KPMG

New Zealand Insurance Update 2023

KPMG New Zealand

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Contents

Foreword

Our New Zealand Insurance Update 2023 provides access to KPMG's Insurance Insights Dashboards which bring to life key financial information from insurers' filed financial statements through a range of interactive charts and graphs presenting key industry metrics, financial position and results up to 30 June 2023.

In addition to the Insurance Insights Dashboards, we have included some overall commentary and analysis of the industry's results.

This year's publication also includes KPMG's views on the top 10 trends that are shaping and influencing the industry as we move into 2024.

On behalf of KPMG, we hope you enjoy the read. Please do not hesitate to contact one of the team at KPMG to assist your organisation in addressing any of the matters raised in this publication.

Nick Moss

Partner

Head of Insurance

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General & Health Insurance Market: Results & Analysis

KPMG's 2023 New Zealand General and Health Insurance Insights Dashboards contains a range of interactive charts and graphs which present key industry metrics for the last five years, enabling a comparison of metrics for an individual insurer to others in the market.

General + Health Insurance Insights Dashboard

General Insurance

It's been a challenging year for the general insurance market, with New Zealand's second and third largest insurance events, Auckland Anniversary Floods and Cyclone Gabrielle, occurring within weeks of each other.

Results and analysis

As a result, insurance profit across the industry decreased 14% from $2,208 million in 2021/22 to $1,896 million in 2022/23. The main driver to this was an overall net claims increase of 27% from $3,036 million in 2021/22 to $3,848 million in 2022/23.

Whilst insurance profit has decreased, at a top line the industry has continued to grow with gross written premium increasing 14% from $8,263 million in 2021/22 to $9,448 million in 2022/23. Net earned premiums also increased. However, with increasing cost of reinsurance cover the increase at a net earned premiums level was marginally less with a 10% increase from $5,244 million in 2021/22 to $5,744 million in 2022/23.

Gross written revenue		Net earned premiums	
$9,448m	2022/23	$5,744m	2022/23
$8,263m	2021/22	$5,244m	2021/22
$7,549m	2020/21	$4,826m	2020/21
$7,295m	2019/20	$4,709m	2019/20
$6,963m	2018/19	$4,427m	2018/19

Net incurred claims		Insurance profit	
$3,848m	2022/23	$1,896m	2022/23
$3,036m	2021/22	$2,208m	2021/22
$2,767m	2020/21	$2,059m	2020/21
$2,589m	2019/20	$2,120m	2019/20
$2,368m	2018/19	$2,060m	2018/19

Loss ratios	
67%	2022/23
58%	2021/22
57%	2020/21
55%	2019/20
53%	2018/19

In terms of which insurers are driving the largest movements behind the financial metrics, the overall increase in gross written premiums is primarily driven by:

- IAG New Zealand which had an increase of $417 million from $3,160 million in 2021/22 to $3,577 million in 2022/23;
- Vero Insurance New Zealand which had an increase of $176 million from $1,333 million in 2021/22 to $1,510 million in 2022/23;
- AA insurance which had an increase of $119 million from $655 million in 2021/22 to $775 million in 2022/23; and
- Hollard Insurance Company which had an increase of $117 million from $346 million in 2021/22 to $463 million in 2022/23.

Insurance profit across the industry decreased 14% from $2,208 million in 2021/22 to $1,896 million in 2022/23.

The overall increase in claims expense is primarily driven by:

— IAG New Zealand which had an increase of $304 million from $1,091 million in 2021/22 to $1,396 million in 2022/23;

— Vero Insurance New Zealand which had an increase of $107 million from $613 million in 2021/22 to $720 million in 2022/23; and

— AA insurance which had an increase of $105 million from $376 million in 2021/22 to $481 million in 2022/23.

Insurance Council of New Zealand (ICNZ) data shows a continued trend of increasing severity of weather events, showing the impacts of climate change becoming more visible.

In the year to 30 June 2023, there were ten natural disasters at a total cost of $3,708 million, of which $1,843.1 million relates to the Auckland Anniversary Floods and $1,657.6 million for Cyclone Gabrielle. This compares to eleven events at a cost of $448.6 million in the 30 June 2022 year.

The below table shows the number and cost of large weather events for the last ten years. Whilst the number of events has moved around a bit, the total cost is on a general upwards trend.

Year	Number	Total Cost ($m)	Cost ($m) of largest event
2023	10	3,708	1,843
2022	11	449	325
2021	8	274	274
2020	6	245	171
2019	4	15	4
2018	9	264	74
2017	9	195	92
2016	6	44	30
2015	10	133	42
2014	8	213	75

Finally, the results announcements from some of the large insurers indicate that the additional key themes of 2022/23 were the higher inflationary environment and supply shortages, again resulting in increased claim costs.

