase, such as Skuld and Britannia, it was openly discussed that they were seeking a similar level of increase.

Looking Ahead

There is a strong chance we will see P&I rates continuing to rise over the coming years.

A process began last year with some Clubs taking a firm line on their general increase. This will surely impact their results positively moving forward, providing Clubs can maintain pricing discipline when it comes to the temptation of new tonnage and opportunities for growth.

Marine Protection and Indemnity Market Snapshot

Category	Outlook	Commentary
 Claims		<p>The rise in pool claims points toward continued challenges for the Clubs driven by large losses and further potential pressure on the group reinsurance.</p>
 Pricing		<p>Due to losses, there is a strong chance P&I rates will continue to rise over the coming years with Clubs taking a firm line on general increases.</p>
 Limits		<p>With many Clubs remaining above Standard and Poor's capital requirements, we expect limits to remain stable.</p>
 Coverage		<p>With many Clubs remaining above Standard and Poor's capital requirements, we expect coverage to remain stable.</p>
 Capacity		<p>Despite some Clubs taking a reduction in capital, many remain comfortably above Standard and Poor's AAA capital adequacy model. They, therefore, can sustain some challenging years without undermining their core financial strength. We expect capacity to remain stable in the short to medium term.</p>



Marine Liability | Ports and Terminal Operations, Ship Repairers and Marina Operators

State of the Market

2020 was viewed as the worst performing year for the London market who remain the market leader in Ports and Terminals cover. Unfortunately, 2021 has not been much better – being the second-worst performing year over the last decade.

Locally, the impact of this is starting to be felt, with insurers generally increasing rates between 5–10%, as well as requiring substantially more underwriting information alongside the market standard application of Cyber and COVID-19/communicable diseases exclusions.

On a more positive note, underwriters are open to negotiating around capacity and pricing for long-standing accounts, where a tripartite relationship exists between the client, broker and insurer.







On other marine liability lines, such as Ship Repairers Liability and Marine Operators Liability, insurers remain open to writing, with a greater focus on risk information and clients implementing robust terms and conditions. Whilst these classes of business may experience small market increases in 2021, we do not anticipate much change.

Looking Ahead

It is expected that the London market will continue to scrutinize underwriting results. We anticipate little change in rating attitude for the foreseeable future.

The ultimate effect of this on New Zealand insurers has yet to be determined, although we are optimistic that it will remain stable pending no natural catastrophe events.

Marine Liability | Ports and Terminal Operations, Ship Repairers and Marina Operators Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Ongoing claims continue to drive loss ratios globally, which is starting to impact on the New Zealand market.
 Pricing	↑	Due to the above, pricing is hardening; however, insurers are still willing to negotiate on increases for long-standing clients.
 Limits	↔	Limits remain stable.
 Retentions	↔	Retentions remain stable.
 Coverage	↓	Insurers are imposing cyber and COVID-19/communicable diseases exclusion on all policies.
 Capacity	↔	Overall, capacity remains stable, especially on excess layers where insurers are a distance away from any working losses.



Trade Credit Market

State of the Market

We continue to see New Zealand exporters focused on credit risk, largely due to the threat of non-payment risk from overseas markets impacted by COVID-19 as well as additional challenges from trade disruption.

In New Zealand, business insolvency levels, which were artificially much lower in 2020, are expected to show a sign of year-on-year increase in 2021 and into 2022, depending on supply chain disruption and economic recovery.








Premium rate increases have subsided, and insurer appetite has returned with credit limit acceptance rates to pre-crisis levels. New business preferences have been in sectors such as food and beverage, agri-food, pharmaceuticals, chemicals, software and IT services.

Looking Ahead

Insurers have 'weathered the storm' reasonably well and have recently focused on resuming new business in targeted sectors. Core whole of turnover policies remain their preferred approach to taking up new clients, to ensure they have a spread of risk across a pool of debtors.

We anticipate continued demand for trade credit insurance to support financing, particularly where a bespoke policy structure can aid lenders to improve their capital relief position, positively impacting borrowing costs.

Trade Credit Market Snapshot

Category	Outlook	Commentary
 Claims	↑	Business insolvency levels are expected to show a year-on-year increase in 2021 and into 2022.
 Pricing	↔	Premium rate increases have subsided as claims were artificially much lower in 2020 than expected.
 Limits	↔	Policy limits have remained consistent.
 Retentions	↑	Some insurers are seeking to increase retentions, particularly where policyholders have consistent claims.
 Coverage	↔	Policy cover has remained consistent.
 Capacity	↓	Capacity has retracted, particularly for new business, as insurers become selective around industry sectors.
 Underwriting	↑	Credit limit acceptance rates have returned to pre-crisis levels; however, insurers are requiring more transparency around buyer financials.



Business Travel Market

State of the Market

As the world continues to grapple with the ongoing implications of COVID-19 disruption, the New Zealand travel insurance industry has continued relatively unchanged in the past 12 months. This stability follows initial COVID-19 cover restrictions established in Q1 2020 mainly addressing disruption loss.

The Business Travel insurers used by Aon New Zealand have generally excluded COVID-19 cancellation, disruption and loss of deposits through their standard policy wording or new COVID-19 specific endorsements. This includes removing cover for losses arising from cancellation due to lockdowns, alert level changes and event cancellations due to COVID-19. Our key partners in this space continue to provide cover for medical expenses incurred from COVID-19 (whilst on work-related or incidental private travel). This stance has remained constant since mid-April 2020.

