New Zealand Insurance Update

March 2025

KPMG New Zealand

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01 | Foreword

We are pleased to launch our refreshed KPMG Insurance Insights Dashboard which brings to life key financial information from insurers' publicly available financial statements through a range of interactive charts and graphs presenting key industry metrics, financial position and results up to 30 September 2024.

What's particularly exciting about this year's Insurance Insights Dashboard is that it's the first time we've been able to present to you the full impact of the transition to IFRS 17 *Insurance Contracts* (IFRS 17), a new accounting standard for insurers. All New Zealand insurers have now reported under IFRS 17, a huge milestone for an accounting standard which has overall proved challenging and time consuming to implement.

This year, we have also brought together the financial information of the entire insurance industry into one dashboard, allowing users to drill down by segment (general, health, and life) or by company.

All financial information presented in the Insurance Insights Dashboard is taken from insurers' first set of IFRS 17 financial statements, including comparative information which has been restated on transition to the new standard.

Nick Moss

Partner

Head of Insurance

02 | Transition to IFRS 17

For most insurers, the headline act of 2024 was the transition to IFRS 17 – one of the most significant and challenging transitions in recent IFRS history. This transition has fundamentally changed the presentation and disclosure of insurers' financial statements, and this is evident at first glance from the KPMG Insurance Insights Dashboard, which now presents data using IFRS 17 accounting concepts.

IFRS 17 is still new, and industry practise continues to emerge and evolve. However, from the data we collected, we make note of the trends over the following pages.

General Insurance
(including reinsurers and captives)

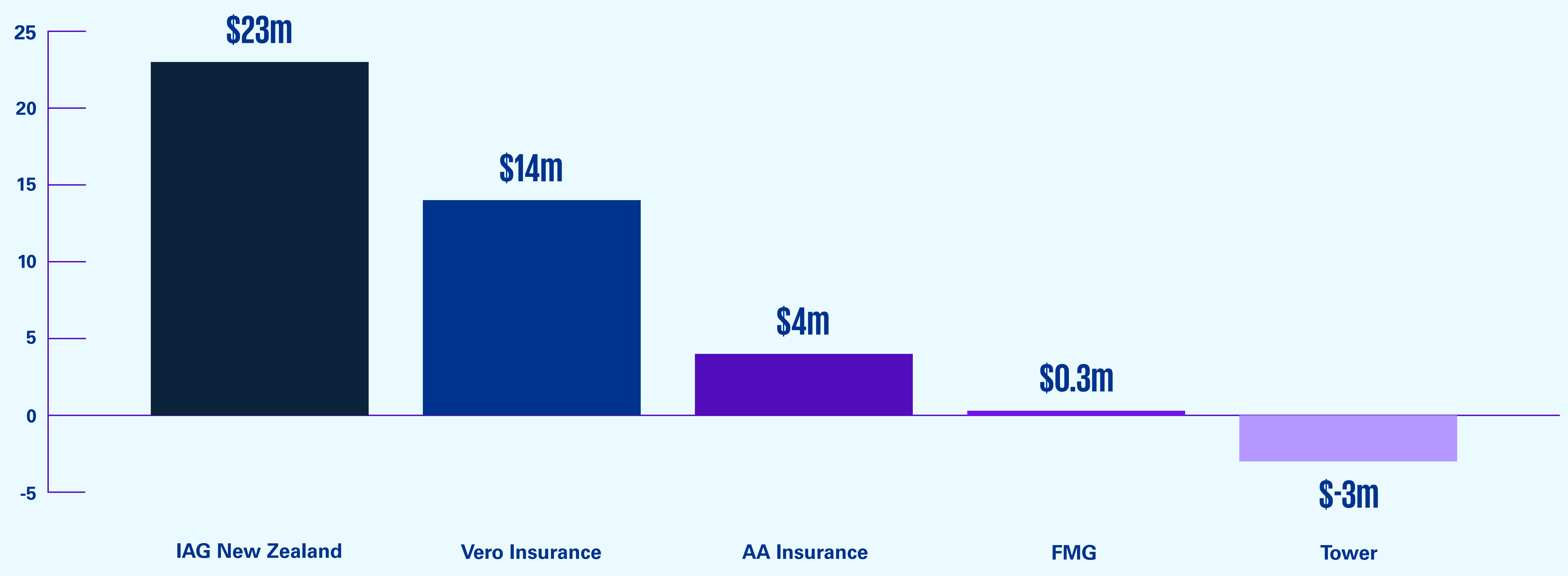
When analysing the general insurance sector (including reinsurers and captives), 43 out of 53 insurers disclosed the transition method they applied was the fully retrospective approach, with three of those also using the modified retrospective approach and no insurers using all three permitted transition approaches. The standard required full retrospective transition, unless such an approach was deemed impracticable, in which case a modified retrospective or fair value transition approach was allowable. Four insurers used only the modified retrospective approach, and one used only the fair value approach.

