

ICNZ

Insurance Council of New Zealand

**The Annual
Insurance Industry
Review**

2007 - 2008





Insurance Council of New Zealand Board 2007:

L - R Back row: Gordon Smith FMG; Martin Stokes Medical; Martin Kreft Munichre; Nick Hawkins Vice President IAG; John Lucas ICNZ

L - R Front Row: Rob Ryan AIG; John Balmforth AML; Rieny Marck President Lumley; Roger Bell Vero; Chris Ryan Chief Executive ICNZ

Vision

The Insurance Council of New Zealand provides members with the means to deal with issues that are more effectively and efficiently handled on a collective basis. It works to increase their efficiency, image and financial strength as they serve their customers and community.

President's report



R. Marck.

Rieny Marck

President

Insurance Council of New Zealand

The past year has been one of significant progress for the Insurance Council as well as one presenting significant challenges for the insurance industry.

One thing has not changed, the New Zealand economy relies more significantly than ever on a sophisticated and successful insurance industry and insurance makes a vital contribution to modern society.

The Insurance Council plays an important role in communicating with consumers, the community, the industry and with government to ensure we have an environment that facilitates general insurers to deliver quality products and services which meet community and business needs in a competitive and changing market.

Over the last year the industry has experienced a range of issues, particularly regulatory changes and ongoing competition within the industry which has seen markets under pressure from falling premiums and a rising claims environment, exacerbated by more frequent extreme weather conditions and inflationary costs.

Premiums and climate change have impacted both internationally and domestically. However, despite these issues, the industry remains strongly positioned and is prepared and able to deliver the protection our customers expect. Recent weather events have meant the insurance industry has become a key participant in the ongoing dialogue on how we can cope with, and adapt to, changing weather patterns. We have continued to assist significantly in the recovery of communities from earthquakes, floods and weather-related events.

The Insurance Council has again been leading the debate on insurance, and has been active in creating a better understanding of the critical economic and social value of our industry. Maintaining a positive and

proactive relationship with the government is a very important aspect in this debate. As a Council we will continue to work hard to build a strong, constructive, open relationship with the government on issues of concern to members. With a looming election in 2008, our commitment to this dialogue with government is ongoing.

One of the key features of the past year has been the work the Insurance Council has been involved in relating to the regulatory Review of Financial Products and Providers. The Insurance Council had made submissions on the first of two Bills directly relating to the insurance industry (the Financial Service Providers (Registration and Disputes Resolution) Bill, and the Financial Advisers Bill), both of which have significant implications for our customers and our companies. We have also been actively engaged with the Inland Revenue Department discussing implications of tax changes on insurance.

The competitive nature and nominal growth of our market combined with increasing costs of claims and reinsurance has pressured underwriting results as evidenced in industry returns. Both personal lines and most commercial insurance rates are beginning to firm and further movement of these rates appears likely given the economic experience and evolving risk exposures.

The Insurance Council has a very broad mandate and influence - I would like to particularly acknowledge some of the individuals and organisations who contribute to our success.

Once again, the Insurance Council's committee structure has continued to deliver great value. Those involved in the various committees make an immense contribution to the management and development of our industry.

Liaison with our key industry partners has been maintained. The continued support and close relationships with the Insurance Brokers Association of New Zealand, the Australasian Institute of Commercial Loss Adjusters, and other industry bodies, has ensured constructive debate and positive outcomes on industry issues.

The Insurance Council continues to actively support and promote the operation of the Insurance & Savings Ombudsman. This service provides consumers, who insure with Insurance Council members, with an effective and affordable complaints resolution service.

Regular meetings have been held with the New Zealand Fire Service and, although there are some ongoing issues relating to the definition of Fire Service levies and the appropriate application to insurance policies, we continue to maintain a positive dialogue as we work through these issues.

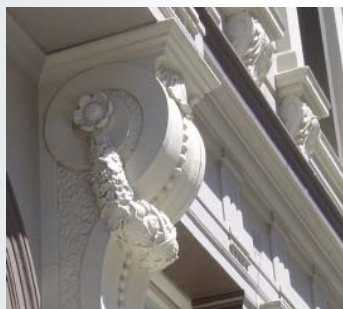
Further advances were made in claims notification and disaster planning with the Earthquake Commission and recent claims events have highlighted the need to ensure ongoing close coordination and cooperation.

