

**In the immortal words of Bob Dylan, "The Times they are a changin'" and the normally low profile insurance industry is under the microscope. The Canterbury earthquakes have turned the spotlight on us and we are all looking closely at the outcomes of this unprecedented event and how we respond to it.**

Two large reinsurers (Swiss Re and Munich Re) have issued press releases about their profit losses in May this year that made specific and pointed reference to New Zealand.

Munich Re CFO Jörg Schneider said: "...the natural catastrophes in Australia and New Zealand have made this the most difficult start to a financial year we have experienced for a long time..." He goes on to say that in loss-affected regions such as Australia and New Zealand, prices are likely to rise "considerably".

Owing to exceptionally high costs for natural catastrophes, Munich Re posted a consolidated loss of €948m for the first quarter of 2011 (previous year: profit of €485m) while Swiss Re reported a net loss of US\$665 million for the first quarter of 2011, compared to a profit of US\$158 million in the same period of 2010.

Swiss Re made it clear that their loss was due in large part to a very high level of natural catastrophe claims, including the earthquakes in Japan and New Zealand and floods in Australia.

Reinsurers have a key influence over insurance company underwriting and pricing. This is well known amongst brokers. It is less well known amongst Government and the general community. That is an issue New Zealand's insurance industry will need to address.

## **So, what does all this mean for New Zealand?**

Reinsurers are more cautious about their continued exposure to natural catastrophes in New Zealand. Catastrophe reinsurance pricing is rising "considerably" and this is having a significant impact on the profitability of insurance companies.

New Zealand is one of the few earthquake-prone areas in the world where availability of earthquake insurance has not changed significantly in the way it has elsewhere. The result is an unrealistic view of what is "affordable" pricing when the real risks are taken into account. Will this change? Some are looking at the severity of the Christchurch earthquake and at how long the aftershocks are continuing and predicting that it will, particularly if there are further damaging shakes.

If there is another significant seismic event in Canterbury, the ongoing commitment of reinsurers and the price they charge will need to be reconfirmed with them.

We need to respond to the immediate concerns of reinsurers and demonstrate that we are prudent Underwriters with proper governance measures and claims settling processes.

As an industry, we also need to start to build Government, business and community understanding that the recent earthquakes have changed the way insurance will be underwritten and priced. We need to create greater awareness that business and community risk issues associated with earthquakes are not the responsibility of just the insurance industry - they require a coordinated response across all sectors to ensure our industry remains customer focussed and sustainable.

Vero is an industry leader and we intend to work hard at raising (with Government, industry, media and others) the broad issues facing our industry and the impact of those on New Zealand in general. More immediately, we also plan the following changes:

## **Corporate and Business Insurance**

We will be talking to customers about the following Earthquake terms:

### **Nationwide**

- Earthquake cover will move to become limited to 'aggregate in the period of insurance'. The automatic reinstatement of cover for earthquake where a loss occurs will no longer be available. Naturally, after any event, you are welcome to talk to us about continuing cover for your customer.

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- For Corporate risks and larger Business Insurance risks, Contingent Business Interruption arising directly or indirectly from earthquake will become subject to a 30-day waiting period (indemnity periods will trigger on expiry of this 30-day period).
- For some regions we will be requesting more site specific information, including details of any earthquake strengthening, code compliance certification, engineering reports attesting to such strengthening or Territorial Authority notices in respect of any of these aspects.
- Older building risks and/or those with lower indemnity to replacement value ratios will be reviewed and renewal offers are likely to be on indemnity value only terms.

**Within the affected wider Christchurch area the following additional changes will apply:**

- The minimum Earthquake deductible applying to MD/BI losses will move to 10% of declared MD site value. For Corporate risks and larger Business Insurance risks we will be unable to cover Contingent (including Customers, Suppliers and utilities dependencies) Business Interruption arising directly or indirectly from earthquake.
- For existing customers who have suffered earthquake damage, we will be underwriting each case individually, which might result in reduced capacity in some cases. This reduction in capacity will generally reflect the extent of destroyed property.

These changes will be introduced as they are implemented through our internal systems and processes. You will be advised accordingly.

## Personal insurance

Canterbury customers should expect further premium increases together with the following changes, for all house and contents policies:

- Where the home suffers loss or damage caused by earthquake, tsunami or weather related flood, the maximum payable in any one period of insurance (regardless of the number of events or claims) will be the sum insured or where no sum insured is specified, the cost to rebuild the square metre area specified in the schedule, limited to \$2,000 per square metre (inclusive of any fees, costs and GST). Naturally for homes with a higher rebuilding cost per square metre you will need to talk to our Christchurch Vero team.
- For any earthquake or tsunami claim for property not covered by the Earthquake Act but otherwise covered by Vero (e.g. driveways, fences, swimming pools) - an excess of \$10,000 will apply for any one event.
- Given the significant reduction in land elevation in parts of Christchurch, we are also reviewing the level of cover we provide for homes exposed to flood and inundation.
- Automatic reinstatement of cover will not apply for losses arising from earthquake, tsunami or weather related flood - again, after any event you are welcome to talk to us about continuing cover for your customer.

Timing of these changes for risks insured in Canterbury will be advised shortly.

## Rural Insurance

While our rural business was less affected by the Canterbury earthquakes, the impact is still significant and growing as the extent of damage becomes more apparent. While changes to cover, pricing and capacity will be implemented nationally, we will be developing a more regionalised approach over time. More details of the changes for rural policyholders will follow shortly.

Vero have successfully purchased reinsurance catastrophe treaties as of 1 July. We have the confidence of an A+ (Strong) rating from Standard and Poors and are supported by the Suncorp Group.