Insurance Market Insights

Q3, 2021

Overview

The business climate in 2021 has experienced a perfect storm: Business models are being reshaped while organisations across the globe are responding to and, at the same time, recovering from the once-in-a-lifetime set of challenges posed by the COVID-19 pandemic. Large financial losses from large-scale natural disasters and man-made events continue to loom and adversely impact livelihoods and businesses. All the while, insurance markets see tough market conditions for traditional exposures and limited appetite for emerging ones.

New Zealand and global market conditions continue to change and negotiations with insurers are increasingly complex. Challenges such as increasing pricing, cover reductions, risk exclusions, lowering limits and changes to terms and conditions can substantially impact insurance policies. It is more important than ever for organisations to keep abreast of the changes in today's fast-moving insurance market in order to fully understand their risk.

Market drivers include several factors from a prolonged soft market, to high catastrophe losses, as well as low interest rates.

Our Insurance Market Insights provide timely updates on market changes across a broad range of insurance classes.

Market conditions are moderating – but in pockets

Rate movement in some areas is starting to ease particularly Property for more vanilla occupancies and exposures, well-managed risks, and risks with a low natural catastrophe footprint, whilst other areas such as Cyber, Professional, and complex property, remain very challenged. There is also a growing disconnect between rate requirement for large limit capacity and lower limit purchase with the former remaining far more challenged.

Insurers are fully focused on profitability, following a prolonged period of remediation focus. Risk complexity will continue to be impacted by weather volatility, supply chain vulnerability, a virtual workforce, ongoing economic uncertainty and social inflation. We are seeing 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.

Importance of making better decisions to shape the future

The impact of the COVID-19 pandemic has demonstrated the interconnected nature of risk and the world is more volatile than ever before. Risk profiles have been and continue to be in a state of flux as businesses and economies emerge from the pandemic.

We advise clients to take time to understand new forms of volatility; start early on the renewal process; explore alternative structures and consider access to new forms of capital; communicate to insurers the differentiators that make them a 'better' risk; factor into renewal timetables the additional time required by underwriters to evaluate underwriting information and set realistic expectations, including those with internal stakeholders.

As an organisation, Aon is dedicated to innovative solutions that address both known and emerging risks. Our purpose is to enable clients to make better decisions and manage volatility. See Aon's Insight report A New Approach to Volatility: The Importance of Making Better Decisions.

Market dynamics overview

Pricing | Remains up to varying degrees' however, increases are decelerating.

Limits | Insurers are continuing to apply sub-limits to cap their overall exposure due to increased focus by technical and actuarial teams.

Retentions/deductibles | Are trending upward as a mechanism to shift some of the risk and help offset pricing increases.

Coverage | Insurers are mandating clarifications and exclusions for silent cyber, infectious disease and contingent business interruption.

Capacity | Although some insurers are withdrawing capacity in certain areas some niche sectors are seeing new entrants emerging. Capacity remains tight but is generally sufficient.

For existing insurers it is important to check with them early to gauge any change in their capacity.

For all insurers it is important to establish early what their maximum capacity could be if needed.

Underwriting | Information requests continue to be more detailed and rigorous. Insurer decision making is more centralised. This means that takes longer for decisions to be made. If subsequent additional capacity is needed from an insurer, it can take an additional minimum of a week (or often longer) to consider. Therefore, establishing maximum capacity early will alleviate any last minute issues.

Reinsurance | New capital has come into the market and reinsurers continue to evaluate new areas for growth.

Claims | Information requests can be onerous, and timelines can be challenging.

Content

Click the icons below for quick navigation.

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 three (Q3) 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 some 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; companies with significant assets to insure need 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 focused 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.

On the back of weather-related losses both locally and internationally, Insurers are starting to pay careful attention to weather-related and flood risks on Property portfolios. This is driving premium rating and affecting deductible levels in relation to these risks. In some instances, cover is being sub limited for weather-related claims.