The total transition impact to retained earnings across the sector was a negative adjustment of $33 million, with 17 insurers experiencing a positive adjustment to retained earnings (totalling $68 million), and 17 insurers experiencing a negative adjustment to retained earnings (totalling $35 million). 19 insurers had no transition impact. Interestingly, all general insurers who applied the fair value transition approach recorded a negative adjustment to retained earnings on transition. The transition impact attributable to the industry's larger insurers was as shown above.

The transition impact for general insurers is primarily attributable to the remeasurement of the risk adjustment applied to valuation of outstanding claims. IFRS 17 introduced a new concept of the risk adjustment for non-financial risk (replacing the risk margin required under IFRS 4). Across the sector, the average probability of sufficiency, or confidence level, that this risk adjustment is calibrated to is 74%. The highest confidence level was set at 90%, by two insurers, and the lowest was set at 60%. The majority of general insurers (30 of 53 in 2024) have set the risk adjustment to a confidence level of 75%, which aligns to the confidence level required by the Reserve Bank of New Zealand (RBNZ) for solvency reporting.

When analysing the measurement methods used by the sector, the vast majority (45 out of 53 insurers) are applying the Premium Allocation Approach (PAA), with three of those also using the General Measurement Model (GMM). The PAA is a simplified version of the GMM, allowable where insurance contracts do not exceed 12 months in duration or it can be demonstrated that the simplified approach gives a measurement result that is materially consistent with that of the GMM. There are seven insurers using only the GMM, and no insurers in this sector are using the Variable Fee Approach (VFA). Of the insurers applying the GMM in any capacity, over half are New Zealand branches of overseas insurers.

IFRS 17 transition impact to net assets



Across the sector, the average probability of sufficiency, or confidence level, that this risk adjustment is calibrated to is 74%.

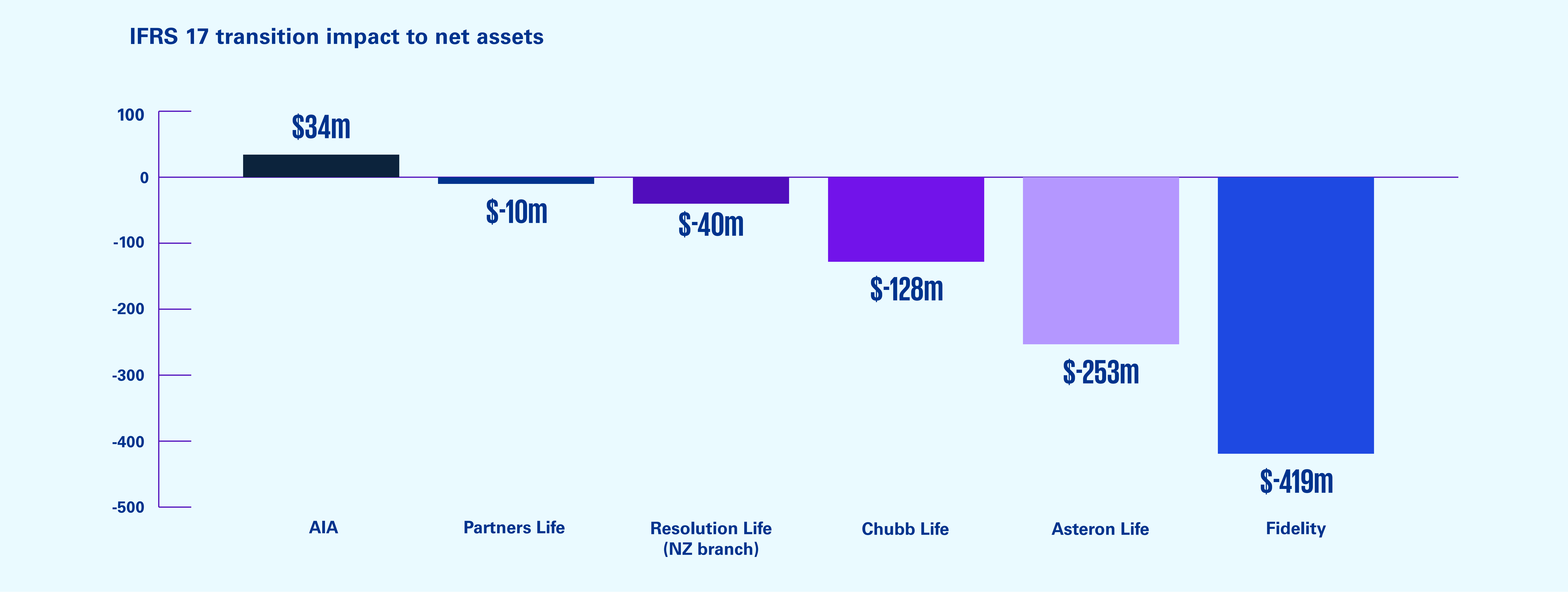
Life Insurance

(including reinsurers)