Health Insurance

The health insurance market has continued to grow with net earned premiums up 7% from $1,820 million in 2021/22 to $1,956 million in 2022/23. Whilst insurance profit has decreased over this period, the largest player in this market is Southern Cross Medical Care Society, a not-for-profit health insurer.

Results and analysis

The key contributors to the industry level result include a 17% increase in net incurred claims from $1,395 million in 2021/22 to $1,631 million in 2022/23, offset by a slight increase in net earned premiums of 7% from $1,820 million in 2021/22 to $1,956 million in 2022/23.

The above has resulted in a deterioration to the overall loss ratio, increasing from 77% in 2021/22 to 83% in 2022/23.

Southern Cross Medical Care Society was a key contributor to the industry with an 80% share of gross written premium and 84% share of the claims expense. The Society had an increase in gross written premium of $192 million from $1,395 million in 2021/22 to $1,587 million in 2022/23. Net claims expense increased by $265 million from $1,100 million in 2021/22 to $1,365 million in 2022/23.

Across the market all insurers experienced growth in gross written premium but a rise in claims expense with the ongoing high inflationary environment.

Gross written revenue		Net earned premiums	
$1,984m	2022/23	$1,956m	2022/23
$1,831m	2021/22	$1,820m	2021/22
$1,690m	2020/21	$1,679m	2020/21
$1,516m	2019/20	$1,510m	2019/20
$1,421m	2018/19	$1,414m	2018/19

Net incurred claims		Insurance profit	
$1,631m	2022/23	$326m	2022/23
$1,395m	2021/22	$425m	2021/22
$1,403m	2020/21	$276m	2020/21
$1,216m	2019/20	$294m	2019/20
$1,194m	2018/19	$220m	2018/19

Loss ratios	
83%	2022/23
77%	2021/22
84%	2020/21
81%	2019/20
84%	2018/19

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Life Insurance Market: Results & Analysis

KPMG's 2023 New Zealand Life Insurance Insights Dashboard contains a range of interactive charts and graphs presenting key industry metrics for the past five years. It also enables comparison of metrics for an individual insurer to others in the market.

Life Insurance Insights Dashboard

Life Insurance

It's been another challenging year for the life insurance market, with a continued downward trend in overall insurance profit.

Results and analysis

Insurance profit across the industry decreased 27% from $192 million in 2021/22 to $140 million in 2022/23.

Some of the drivers behind the overall reduction in insurance profit are:

- An increase in net claims expense of $98 million from $1,225 million in 2021/22 to $1,323 million in 2022/23; and
- A decrease in net premium revenue of $129 million from $2,271 million in 2021/22 to $2,400 million in 2022/23.

The above has been offset somewhat by more favourable investment markets and higher investment returns.

Gross written revenue		Net earned premiums	
$1,984m	2022/23	$1,956m	2022/23
$1,831m	2021/22	$1,820m	2021/22
$1,690m	2020/21	$1,679m	2020/21
$1,516m	2019/20	$1,510m	2019/20
$1,421m	2018/19	$1,414m	2018/19

Net incurred claims		Insurance profit	
$1,631m	2022/23	$326m	2022/23
$1,395m	2021/22	$425m	2021/22
$1,403m	2020/21	$276m	2020/21
$1,216m	2019/20	$294m	2019/20
$1,194m	2018/19	$220m	2018/19

Loss ratios	
83%	2022/23
77%	2021/22
84%	2020/21
81%	2019/20
84%	2018/19

In terms of which insurers are driving the largest movements behind the financial metrics, the overall increase in gross premium revenue is primarily driven by:

- Fidelity Life which had an increase of $112 million from $338 million in 2021/22 to $450 million in 2022/23;
- Partners Life which had an increase of $98 million from $370 million in 2021/22 to $468 million in 2022/21; and
- AIA New Zealand Limited which had an increase of $60 million from $991 million in 2021/22 to $1,051 million in 2022/23.

The overall increase in claims expense is primarily driven by:

- Partners Life which had an increase of $69 million from $174 million in 2021/22 to $243 million in 2022/21;
- Fidelity Life which had an increase of $45 million from $165 million in 2021/22 to $210 million in 2022/23; and
- AIA New Zealand Limited which had an increase of $34 million from $529 million in 2021/22 to $563 million in 2022/23.

The amounts disclosed above for Partners Life include the impact from acquiring BNZ Life on 30 September 2022.