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
Claims	↑	Natural disaster claims - NZ insurer cost. 2021 year to 30 September - $256 million (includes provisional cost) - eight events. All weather related, majority flooding including West Auckland flooding, West Coast flooding, Canterbury flooding and South Auckland Tornado ($32 million). 2020 - $239 million weather-related mainly flooding, plus $35 million Lake Ohau Fire - eight events. 2019 - $206 million - six events. Dominated by the Timaru hailstorm $171 million. *Source: Insurance Council of New Zealand Data.*
Pricing	↔	Typically, flat or single-digit increases for clean risks with no high hazard exposure.
Limits	↔	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.
Retentions	↔	For clean risks, trading a higher retention may assist manage a premium rate increase.
Coverage	↓	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.
Capacity	↔	Capacity is generally stable but 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). Emerging from some renewals from June 2021 onwards, where the insurer utilises facultative reinsurance, some have experienced difficulty with renewing their facultative reinsurance, requiring additional time to replace capacity if necessary.
Underwriting	↑	Insurers are increasingly focusing on growing climate change challenges and risks and the 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. There is also an increased focus on fire protection and suppression systems. Information requests 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.

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 three (Q3) 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, Australia, Bermuda and China. However recently, China Life (CLPC) and PICC, both domiciled Chinese insurers, issued notice they will stop underwriting non-Chinese interests outside of China. Both insurers have been active in providing capacity over recent years and this change represents a shift in focus - only Chinese owned or Chinese associated companies will be considered moving forward. PICC may still be open to reinsurance of non-Chinese business, which opens up the possibility of fronting arrangements, however at this stage it is not entirely clear what the impact will be on placements.

Looking Ahead

Our expectation is that current trends for property rates (on average flat or low single digit increases) for clean risks will continue, 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 does not add material competition.

On the back of weather-related losses both locally and internationally, Insurers are starting to pay careful attention to weather related risks and flood risks on Property portfolios. This is starting to drive premium rating and affecting deductible levels in relation to these risks. In some instances, cover is being sub limited for weather-related claims.

Global Property Market Snapshot

Category	Outlook	Commentary
Claims	↑	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.
Pricing	↔	Stabilising. On average flat or low single-digit increases at renewal for clean accounts. Our expectation is that this 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., those 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. Following 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).
Limits	↔	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.
Retentions	↑	Push for increased retentions particularly for accounts with attrition loss activity or natural catas-trophe 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.
Coverage	↓	Insurers are imposing across the board clarifications and exclusions particularly related to silent cyber, infectious disease and contingent business interruption.
Capacity	↔	Compressed – but new capacity emerging in London markets and alternative market options are emerging for some, notably in Singapore, Australia, Bermuda and China.
Underwriting	↔	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.

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 bought 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 consider 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. In respect of private companies, insureds are not considering cutting limits as the premium saving does not currently outweigh the benefits.
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 the ACC system 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 with some insurers even declining new business submissions due to staffing shortages and out-dated IT systems. We continue to see 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. The appetite for larger Tech Professional Indemnity risks, especially those with associated Cyber Liability risks, has reduced dramatically in recent months. Seeking alternative overseas markets is proving challenging as the accounts are often seen as being too small in a global sense. Some activities are also proving hard to place, e.g., payment processing platforms and gateways.

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), continue 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 constantly reviewing their portfolios. Several insurance financial adviser cluster groups and non-aligned schemes renewed in the third quarter (Q3) and all attracted premium increases and more stringent underwriting criteria, especially for those advisers with reasonable fire and general insurance income.

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. Early engagement on renewals is highly recommended to avoid last minute log jams and surprises.

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

Cyber incidents continue with ever-increasing frequency globally including a recent spate of local attacks effecting New Zealand businesses. Across industries, the velocity of digital change outpaced that of security in 2020; with organisations giving up ground to keep the lights on and maintain momentum. The majority of cyber threats faced by organisations today are not new – connected devices, ransomware, and insider risk will be ever-present. But what is new is that COVID-19 ushered in a 360-degree shift in the nature of business and exponentially intensified cyber risk. This was seen by a sharp upturn in the number and severity of ransomware cases, coupled with supply chain and support vendor vulnerabilities.

Successful cyber attacks that came to light at the end of 2020 and start of 2021 – including Mimecast, SolarWinds, Accellion, and Microsoft Exchange – highlighted the vulnerabilities of working with third-parties. Ransomware became a headline risk for insurers and insured alike, as activity grew dramatically. Underwriters, who saw their cyber insurance portfolios running at a loss predominantly due to ransomware, recognised the critical need to better evaluate and put a higher price on cyber insurance.

Coupled with the heightened public reporting of breaches, both management and governance segments of business are seeking more information around cyber-security and the appropriateness of risk transfer for their organizations. This desire for greater understanding generally results in a risk review and the requirement to increase limits/coverage where possible.