When analysing the life sector, including reinsurers, out of 21 insurers who disclosed the transition method applied, five were able to apply only the fully retrospective approach, with seven using both the fully retrospective approach and the fair value approach, and three using all three transition approaches. One used the modified retrospective approach and the fair value approach, and five used only the fair value approach. This is in contrast to the general insurance sector, where application of the full retrospective approach was much more common, due to the generally shorter durations of non-life insurance contracts.

Across the sector, the total transition impact to retained earnings was a negative adjustment of $811 million, with six insurers experiencing a positive adjustment totalling $98 million; and thirteen insurers experiencing a negative adjustment totalling $909 million. Two insurers had no impact. Of the insurers experiencing a negative impact to retained earnings on transition, eleven of those used the fair value transition approach. The total impact to the life sector was far greater than that to the general insurance sector. The transition impact attributable to the industry's larger players was as shown above.

For life insurers, the risk adjustment (which we comment on in the General Insurance section) is a new concept under IFRS 17, and this has played a part in the transition impact seen across the industry.



Other factors behind the larger transition impact to life insurers than non-life insurers include:

- The approach taken to discounting (life insurers tend to have a greater impact from discounting than non-life insurers due to longer term contracts);
- Treatment of expenses (the judgement as to whether expenses are directly attributable to insurance contracts, and the acquisition costs that are capitalised as an asset into the insurance contracts balance); and
- The approach taken in the impairment testing of the asset for insurance acquisition cashflows.

However, for most life insurers, the most significant driver behind the magnitude of the transition adjustment is the shortening of the period over which contracts are measured for accounting purposes; with some contracts which previously were projected over long timeframes now shortened to one year.

Across the sector, the average confidence level that the risk adjustment is calibrated to is 76%, with the highest confidence level set at 95% (adopted by two insurers), and the lowest set at 55%. In the sector, there are seventeen insurers using the GMM, with three of those also applying the PAA, and five insurers using all three measurement methods. Just four insurers in the sector are using only the PAA.

Health Insurance

When analysing the health sector, all four insurers in this category applied the fully retrospective approach on transition, again likely due to the shorter durations of non-life insurance contracts.

In this sector, the total transition impact to retained earnings was a negative adjustment of $48 million, with the key player driving this adjustment being Southern Cross Medical Care Society, which saw a negative transition impact to retained earnings of $54 million. One other insurer experienced a negative impact of $1 million, and two saw a positive impact to retained earnings on transition, totalling $6 million.