The insurance industry needs to ensure it continues to attract and develop quality employees. The Insurance Council has a vital role in this area and maintains a programme of education and seminar events aimed at raising industry standards. The Insurance Council and members also work very closely with Australian and New Zealand Institute of Insurance and Finance who provide highly regarded professional development and educational services.

The past year has seen further consolidation of the industry through mergers and acquisitions. Despite the continuing consolidation of the industry, the Insurance Council attracted three new members during the year and we were very pleased to welcome Zurich, Pacific International and Simply Insurance.

I am indebted to my fellow directors for their support and I thank them for the time they contributed to the ongoing governance and development of the Insurance Council and the insurance industry.

I also especially acknowledge the outstanding work undertaken by our Chief Executive Chris Ryan and his



very able staff, supported by the efforts of the membership of our various committees. Together, they have ensured the year was one of considerable achievement and, once again, our thanks go to all those involved for their contribution.

The excellent reputation of the Council has, I believe, been further enhanced this year through the researched, balanced and professional approach taken to promoting the interests of current and potential members, consumers, and the community at large. Ongoing implementation of our core strategies will continue to ensure positive and progressive outcomes.

Chief Executive's report



Christopher Ryan
Chief Executive
Insurance Council of New Zealand

The Insurance Council's programme of work has centred on the delivery of the Strategic Plan and Blueprints laid down by the Board.

The key objectives for 2007/2008 which had significant emphasis included:

- government regulation of insurance and assisting in the development of a sustainable regulatory environment;
- encouraging more sustainable communities by reducing under-insurance and non-insurance levels;
- working with local government and communities, and also central government, to develop our ability to prepare for, cope with, and recover from, the impact of events arising from climate change;
- the removal of the Fire Service levies from insurance policies, and the implementation of a fairer and more equitable system of collection;
- ongoing encouragement for increased policing and reduction of burglary and theft claims through a debate on law and order;
- addressing issues relating to fraud in the insurance industry; and
- generating a greater understanding of the critical role played by the insurance industry in underpinning New Zealand's society and economy.

While we were not able to complete all of these objectives, we continue to progress solutions and improvements.

The most significant area of work for the Insurance Council was related to government regulation. The Review of Financial Products and Providers, which was put forward as a concept in 2006, came to fruition. The Insurance Council has worked closely with our industry colleagues and created a Regulatory Committee to assess the legislative changes. One of the most pleasing outcomes is that the Insurance Council appears to have been successful in influencing a regulatory environment which is effective in addressing prudential and consumer protection but less onerous and costly than those seen elsewhere. The Review of Financial Products and Providers includes a wide range of legislation and there are two key Bills that are now being addressed.

The Financial Service Providers (Registration and Disputes Resolution) Bill sets out a system for regulation of all financial service providers. It also requires all financial providers to be part of a disputes resolution process to protect customers.

The Financial Advisers Bill establishes a co-regulatory regime for financial advisers and the creation of approved professional bodies.

The issue of under-insurance continued to be one of concern for communities, local and central government, following flood and other weather related events during the year, and also as a result of the Gisborne earthquake in December 2007. Large parts of the community were clearly seen to be under-insured, or not insured at all, and this created significant suffering for many families and businesses and also placed a strain on the wider community.

New Zealand is an earthquake-prone nation and this was acutely reinforced by the Gisborne earthquake occurrence. The Insurance Council's response team, working closely with the Earthquake Commission and the local authorities, received very positive feedback from the community affected by the earthquake. The



reputation and image of the insurance industry was clearly strengthened by our members' response to the event.

Climate change continued to challenge the nation and the industry. We saw a wide range of increased flood events. Particularly hard hit was the northern part of the North Island where some areas of Northland were hit repeatedly by similar events, and the payout of over \$60 million by the insurance industry for a single storm event alone. A key change was signalled in the media when the Prime Minister indicated that some towns may have to seriously consider how sustainable they are, given their exposure to repeated weather events. The Insurance Council certainly agrees with the government stance on the importance of sustainable communities through risk mitigation and adequate insurance protection and it is pleasing to see local authorities beginning to respond positively.

Perhaps a disappointing aspect of the past year was the approach of the Fire Service to suggestions that the insurance industry was not fully participating in payment of Fire Service levies where due. While the industry strongly disagrees with the application of tax to insurance premiums, the industry also prides itself in its compliance with legal requirements. Dialogue is ongoing with the Fire Service on its approach to the collection of Fire Service levies and the auditing of companies within the industry.