The increased demand for cyber insurance (new risks and increased limits) is proving challenging for underwriters, struggling to find capacity. 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 see a clear 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 have unquestionably altered insurers attitudes towards cyber risk with significant re adjustment occurring. As year-end approaches some cyber markets, particularly Lloyds, are near yearly budget capacity for certain industry types or in some cases cyber coverage at all. This poses short term challenges for less desirable risks to find market capacity or renew at existing coverage limits.

With each cyber incident, underwriters gain a greater understanding of cyber risk and the potential cost of these risks. It is clear that underwriters focus on an organisation's overall cybersecurity posture, and specific minimum cyber¬security measures, i.e. multi-factor authentication, encryption of data storage, tested business continuity plans and employee training when reviewing the insurability of a risk. It is vital for organisations to present a clear and comprehensive summary of their cybersecurity maturity level to underwriters during this period of market realignment to secure favourable coverage, pricing and deductibles.

Cyber insurance submissions continue to grow with respect to information required before underwriters will consider providing terms. Further to presenting good information to underwriters, the openness of organisations to take on feedback from underwriters regarding risk aspect concerns and their potential remediation 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 insurance is just part of the solution to online attacks Businesses must strive to keep pace with hackers and those initiating ransomware attacks, investing in cyber security and constantly assessing their potential exposures. Aon's 2021 Cyber Security Risk Report provides insights to assist organisations make the right decisions around their cyber budget. This report identifies four key cyber risk themes that are prominent today: Navigate new exposures, Know your vendors, Concentrate on controls and Protect the basics.

Cyber Market Snapshot

Category	Outlook	Commentary
Claims	↑	The frequency and severity of ransomware and denial of service events has resulted in increased business interruption. Whilst locally high-profile attacks such as that on the NZ Stock Exchange, DHBs and banks, have heightened awareness of the risks, 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. Aon anticipates rate pressure for all organisations, with many insurers continuing to apply significant increases, 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 remainder of 2021 and into 2022, 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. In the short term, as yearly capacity budgets fill, some risks will experience difficulty in the fourth quarter (Q4) as fewer underwriting options are available to them.
Underwriting	↑	With ever-increasing cognizance, insurers are increasing scrutiny of organisations' overall cyber¬security 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 is increasing due to new technology in vehicles and the associated 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. In respect of parts, supply chain issues are becoming prevalent, which can result in either increased cost, or delay in the ability to get a vehicle repaired.
Pricing	↔	For profitable business, rates are trending flat or for some there are reductions. Generally, fleet premiums are driven by their own claim 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 including where used telematics reporting, 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

There are indications that hard market conditions are now peaking, as evidenced by the reduction in percentage increases and additional supporting capacity being offered by insurers. We have seen reductions in the percentage increases from all classes of aviation insurance, to a point where they are either below or in line with 2020 rate increases.

Since 2018, there has been a notable shift in underwriting discipline, with underwriters now focused on individual risk profiles/exposures and losses as well as maintaining profitability. Although insurers are starting to target growth again, their messaging is that this is not to be achieved at the expense of, or jeopardise, the fundamental target of underwriting profitability.

Capacity is still constrained, with some insurers still shying away from quoting new business in a lead capacity, as their capacity is often required on a following basis to allow the placement to be completed; and as a following insurer they are sometimes able to dictate higher terms than the lead insurer. This is now happening less often with more placements being completed with supporting insurers writing terms on the same basis as the lead.

Whilst airline insurers experienced a 71% net loss ratio in 2020, the first time the loss ratio has fallen below 100% since 2012, many insurers are still looking to increase rates given the historically challenging underwriting results from the Aviation portfolio. Additionally, with much of the global aviation fleet still grounded, there are now the risks involved in long term storage due to the COVID-19 pandemic, insurers are thus implementing minimum premium obligations on all Aviation policy renewals in order to sustain the existing premium pool.

For those accounts with exposures falling outside the standard insurer appetites, buying high limits or operating in the perceived poorer performing segments widely considered: Airport Ground Handling Providers; Maintenance, Repair and Overhaul Providers; and Manufacturers Hull Risks; these will continue to experience capacity constraints and challenging renewal outlooks over the short to medium term.

Looking Ahead

Although premiums have been rising, many Aviation insurers consider that the current depressed state of exposures due to the COVID-19 pandemic, is masking the continued inadequacy of current premiums. The consensus is that continued, measured premium increases are still necessary, albeit at a decelerated rate to ensure the market achieves long term sustainable profitability.