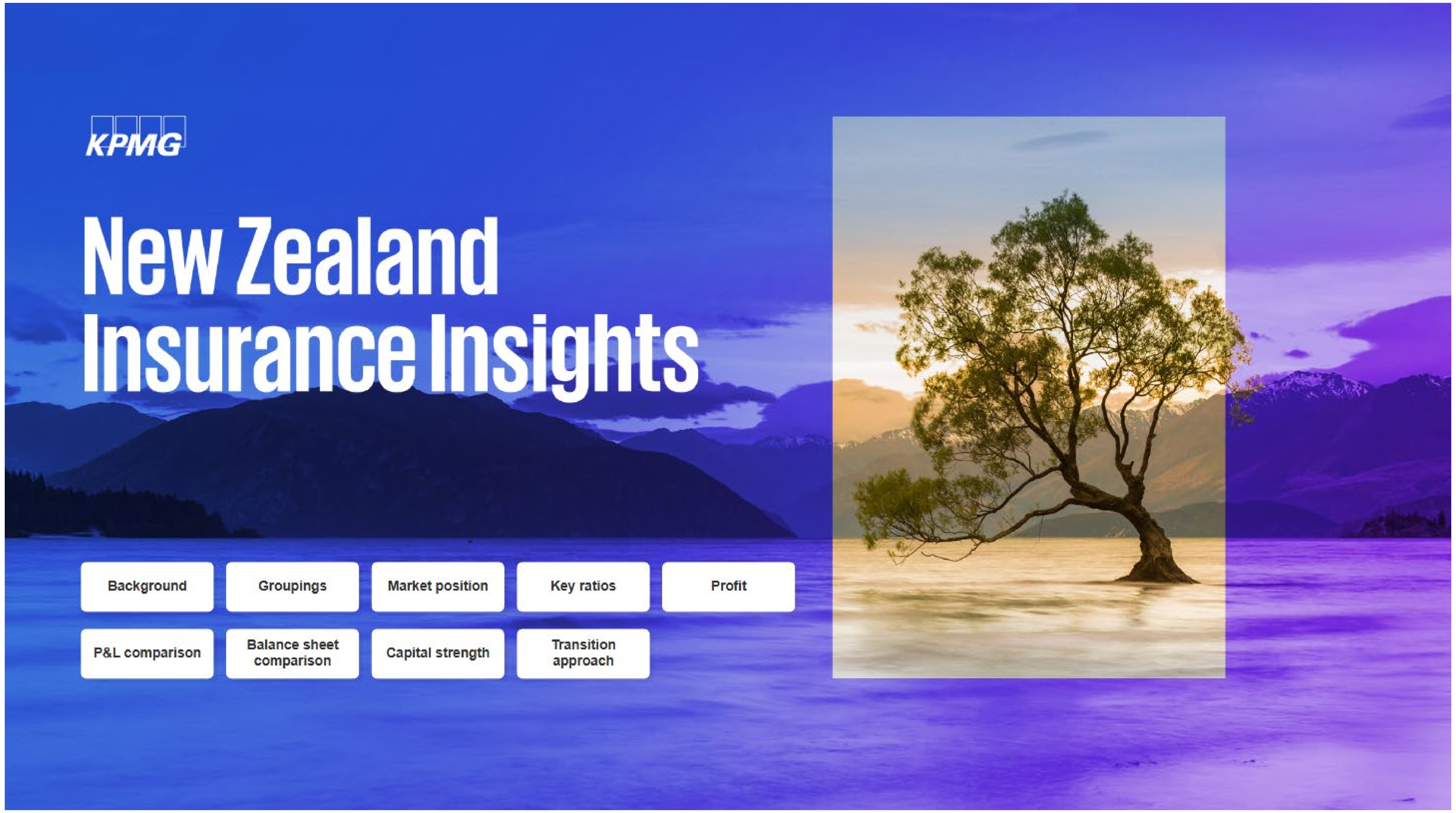
All four health insurers are using the PAA measurement method. Three of the four health insurers (including Southern Cross) have calibrated the confidence level to 75%, with one insurer setting it to 95%.