It was also with some disappointment we saw the government back away from its options following a review of the Fire Service Act. The Council believes this was an opportunity to enhance the efficiency and funding of the Fire Service. With no change happening we will continue to advocate a better way to fund the Fire Service.

In respect of the law and order issues, the insurance industry continues to be concerned at the relatively low priority placed on what is perceived to be petty crime in the form of breaking and entering and conversion of motor vehicles. The Insurance Council has long maintained that these, so called, petty crimes are often the training grounds of career criminals and has been lobbying government to put increased emphasis on detecting young offenders as they enter the system, and taking early remedial steps.

The New Zealand Police continue to do an outstanding job however require greater resources to successfully operate in an environment where criminals are increasingly sophisticated. The Insurance Council will continue to work closely with New Zealand Police.

The issue of fraud remains an industry concern, particularly as evidenced more recently in respect of Travel policies. The insurance industry works closely with government departments to try and avoid New Zealanders ending up with insurance policies being declined on the basis of fraudulent statements.

Once again we had an outstanding contribution to the work of the Insurance Council from the Standing Committees. I would like to thank, on behalf of the Board and the Staff of the Insurance Council, all members of companies who provided their time and professional knowledge to the workings of the Insurance Council's committees.

Our work with key partners including the members of IBANZ, the Insurance & Savings Ombudsman, AICLA, and other industry professionals, continues to be a high priority for the Insurance Council.

The Insurance Council has maintained a strong financial situation. Levies for the Insurance Council have not been raised for ten years now and we have continued to provide increased services to our members. The image of the industry continues to be enhanced and is increasingly positive despite the challenges presented by the significant range of issues we have addressed during the year.

I would like to thank the Board of the Insurance Council and my colleagues here for their outstanding contribution to the success of the past year.



Notable Council Activities 2007 - 08

The Council made submissions to government on:

Fire and Rescue Service structure and funding proposal

- Electoral Finance Bill
- Motor Vehicle Sales Act Review
- Mandatory Vehicle Immobilisation Initiative
- Maritime Amendment Rules (Fire Fighting)
- District Court Rules - proposed changed
- Real Estate Agents Act 1976 Reform
- Financial Service Providers (Registration and Dispute Resolution) Bill

Seminars and workshops held during the year:

- Coastal Communities Natural Disasters Conference
- Fire Protection Workshop for Insurance Risk Surveyors
- Finance Committee Seminar [Shaping the Future]
- Participation in ANZIIF regional conferences
- Accounting Education Intermediate level course

Other activities included:

- Material Damage Advisory Core Wording amendment
- Communication with some local authorities on their earthquake-prone building policies
- Extensive presentations to business, media and education groups
- Presentation to New Zealand Heritage Conference 2008
- Update to Marine Casualty Surveyor Cost Recovery Charter
- Formation of Disputes Tribunal working group, Ministry of Justice and Insurers
- Discussions with the Fire Service on issues arising from Fire Service audits
- Industry Remuneration Survey completed for 2007
- Work with IRD in reaching an agreement on the deductibility of risk margins included in the Outstanding Claims Reserves
- Completed the 3-yearly process of recommending Rating Agencies for approval under the Insurance Companies (Ratings & Inspections) Act 1994
- Preparation of submission to the Financial Reporting Standards Board on the discussion paper on Insurance Contracts
- Discussions with government on a low cost contents insurance proposal
- Reactivated the Regulation Committee to review the Financial Advisors Bill, and
- Cabinet proposals for Insurance Contracts, agency and assignments and RFPP: Prudential Regulations of Insurance.
- Insurance Council's response (with media, members, local and central government) to:
 - Flooding 29 March - Far North
 - Tornado event 4/5 July - Taranaki
 - Storm event 10/11 July - North Island



Key objectives for 2008

The Insurance Council has identified key objectives for the insurance industry for the 2008 year. Most significantly:

Government Regulation of Insurance

Develop a set of regulatory standards that are acceptable to the industry, optimise compliance costs and protect the rights of policyholders.

Under Insurance

Encourage more sustainable communities by reducing under and non-insurance levels.

Climate Change

Work with local government, communities and central government to develop our ability to prepare for, cope with and recover from the impact of climate change.

Fire Service Levy

Remove levy from insurers and implement a property-based levy system for the Fire Service.

Law and Order

Reduce burglary and theft claims through the industry's role in increasing debate on law and order.