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Top 10 Industry Trends

01. Resilience

Insurers continue to face a higher-than-ever exposure to natural perils, such as floods and cyclones.

Natural disasters have a significant impact on communities. The insurance industry sees its role in making Aotearoa New Zealand more resilient to natural disasters as providing risk education alongside insurance to help manage those risks.

With climate change expected to increase the frequency and severity of natural disasters and New Zealand's exposure to coastal inundation, these challenges cannot be solved by one stakeholder alone.

The insurance industry is encouraging a coordinated response across industries, and ready to play a leading role in these conversations.

Arguably the Auckland floods and Cyclone Gabrielle have helped put a spotlight on making New Zealand's response to climate change an immediate priority and an opportunity for change.

In the aftermath of the Canterbury earthquake sequence, significant investment was made in better understanding earthquake risk and enacting positive change such as improved building codes.

There is now an opportunity to do the same with flood risk – and whilst that in itself is only a small part of what's required to respond to climate change and striking a balance between mitigation versus adaptation, it would nevertheless be a positive step forward.

02. Reinsurance

Reinsurance costs have increased significantly in the last few years largely due to increased claims from weather-related catastrophes.

Given the rising frequency and severity of extreme weather events, general inflationary pressures and supply chain disruptions, many local general insurers have faced large increases in claims costs, often triggering their catastrophe reinsurance programmes.

This increase in property and casualty claims costs has triggered a reduction in reinsurers risk appetite and thus increased reinsurance costs and elevated insurers retention levels. These reinsurance costs have risen much faster and higher than gross written premium has over the same period.

As a result, direct insurers are feeling the cost of this impact on profitability. Insurers have and will continue to pass these increased reinsurance costs on to customers which has already started to contribute to premium increases often well exceeding inflation.

These are expected to continue to rise as the full costs of the catastrophe loss events becomes apparent.

Increased retention levels will likely lead to increased earnings volatility for general insurers with regional insurers also potentially running at lower surplus capital multiples.

03. Technology Modernisation

Insurers should evaluate whether their current technology platforms and architecture are fit for purpose and make changes to better align for future needs.

Many insurers have a complex technology architecture which limits flexibility. This includes legacy systems that are expensive to replace or upgrade and also expensive to maintain when regulatory change occurs. Insurers have also invested in digitisation to keep up with customer expectations, including manual or semi-automated processes to connect legacy systems to the digital customer experience.

Insurers could derive enormous business value from a clear data and technology target state that business decisions can be assessed against, to ensure the organisation is continually moving towards more up-to-date technology systems and platforms. Any business decisions should include the potential cost in maintaining legacy systems or upgrading to new technology that aligns to the target state.

Digital investment continues to be strategically important for insurers to remain relevant and be competitive. Insurers are realising that partnerships are critical to staying resilient and delivering on their digital transformation plans.

04. ESG

Reporting beyond financial metrics is common among New Zealand insurers – but the substance and level of detail of information about broader ESG matters reflect relative immaturity in the market.

Most insurers report on Environmental, Social and Governance (ESG) matters. Some produce comprehensive sustainability reports, some include details in their annual reports, some provide more limited "corporate social responsibility" reports and others present a few measures directly on their websites.