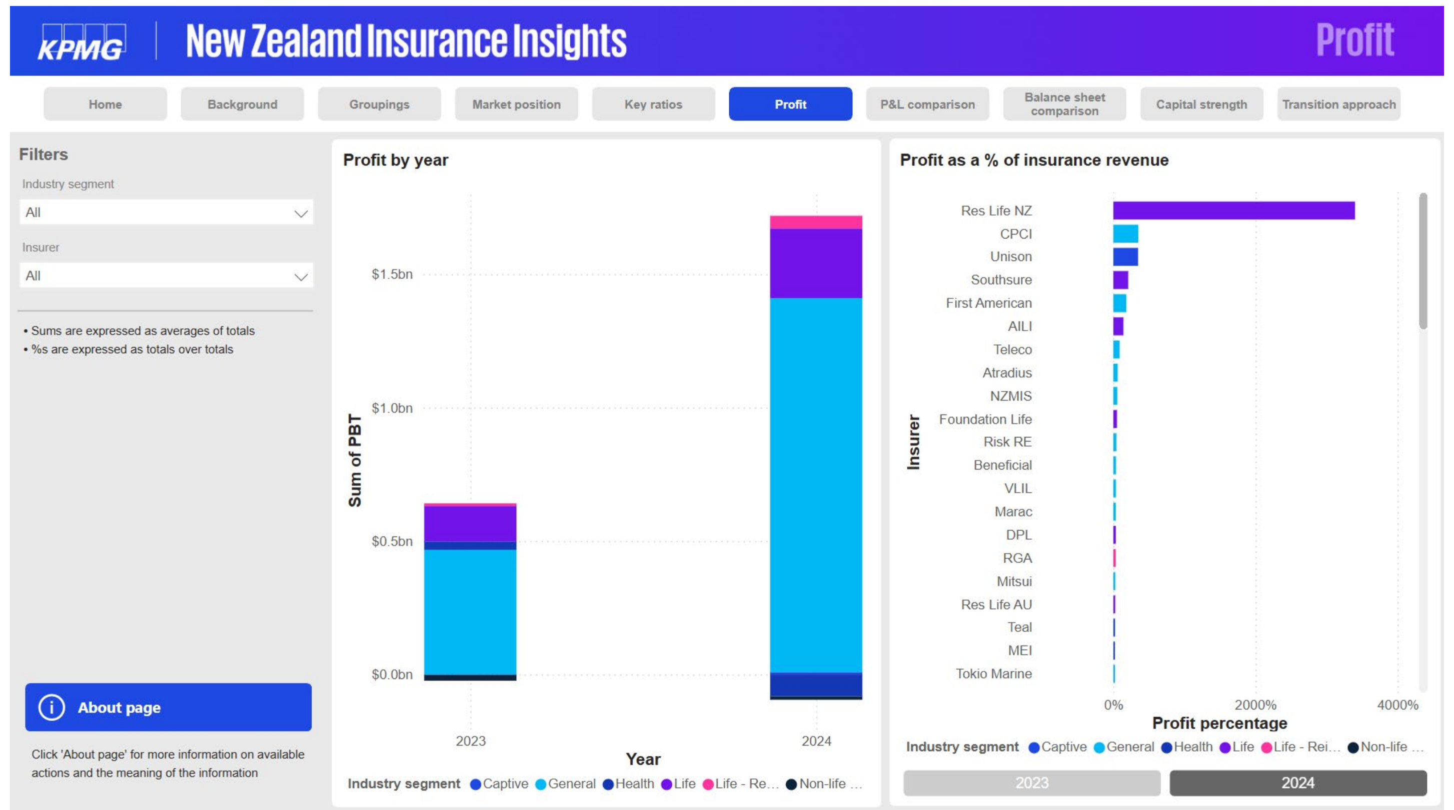
03 | Financial Performance

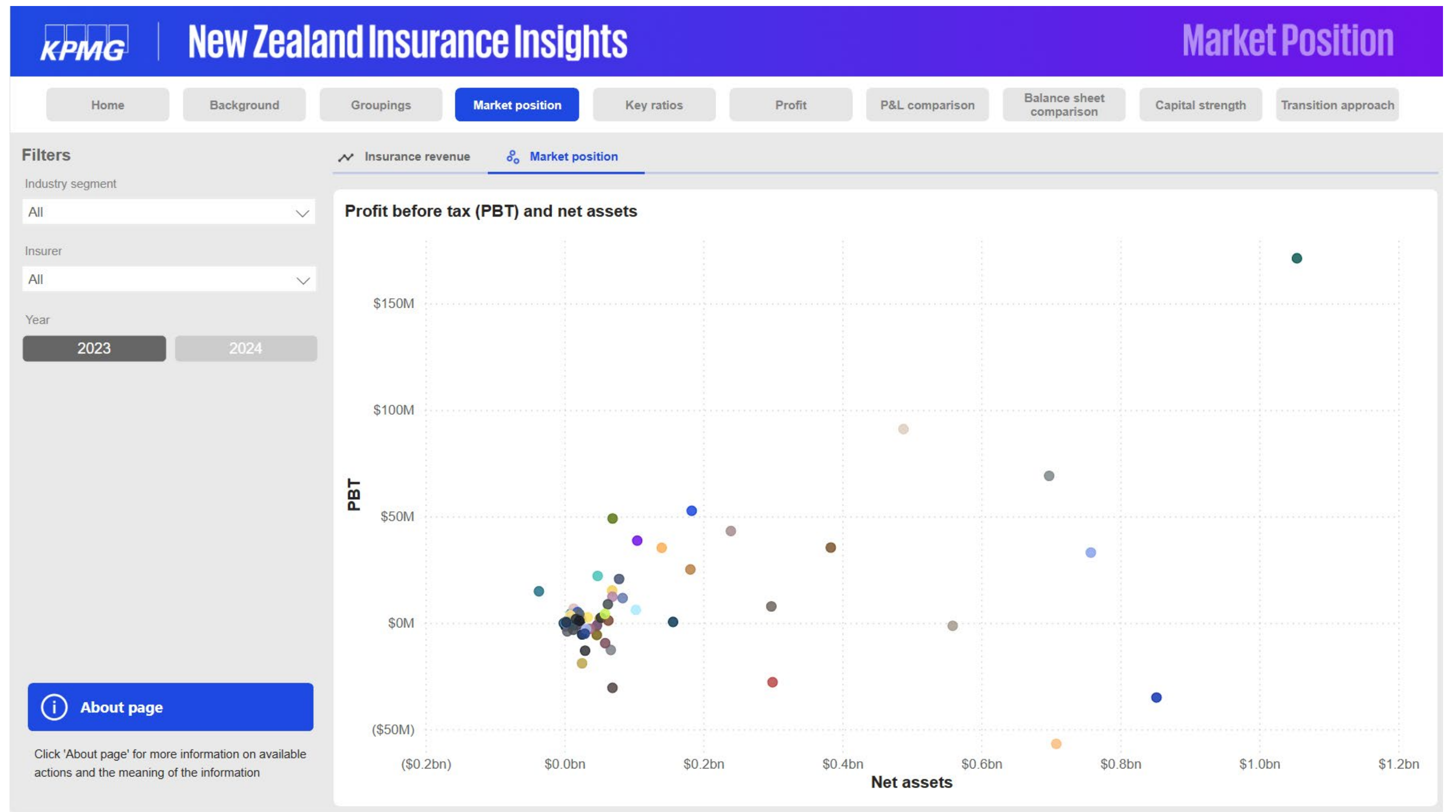
The KPMG Insurance Insights Dashboard provides us with the data to present a snapshot of financial performance across the insurance sector. Like other sectors, insurers have been operating in an environment of rising costs and are having to face into the effects of climate change. Our analysis focuses on the 2023/24 and 2022/23 years in order to allow comparability of performance on an IFRS 17 basis.