New capacity from existing insurers diversifying into aerospace is emerging, broadly compensating for any reduced capacity required by some insurers following treaty reinsurance changes. However generally new capacity is restricted to follow capacity and insurers are treading a cautious path and being extremely selective of the aerospace risks with which they engage.

For accounts with a strong risk profile, existing insurers may offer increased capacity at competitive terms in a bid to grow their portfolio through 'quality risks' as opposed to new business which is perceived as riskier. Where this results in over subscription, it may result in better overall pricing.

Aviation Market Snapshot

Category	Outlook	Commentary
Claims	↓	Overall Aviation losses in 2020 were below average, although these did not proportionately reduce in line with reduced operations resulting from the COVID-19 pandemic.
Pricing	↑	Increases continue; however, there are reductions in the percentage increases from all classes of Aviation insurance, to the point where they are trending either below or in line with 2020 rate increases.
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	↓	Remains constrained; however overall capacity in the aerospace market appears to have stabilised with new capacity from existing insurers diversifying into aerospace broadly compensating for the reduced capacity required by some insurers following treaty reinsurance changes. The new capacity has generally been restricted to just following capacity and being new to the aerospace subsector, these insurers are being cautious and being extremely selective of the aerospace risks with which they engage.
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 have started 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 higher excesses, defects, and design issues coverage. On such placements, the new need to complete the placement to 100% means the entire placement is then amended to reflect co-insurers requirements to support.

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

More than a year-and-a-half since the onset of the pandemic, the pressure on global supply chains has not reduced as the distribution network (including ports and cargo vessel) relied upon for the transportation of goods remains in a chaotic state.

This situation has caused shipping delays and skyrocketing freight costs, and whilst the majority of the impact will be felt more by freight companies, retail companies and end consumers, marine insurers won't be able to escape the fallout unscathed.

There are an increased number of claim notifications by cargo owners for vessels that are delayed, as well as cargo that is undelivered or lost. This is especially troubling for clients shipping temperature and time-sensitive cargo (such as meat, seafood, fruit and vegetables) and who rely on accurate shipping timeframes in order to get their product to market.

As a result, it is important that clients understand what risks they are insured for, as under many marine cargo policies, loss or damage to cargo as the result of vessel delay is excluded.

Looking Ahead

Over the next 12 months, we expect the challenges faced by supply chains to continue, but despite these headwinds, we predict that cargo premiums will remain competitive, and the trend of marine insurers competing for high quality business will continue.

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

In September 2021, the IUMI (International Union of Marine Insurance) reported a lower level of claims frequency and total losses in the global Hull sector than expected. The reason for this being reduced shipping activity in connection with the pandemic, particularity in the cruise sector, and that any future recovery may see claims return to more "normal" levels.

Whilst this relates to the top-tier of the hull market (cruise ship, cargo vessel etc), its pleasing to hear some positive commentary in relation to a sector that has consistently challenged the profitability of underwriters.

Locally, New Zealand Insurers remain cautious in their approach to hull business, especially large fleets. Their risk appetite generally remains limited, and a co-insurance strategy on larger risk is often required to bring the exposure down to a comfortable level.

From a pricing perspective, there is a continued push for 5-10% rate increase on good performing Hull accounts. For those accounts that have suffered extensive losses, we are seeing a punitive approach being taken by Insurers, with significant increases in premium and/or excesses being applied.

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-mid 2022.

Marine Commercial Hull Market Snapshot

Category	Outlook	Commentary
Claims	↑	Though losses have decreased due to reduced activity with the pandemic, this is generally isolated to the shipping and cruise industries. For other sectors, not insignificant losses are still being experienced, 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 for the P&I market, with a stark increase in pool claims, volatile investment market, and years of premium erosion.

The International Group of P&I Clubs which comprises 13 individual P&I Clubs and covers approximately 90% of the worlds ocean-going tonnage, recently announced that the cumulative USD amount added to their free reserves in 2020/21 was zero.

This outcome is worse than anticipated and will likely result in unavoidable renewal increases in the coming period.