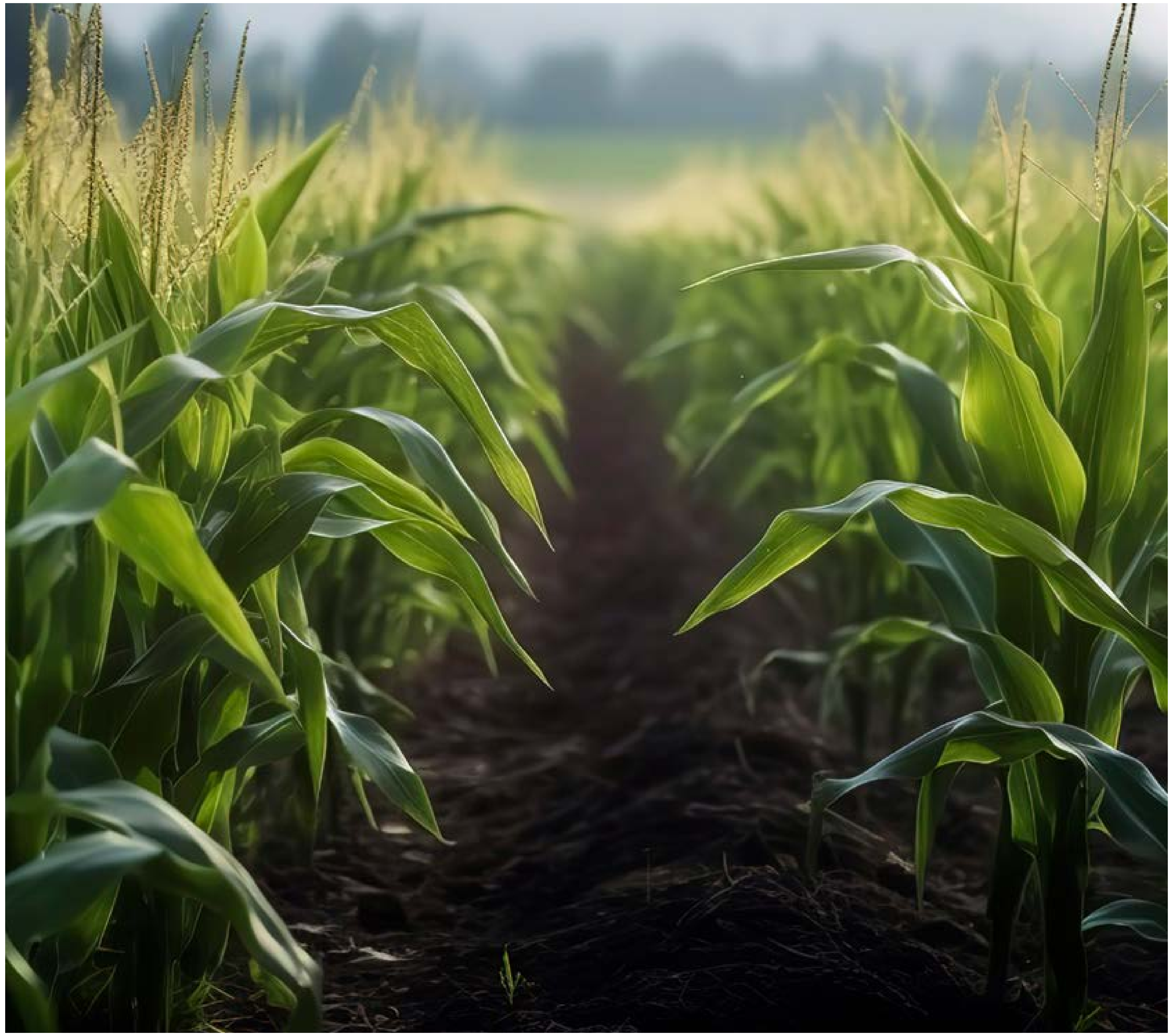
Although this may suggest that insurers "get" the importance of reporting beyond financial information, the inconsistency in the substance and level of detail of information reported is reflective of the general immaturity in the New Zealand market when it comes to ESG reporting.

Globally, insurers are increasingly recognising the breadth and depth of ESG within their own businesses and the impact they can have on society.

The question we are grappling with is "what is driving entities in our trading partner countries to provide their stakeholders and wider society with more relevant, comprehensive reporting than entities in New Zealand?"

One reason could be the general sense of fatigue. In particular, insurers have been tackling a multitude of new regulatory and reporting changes such as the new IFRS 17 standard and solvency standard amendments.

The first mandatory reporting deadline for climate statements is also looming, which means reporting on the impacts of climate change has to be prioritised. But the evidence is becoming increasingly clear about the benefits to organisations and society that come from comprehensive reporting. We remain confident that change is possible and the insurance industry has a key part to play as an accelerator of change.



05. Simplification & Cost Optimisation

With increasing claims and reinsurance costs, profitability is a challenge. This is one of the drivers behind a continued focus on simplification and automation across all aspects of the value chain.

Insurers need to continue to focus on digitisation, simplification, productivity, automation and operating model adjustments across all aspects of the value chain to drive efficiency and cost reductions.

Insurers need to be strategic to achieve cost optimisation and this may include working with partners to drive value. Identifying and managing third parties effectively can help reduce costs whilst mitigating risks and supplementing capability gaps.

Mergers and acquisitions have also been a feature of the New Zealand insurance sector in recent years, in particular the life insurance sector, with ongoing effort to integrate acquired businesses and portfolios to realise the full benefit of identified synergies and cost optimisation opportunities.

06. Engaging with Customers

Customers' growing need for and perceived value of insurance is growing, as they face into continued global uncertainty and the implications of climate change. It's understandable, however, that customers want to know exactly what they are paying for and how they can unlock their benefits without hassle, if things do go wrong.

Some insurers have responded to the call for more transparency, and invested in digital tools, calculators, and virtual assistants to provide clear and concise information about products and services in real-time.