Insurance Insights Dashboard

KPMG's New Zealand Insurance Insights Dashboard contains a range of interactive charts and graphs which present key industry metrics for the last two years, enabling a comparison of metrics for an individual insurer to others in the market. Please click below to view the dashboard.







General Insurance

In contrast to the 2023 financial year (the year to 30 September 2023), the 2024 financial year was benign by way of natural hazard events. Whilst 2023 saw New Zealand's second and third largest insurance events in the last ten years, Auckland Anniversary Floods and Cyclone Gabrielle (with costs of $1,843 million and $1,657 million respectively), occurring within weeks of each other, the year to 30 September 2024 saw only one natural hazard event recorded in Insurance Council of New Zealand (ICNZ) data. This storm had an estimated cost of $30 million, comparing to total natural hazard costs in the year to 30 September 2023 of $3,897 million arising from five recorded events.

Year	Number	Total cost ($m)	Cost of largest event ($m)
2024	1	30	30
2023	5	3,897	1,978
2022	11	339	120
2021	13	500	97
2020	7	286	43
2019	3	16	8
2018	9	226	74
2017	11	2,522	2,270 (Kaikoura)
2016	6	42	30
2015	12	124	42

As a result of good experience this year, the insurance result after reinsurance across the industry increased 179% from $402 million in 2022/23 to $1,123 million in 2023/24.

Despite the benign 2024 year, recent natural hazard trends demonstrate increasing severity and cost, demonstrating that New Zealand must be aware of the growing impacts of climate change. The table above shows the number and cost of large weather events for the last ten years. Whilst the number of events has fluctuated, the total cost is on a general upwards trend.

As a result of good experience this year, the insurance result after reinsurance across the industry increased 179% from $402 million in 2022/23 to $1,123 million in 2023/24. The drivers behind this include:

- An overall decrease in insurance expense (which includes claims as well as directly attributable expenses) of 25% from $10,800 million in 2022/23 to $8,123 million in 2023/24;
- Top line industry growth, with insurance revenue (reflecting earned premiums) increasing 15% from $9,220 million in 2022/23 to $10,597 million in 2023/24; and
- Offsetting the above, the significant weather events in 2023 have contributed to an increase in reinsurance premiums across the sector of 23%, with total reinsurance premiums paid (net of commissions) across the sector of $3,293 million (compared to $2,687 million in 2022/23).

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

- IAG New Zealand which had an increase of $458 million from $3,331 million in 2022/23 to $3,789 million in 2023/24;
- Vero Insurance New Zealand which had an increase of $212 million from $1,416 million in 2022/23 to $1,628 million in 2023/24;
- AA insurance which had an increase of $152 million from $702 million in 2022/23 to $854 million in 2023/24; and
- Hollard Insurance Company which had an increase of $91 million from $421 million in 2022/23 to $512 million in 2023/24.

The overall increase in reinsurance premiums paid is driven by:

- IAG New Zealand which had an increase of $164 million from $1,117 million in 2022/23 to $1,281 million in 2023/24;
- Vero Insurance New Zealand which had an increase of $144 million from $277 million in 2022/23 to $421 million in 2023/24;
- Chubb Insurance which had an increase of $79 million from $63 million in 2022/23 to $142 million in 2023/24; and
- Berkshire Hathaway Speciality Insurance which had an increase of $54 million from $113 million in 2022/23 to $167 million in 2023/24.

Finally, the results announcements from some of the large insurers indicate that the additional key themes of 2023/24 were the continuing impacts of inflation, including the rising reinsurance costs noted above, with a need to balance insurance affordability for the public with maintaining levels of capital to meet regulatory requirements and support claims payments in the event of any significant natural disasters.