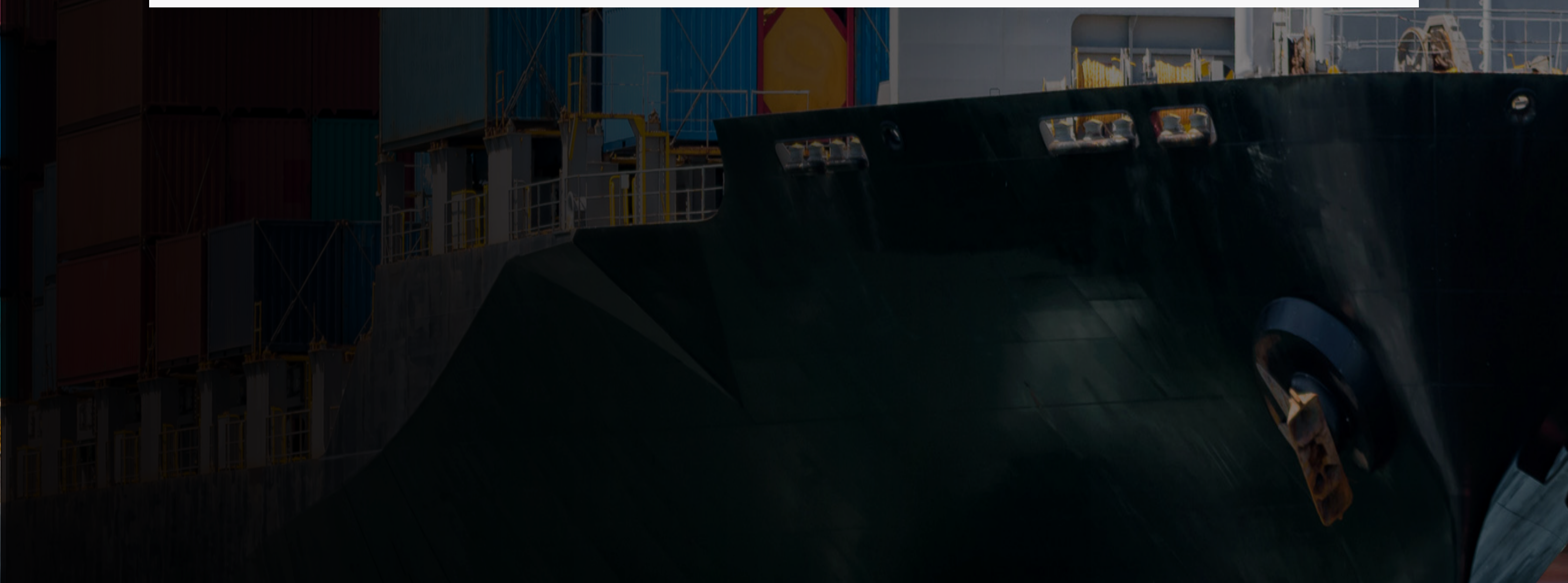
Looking Ahead

Our prediction is for rate and deductible rises, which are likely to continue in the coming years.

The extent of these increases will depend on the performance of each Club, with financially strong Mutuals potentially limited to minimal increases, mid-table Clubs genuinely requiring an increase to return to profitability, and those whose financial stability is under threat and which require stricter remediation strategies.

Marine Protection and Indemnity Market Snapshot

Category	Outlook	Commentary
Claims	↑	The rise in pool claims points toward continued challenges for the Clubs driven by large losses and further potential pressure on the group reinsurance.
Pricing	↑	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.
Limits	↔	With many Clubs remaining above Standard and Poor's capital requirements, we expect limits to remain stable.
Coverage	↔	With many Clubs remaining above Standard and Poor's capital requirements, we expect coverage to remain stable.
Capacity	↔	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.



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 which remains 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.

A recent example of the pressure being exerted on this sector was the closure of the Meishan terminal at Ningbo-Zhoushan Port in China. Ningbo-Zhoushan Port is the world's third largest container port, handling a total of 1.2 billion tonnes of goods in 2020. One-fifth of the port's volume was lost for two weeks from 11 August 2021, after a worker tested positive for COVID-19.

Shipping analysts predicted it would take up to 90 days for operations to return to normal as workers and maritime pilots return from quarantine. Retailers, and their customers, around the world will face continued disruption in the lead up to Christmas.

Whilst overseas Port disruptions are muted for New Zealand, we are not deaf to them, as local Ports must manage the peaks and troughs of vessel calls based on these events.

From an insurance perspective, Insurers are applying 5-10% rate increases at renewal on primary layers, however, capacity remains stable, especially for excess layers, where Insurers are more willing to deploy their capital at a competitive rate.

On other marine liability products, such as Ship Repairers Liability and Marine Operators Liability, insurers remain open to underwriting these lines, with a greater focus on risk information and clients implementing robust terms and conditions.