Others have prioritised digital solutions that better leverage customer insights to drive greater engagement with products and services and enable faster decision-making innovations, such as AI-powered decision support systems that expedite the underwriting and approval process, leading to quicker responses to customers.

It's the back-end processes, which are still very manual, where ongoing focus is required to elevate the customer experience. Customers engage and interact with insurers across multiple channels and expect rapid, tailored responses.

The opportunity exists to explore how digital solutions could help insurers to create a single, unified view of their customers to streamline operations, improve customer experience and drive business growth by utilising a single source of truth for customer information.

07. Cyber

A continued increase in cyber-attacks - in particular those targeting personal data - is heightening awareness of the cyber risks facing insurers.

As a consequence, in addition to maturing their cyber defences, insurers are reviewing the data they hold, determining what should be retained, and purging excess data.

There is also increased focus from regulators, with the Reserve Bank of New Zealand (RBNZ) consulting on cyber resilience data collection.

This would provide them additional insights and support their monitoring efforts. Similarly the Financial Markets Authority (FMA) has noted shortcomings in the cyber resilience and operational systems among entities it licences, including underinvestment in technology and the use of unsupported or legacy systems and has issued guidance on enhancing the resilience of cyber and operational systems.

Now more than ever expectations are high that organisations are on top of their cyber risk management. Insurers must be able to provide confidence to both regulators and consumers on how they are prepared for and would respond to a breach, if they want to maintain trust.

Building and protecting that sense of trust requires many parts of the organisation (people, process and technology) to work together to ensure consumer systems and data are adequately protected.

08. Data

We are seeing the importance of managing and getting value from data continue to increase. This is driven by three key trends: climate change, claims automation, and generative AI (i.e. ChatGPT). These trends are underpinned by an ongoing regulatory focus on data in the region as APRA pushes an ambitious timeline in Australia for more detailed data collection.

With repeated floodings across the motu in 2023, climate disclosure has emerged as a pivotal concern with underwriters now demanding high-quality risk data. This marks the shift of climate change mitigation strategies from being a choice to an imperative. Insurers need to better quantify risks through loss modelling, and re-insurers need to integrate natural catastrophe liabilities into premium calculations.

Continued claims automation is also contingent upon collecting high quality data but must be balanced against providing a good customer experience. Insurers are increasingly augmenting internal data with external data from industry partners and publicly available sources. This may accelerate as Consumer Data Right requirements come into action.

Lastly, generative AI (Gen AI) plays a versatile role in shaping these trends. It can generate synthetic data for training and testing of risk and fraud detection models, as well as create virtual chatbots for more human-like interactions between insurers and policyholders. Prudent use of it will drive innovation in the data-enabled future of the insurance sector.

09. IFRS 17

Significant investment has already been made by insurers to comply with IFRS 17. However, further investment will be required to successfully embed strategic solutions.

For many insurers, it's a race to the IFRS 17 finish line. For general insurers, the transition has perhaps been more straightforward, predominantly focused on the recalibration of the IFRS 4 risk margin into an IFRS 17 risk adjustment.

For life insurers, transition has typically proved more challenging. This has been down to the heightened complexity arising from the need for additional data, the retrospective nature of the standard and underlying policy inception dates going back decades in some instances, and more granular calculations with the annual cohorting and grouping requirements.

In this race, a number of insurers have had to rely on tactical fixes rather than strategic solutions to get numbers out. Further investment will be required to successfully embed strategic solutions.

IFRS 17 also prompted an update to the RBNZ solvency standards and data return templates. This year insurers were required to file a one-off dual return under the new standards and templates at the same date as completing their final submissions under the current standards.

Ideally insurers will look to use IFRS 17 data as an input to management decisions and embed the new standard in their ways of working. It is now time for insurers to find ways to gain efficiencies and value from IFRS 17 data.

10. Regulatory & Compliance Transformation

The steady stream of regulatory change the sector has seen recently is continuing and will do so for some time to come.

The insurance sector is currently subject to a raft of regulatory change across a wide scope of insurance operations.

The Financial Markets (Conduct of Institutions) Amendment Act "CoFI" brings in a principle to treat customers fairly, and with it, a new license from the Financial Markets Authority. At the same time, the Insurance Prudential Supervision Act (IPSA) and changes to Insurer Solvency Standards mean a wholesale shift in Prudential requirements is looming.

These changes are significant and are not the only regulatory changes on the horizon – insurers need to be prepared for a continuing stream of compliance requirements and regulatory change, which naturally brings increased cost.

Therefore, insurers should be focused on how to be compliant in an efficient and cost-effective manner, the future of the business, and how to build in compliance by design in transformation activities.

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