Media releases from the ICNZ and key general insurance players IAG, Suncorp and Tower during 2024 highlight the increasing frequency and severity of climate change related natural disasters on New Zealanders and the industry, which has had the unavoidable flow on effect of increases in consumer premiums. To combat this, insurers have called for New Zealand to speed up progress on adapting to climate change and its impact.

Top of mind for these insurers is an increasing focus on risk reduction and resilience, rather than simply response to natural disasters when they happen, which will also support affordability and keeping levels of insurance high.

For example, funding flood protection; investment in infrastructure and science; and reforms in land use planning, and managed retreat have all been highlighted as key strategies to keep building the resilience that New Zealand needs. An IAG survey shows that it isn't just insurers who think this, but also 65% of New Zealanders who "want to see more focus and resource put into reducing the impacts of climate-related hazards", with "90% expecting more frequent and extreme floods and 87% expecting more frequent and extreme storms".

In January 2025, the Ministry for the Environment published the Government's response to the inquiry into climate adaption which will support the development of policy for a climate adaptation framework. The aim of this framework is to establish an enduring, long-term approach to adaptation to climate change impacts. This announcement was met with support from the general insurance industry, with the ICNZ welcoming Government leadership on the way natural hazard risks from climate change will be managed.

Year*	Insurance revenue ($m)	Insurance expense ($m)	Reinsurance premiums paid (net of commissions) ($m)	Insurance result ($m)	Profit before tax ($m)	Insurance expense ratios (%)
2023/24	$10,597	$8,123	$3,293	$1,123	$1,399	77%
2022/23	$9,220	$10,800	$2,687	$402	$442	117%

only the 2023/24 and 2022/23 years' data has been presented, in order to allow comparability on an IFRS 17 basis

Life Insurance

It's been a mixed year for the life insurance market, with some players exhibiting significant increases in insurance service result, and others experiencing a decrease in their insurance service result; highlighting the importance of product pricing.

Overall insurance result across the industry increased 85% from $273 million in 2022/23 to $504 million in 2023/24.

Some of the drivers behind the overall increase in insurance result are:

- An increase in insurance revenue of $478 million across the sector, from $3,436 million in 2022/23 to $3,914 million in 2023/24;
- A commensurate increase in insurance service expense (including claims and directly attributable expenses) of $351 million, from $2,922 million in 2022/23 to $3,273 million in 2023/24; and
- An increase of $509 million in reinsurance premiums paid (net of ceding commissions), from $1,100 million in 2022/23 to $1,609 million in 2023/24.

Whilst the above has been offset somewhat by more favourable investment markets and higher investment returns, it demonstrates that insurance claims and direct expenses in the life insurance sector continue to increase in a high inflationary environment, driven by the same cost and public health service pressures as the health insurance market. In particular, life insurers have noted the increased severity and duration of mental health claims since COVID, which in particular is driving an increase in costs associated with disability income claims.

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

- Resolution Life, which saw an increase of $176 million from $311 million in 2022/23 to $487 million in 2023/24;
- AIA New Zealand, which had an increase of $125 million from $967 million in 2022/23 to $1,092 million in 2023/24;
- Chubb Life, which had an increase of $74 million from $256 million in 2022/23 to $330 million in 2023/24; and
- Partners Life which had an increase of $70 million from $452 million in 2022/23 to $522 million in 2023/24.

The overall increase in insurance service expense is primarily driven by:

- AIA, which had an increase of $102 million, from $823 million in 2022/23 to $925 million in 2023/24;
- Asteron Life, which had an increase of $70 million, from $236 million in 2022/23 to $306 million in 2023/24;
- Swiss RE Life, which had an increase of $69 million, from $224 million in 2022/23 to $292 million in 2023/24; and
- Partners Life which had an increase of $64 million, from $434 million in 2022/23 to $498 million in 2023/24.

Year*	Insurance revenue ($m)	Insurance expense ($m)	Reinsurance premiums paid (net of commissions) ($m)	Insurance result ($m)	Profit before tax ($m)	Insurance expense ratios (%)
2023/24	$3,914	$3,273	$1,609	$504	$309	84%
2022/23	$3,436	$2,922	$1,100	$273	$142	85%

only the 2023/24 and 2022/23 years' data has been presented, in order to allow comparability on an IFRS 17 basis

The sector has seen an increase in insurance revenue of $478 million across the sector, from $3,436 million in 2022/23 to $3,914 million in 2023/24.

Health Insurance

The health insurance market has continued to grow with insurance revenue up 11% from $2,055 million in 2022/23 to $2,290 million in 2023/24. Whilst insurance revenue has increased, the insurance service result after reinsurance has decreased over this period, from an industry insurance result of $24 million profit in 2022/23 to $119 million loss in 2023/24.