Looking Ahead

It is expected that the London market will continue to scrutinise underwriting results. We anticipate little change in rating attitudes in 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 or pandemic-related 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 businesses focused on mitigating credit risk, largely due to the risk of non-payment from overseas markets impacted by COVID-19, local business challenged by supply chain disruptions, and business casualties occurring during lockdowns.

In New Zealand, business insolvency levels, which were artificially much lower in 2020, are expected to show a year-on-year increase in 2021 and into 2022, depending on the impact of regional lockdowns and path to economic recovery.

Premium rate increases have subsided, and insurer appetite has returned with credit limit acceptance rates back 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

Although the world continues to contend with ongoing disruptions due the pandemic, New Zealand experienced a slight upturn in traveller arrivals from both New Zealand residents and international visitors in Q3 2021 as compared to 2020, but numbers are still significantly reduced compared to 2019. As this upturn in travel was short-lived following further border restrictions, the travel insurance industry has continued to remain relatively unchanged and we are now seeing the continuation of cover restrictions, that mainly address disruption loss, established back in Q1 2020.

The insurers used by Aon NZ for Business Travel have generally excluded COVID-19 cancellation, disruption and loss of deposits through their standard policy wording or with 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 is more of a concern to 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 COVID-19 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 introduction of Air New Zealand's "no jab, no fly" mandate from 1 February 2022 will give all stakeholders more peace of mind and continue to minimise the spread of COVID-19 in New Zealand as well as potentially reducing the risk of 'lockdowns', 'alert level changes' and 'travel bubble pauses' enough to reach a threshold that may see cover return under business travel products.

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.

The Importance of Better Decision Making Amid Increased Volatility

Aon's 2021 Global Risk Management Survey has found that as businesses and economies emerge from the pandemic, the way we identify, analyse and make decisions about risk has changed. The impact of the COVID-19 pandemic has demonstrated the interconnected nature of the risk's organisations have to tackle. A risk in one part of the world has consequences in another.

As this year's findings show, longtail risks have become a focal point of the risk landscape, with the ripple effects of increased cyber events, severe weather and supply chain disruptions having a significant impact on the global economy.

What research continues to show is that a failure or unwillingness to prepare can be catastrophic to an organisation's reputation and survival. COVID-19 is a stark reminder that it is not enough to focus on a specific event or exposure; we must also consider the impact events can carry in a globally connected marketplace.

There are also exposures that are still relatively new for many businesses. Companies' understanding of readiness and the ability to manage and transfer risks such as climate change, supply chain distribution risk and ESG-related risk leaves much room to be improved.

Risks identified by businesses around the world as the global top 10*:

Top 10 risks 2021

1 Cyber Attacks/ Data Breach	2 Business Interruption	3 Economic Slowdown/ Slow Recovery	4 Commodity Price Risk/Scarcity of Materials	5 Damage to Reputation/ Brand
6 Regulatory/ Legislative Changes	7 Pandemic Risk/ Health Crises	8 Supply Chain or Distribution Failure	9 Increasing Competition	10 Failure to Innovate/Meet Customer Needs

Top 10 risks predicted for 2024

1 Cyber Attacks/ Data Breach	2 Economic Slowdown/ Slow Recovery	3 Commodity Price Risk/Scarcity of Materials	4 Business Interruption	5 Accelerated Rates of Change in Market Factors
6 Increasing Competition	7 Failure to Innovate/Meet Customer Needs	8 Regulatory/ Legislative Changes	9 Pandemic Risk/ Health Crises	10 Cash Flow/ Liquidity Risk

Underrated Risks:

Some of the risks Aon consider underrated in the 2021 survey are of vital importance to ensure the survival of not just organisations but also our entire planet.

1. Climate Change
2. Corporate Social Responsibility and Environmental, Social and Governance
3. Disruptive Technologies
4. Personal Liability (Directors and Officers Risk)

*The Global Risk Management Survey drew online responses from 2,344 decision-makers from 16 industrial sectors, representing small, medium and large-sized companies across 60 countries. The report details the leading risks and provides guidance on addressing them.

Aon Risk Management Services

Aon is in the business of shaping decisions for the better; delivering innovative solutions that give our clients the clarity and confidence to make better decisions to protect and grow their businesses

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.

Talk to your local Aon broker today.

Aon is the leading provider of insurance broking, risk management and associated services in New Zealand, and around the globe. From Kerikeri to Invercargill, our dedicated teams are on hand to provide service and advice on a local, regional, national and global scale. From quote to claims management, **we're with you every step of the way.**

Call free | 0800 266 276 **Visit** | aon.co.nz