Insurers have been cautious when writing group travel risks due to the rapid infection potential of COVID-19. Compared with multiple policyholders travelling to various destinations individually, the potential total costs of an entire group travelling together and contracting COVID-19 concerns underwriters and commonly results in imposed sub limited restrictions for COVID-19 cover.

With business travel demand significantly shifting in the past 18 months, travel insurers are focusing on maintaining customer relationships via promoting their domestic (internal) travel offering. Whilst on the surface domestic travel risk within New Zealand could be viewed as low, features like lump sum medical benefits and curtailment cost coverage have featured prominently in good client claim outcomes over this period.








Looking Ahead

Moving forward, we are likely to see insurers slowly bringing back some loss of deposit/cancellation/disruption cover for COVID-19, albeit limited.

We have seen in some direct-to-consumer leisure products an introduction of this type of cover where if you or your travelling companion contracts or is suspected to have contracted COVID-19 and cannot travel (or your trip is curtailed) you are afforded coverage under the policy.

With the vaccination rollout gaining pace, especially internationally, travel insurers will be monitoring success of these programmes and the potential stability it may bring. The aim of the vaccination programme is to minimise COVID-19 symptoms and spread, reducing strain on both patients and health systems. This will still result in potential medical cost loss for vaccinated travellers, although at an expected lower level. The flow-on effects of vaccination may in 12–24 months result 'in the risk of 'lockdowns', 'alert level changes' and 'bubble pauses' be significantly reduced to a potential coverable threshold.

Business Travel Market Snapshot

Category	Outlook	Commentary
 Claims	↓	The significant reduction in travel activity has resulted in reduced claim frequency. With the lessened availability of transport route options as well as heightened medical costs, claim quantum potential is higher than pre COVID-19 occurrences.
 Pricing	↑	With the downturn of client numbers and travel days insurers are looking to maintain a sustainable premium pool for potential future loss. This has resulted in increases to premium base rates across the market.
 Limits	↔	Policy limits have remained relatively constant, with the exception of COVID-19 medical costs occasionally being sub-limited, especially in group travel situations.
 Retentions	↔	In most instances, retentions remain low or are not-applicable market wide which is consistent with this product line historically. We are unlikely to see a major change to these in the near future.
 Coverage	↓	Policy coverage for business as usual losses have remained generally unchanged. Coverage restrictions will impact clients when losses arise from COVID-19 – especially under travel disruption policy sections or solely leisure travel trip purposes.
 Capacity	↓	The travel insurance market was immediately and directly affected by the COVID-19 pandemic outbreak. This has expectedly resulted in higher scrutiny within the product line providing some hurdles to maintaining capacity.
 Underwriting	↓	Similar to market capacity, local underwriting approaches have tightened, and caution applied to group risk profiles.

Reprioritising Risk and Resilience Post-COVID-19

As discussed in Aon's global survey report '[Reprioritizing Risk and Resilience For a Post-COVID-19 Future](#)' (February 2021), the COVID-19 pandemic exposed vulnerabilities in organisations' business models and risk approaches. 82% of respondents said that prior to COVID-19, a pandemic or other major health crisis was not a top 10 risk on their organisation's risk register.

The pandemic, its economic devastation and a hard insurance market are pushing organisations to build a new risk management (ERM) strategy.

Moving forward, risk and business leaders must reprioritise risk, broadening their perspective and evaluate major shocks, not just anticipated losses. Navigating new forms of volatility, building a resilient workforce and rethinking access to capital will all play a role in a companies' ability to navigate future events. To move forward, organisations must ensure that their workforce is able to adapt, communicate and collaborate when a crisis strikes.

The increased dependency on digital platforms has made organisations vulnerable to adverse cyber events, information loss and reputational impacts on a new scale, and will require a refresh of cyber and risk management.



Emerging Risks

- Business Interruption (e.g. supply chain disruption and non-damage);
- Changes in legislation and regulation (e.g. Changes to the Privacy Act 1 December 2020, The Financial Services Legislation Amendment Act 2019);
- Climate change – increasing volatility of weather*;
- Corporate resilience for climate change**;
- Cyber incidents*** (e.g. cyber-crime, IT failure/outage, data breaches, fines and penalties);
- Market developments (e.g. volatility, intensified competition, new entrants, M&A, market stagnation, market fluctuation);
- Natural catastrophes (e.g. earthquake, storm, flood, wildfire);
- New technologies (e.g. impact of artificial intelligence, autonomous vehicles, drones, 3D printing, Internet of Things, nanotechnology, blockchain);
- Operational resilience;
- Pandemic outbreak/infectious disease (e.g. health and workforce issues, restrictions in movement);
- Retention of key people; and
- Well-being, diversity and inclusion;

*For Aon's global 'Weather, Climate & Catastrophe Insight 2020 Annual Report' [click here](#).

**For Aon New Zealand's 'Corporate Resilience for Climate Change' solution brochure [click here](#).

*** For Aon's global 2021 report 'Cyber Security Risk Report 'Balancing Risk and Opportunity Through Better Decisions' Report [click here](#).

Aon Risk Management Services

Aon are more than just insurance. We are the only insurance broker in New Zealand that offers fully integrated, holistic risk management services to help clients identify, assess and manage existing and emerging risks. We assist with the selection and implementation of appropriate risk transfer, risk retention and risk mitigation strategies and provide the right advice following a major claim.

Aon Risk Management Services is a specialised consulting division of highly qualified and accredited personnel including accountants, risk and fire engineers and certified valuers. We add distinctive, long-term value to optimise your overall insurance programme and enhance your risk management.

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