The largest player in the health sector is Southern Cross Medical Care Society, a not-for-profit health insurer with a 76% share of insurance revenue, and 77% share of insurance service expense. Southern Cross had an increase in insurance revenue of $180 million from $1,565 million in 2022/23 to $1,745 million in 2023/24, with a net increase of 15,196 members resulting in the highest membership since 1992. The Society also experienced an increase in insurance service expense of $292 million from $1,563 million in 2022/23 to $1,855 million in 2023/24 resulting in an insurance service result of a loss of $112 million, compared to an insurance service profit of $3 million in 2022/23. This is not unexpected given their status as a not-for-profit organisation.

The health insurance industry's insurance result overall has been driven predominantly by an 18% increase in insurance service expense (including claims and directly attributable expenses) from $2,032 million in 2022/23 to $2,406 million in 2023/24, reflecting the increasing cost of medical claims in the New Zealand Market and telling a story of an increasing trend of health consciousness in New Zealanders, and increasing pressure within the public health service. This has led to more claims, at higher costs. Southern Cross notes in its 2024 Annual Report that members have received the highest return on their premiums in more than 10 years, with 93% of premiums returned by way of claims. Health insurers have also had to acknowledge the current inflationary environment and cost of living crisis in balancing any premium increases, which has further contributed to the sector's performance this year.

Year*	Insurance revenue ($m)	Insurance expense ($m)	Reinsurance premiums paid (net of commissions) ($m)	Insurance result ($m)	Profit before tax ($m)	Insurance expense ratios (%)
2023/24	$2,290	$2,406	$3	$-119	$-83	105%
2022/23	$2,055	$2,032	$2	$24	$32	99%

only the 2023/24 and 2022/23 years' data has been presented, in order to allow comparability on an IFRS 17 basis

04

KPMG Insurance Insights

Insurance CEO Outlook 2024

KPMG's Global Insurance CEO Outlook surveyed 120 Insurance CEOs across 11 countries, providing exclusive insurance industry insights covering the following key themes:

- Driving growth in an uncertain economy
- Enabling the enterprise with Gen AI and digital transformation
- Attracting talent and shaping the workforce
- Embracing ESC to achieve measurable outcomes.

Whilst this report is not specific to New Zealand Insurers, there's no doubt that these themes were also seen in our local insurance industry and we've explored the relevance of these themes to Kiwi insurers in KPMG New Zealand's own insights.

AI's role in Aotearoa's changing insurance landscape

As the regulatory landscape evolves and customer expectations shift, many New Zealand insurers are embracing transformation to remain competitive and up-to-date. Emerging technologies, such as AI, will enable early adopters to stay ahead of the competition, serve customers better, and be adaptable in the fast-changing world of insurance. In this article, we outline how New Zealand insurers can introduce and leverage AI.

IFRS 18 for insurers

Whilst the presentation and disclosure of New Zealand insurers' financial statements has just undergone wholesale change due to IFRS 17, IFRS 18 aims to provide greater consistency in presentation of the income and cash flow statements, and more disaggregated information. As with IFRS 17, preparation for implementation will take time, and insurers will need to make new judgements, navigate many new requirements, and oversee changes to systems and processes. We explore the key changes and considerations for insurers.

[Delivering value with cyber security in the insurance sector]

The insurance sector in Aotearoa New Zealand is feeling the pressure of current circumstances, with economic and geopolitical uncertainty, natural disasters, and global warming all changing the perception and reality of risk. Technology advances, changing regulations, supply chain risks, and people availability are also impacting risk management. Delivering measurable value in projects and operations is crucial, especially given the higher risk exposure and compliance requirements in insurance. This article explores how insurance companies can add value through cyber security investments, focusing on several priority areas.

Banks’ and Insurers’ climate-related disclosures

The Aotearoa New Zealand climate-related standards were released in December 2022 and it is no mean feat to get to the point of being able to state compliance in less than two years - putting Aotearoa New Zealand a step ahead of the largest banks and insurers globally. In this report, KPMG international shares benchmarking analysis of 47 major insurers’ and 35 major banks’ climate-related disclosures for the 2023 reporting cycle.

Insurance transformation: Modernising the claims function

Claims is one of the most underutilised strategic assets within many insurance organisations. In this report, KPMG insurance professionals explore some of the drivers for claims transformation in today’s market, identify the opportunities and barriers, and share key considerations to help insurance organisations on their transformation journey.

Navigating resilience and resolution: Examining the synergies in New Zealand’s financial services regulatory environment

Are you struggling to join up all the different regulations governing resilience? This short report explores the overlap between regimes, to help organisations ensure they can implement the requirements efficiently, effectively and sustainably.

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