Fraud

Develop and implement strategies to address insurance fraud and raise awareness of its dangers.

Image

Generate a greater understanding of the critical role played by the insurance industry in underpinning New Zealand's society and economy.



Industry Statistics

All Business 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	2,688,889,035	2,843,300,310	2,991,934,639	3,011,273,374	3,099,077,385
Net Written Premium (\$)	2,171,688,948	2,355,817,527	2,533,153,469	2,564,171,240	2,657,163,693
Net Earned Premium (\$)	2,041,364,511	2,283,372,355	2,465,493,771	2,543,899,069	2,608,081,917
Claims Incurred (\$)	1,291,591,361	1,435,993,453	1,505,345,266	1,609,672,399	1,736,503,436
Loss Ratio (%)	63.27 %	62.89 %	61.05%	63.28 %	66.58%
Business Costs (Staff etc) (\$)	560,244,848	631,827,986	695,741,650	762,889,565	825,984,278
Combined Ratio (%)	90.72 %	90.56 %	89.28%	93.26 %	98.25%

Commercial Material Damage and Business Interruption 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	443,546,637	467,729,535	450,024,879	434,899,307	424,814,574
Net Written Premium (\$)	249,992,272	277,570,590	269,227,384	250,377,553	248,966,425
Net Earned Premium (\$)	224,330,356	276,852,324	264,419,695	259,798,435	249,854,108
Claims Incurred (\$)	128,431,329	175,616,248	150,505,061	147,371,640	175,041,037
Loss Ratio (%)	75.25 %	63.43 %	56.92%	56.73%	70.06%

Domestic Buildings and Contents 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	550,576,291	567,171,746	612,693,480	650,460,420	703,171,694
Net Written Premium (\$)	497,836,604	526,273,977	567,460,544	613,482,598	662,679,754
Net Earned Premium (\$)	482,530,024	515,714,410	556,581,009	599,295,472	640,728,100
Claims Incurred (\$)	342,618,474	395,537,263	417,962,593	477,339,229	535,037,934
Loss Ratio (%)	71.00 %	76.70 %	75.09%	79.65%	83.50%



Motor Commercial and Private 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	968,606,030	1,039,300,352	1,080,040,406	1,089,367,152	1,108,091,872
Net Written Premium (\$)	917,677,391	999,743,136	1,048,797,392	1,057,591,852	1,080,683,184
Net Earned Premium (\$)	870,938,248	963,820,423	1,027,933,037	1,061,862,826	1,077,998,789
Claims Incurred (\$)	634,174,990	673,105,579	711,919,892	739,416,181	770,080,686
Loss Ratio (%)	72.81 %	69.84 %	69.26%	69.63%	71.44%

Marine Hull and Cargo 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	113,000,957	113,000,957	111,855,941	105,606,534	107,516,864
Net Written Premium (\$)	77,160,878	78,733,731	79,017,420	79,456,492	79,129,286
Net Earned Premium (\$)	78,685,647	79,753,409	76,769,224	76,251,616	77,735,860
Claims Incurred (\$)	42,222,804	34,064,514	37,700,349	50,073,714	51,332,230
Loss Ratio (%)	53.66 %	42.71 %	49.11%	65.67%	66.03%

Liability Professional & Defamation, Directors & Officers and Public Product & Other 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	217,329,568	229,924,380	249,505,862	246,227,459	252,485,737
Net Written Premium (\$)	167,734,871	183,692,733	212,258,744	209,527,470	219,954,010
Net Earned Premium (\$)	151,436,110	173,920,406	208,768,286	208,852,711	212,870,263
Claims Incurred (\$)	65,995,100	63,428,901	78,402,089	79,736,304	70,552,528
Loss Ratio (%)	43.58 %	36.47 %	37.55%	38.18%	33.14%



Earthquake Domestic, Commercial M.D., Business Interruption and Marine Cargo 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	197,655,611	207,596,836	205,966,145	209,800,798	212,597,837
Net Written Premium (\$)	108,176,575	115,756,806	117,868,652	116,064,812	114,429,759
Net Earned Premium (\$)	92,484,681	109,184,229	121,644,727	112,504,953	111,343,908
Claims Incurred (\$)	1,764,819	2,539,356	2,011,282	1,347,519	2,006,587
Loss Ratio (%)	1.91 %	2.33 %	1.65%	1.19 %	1.80%

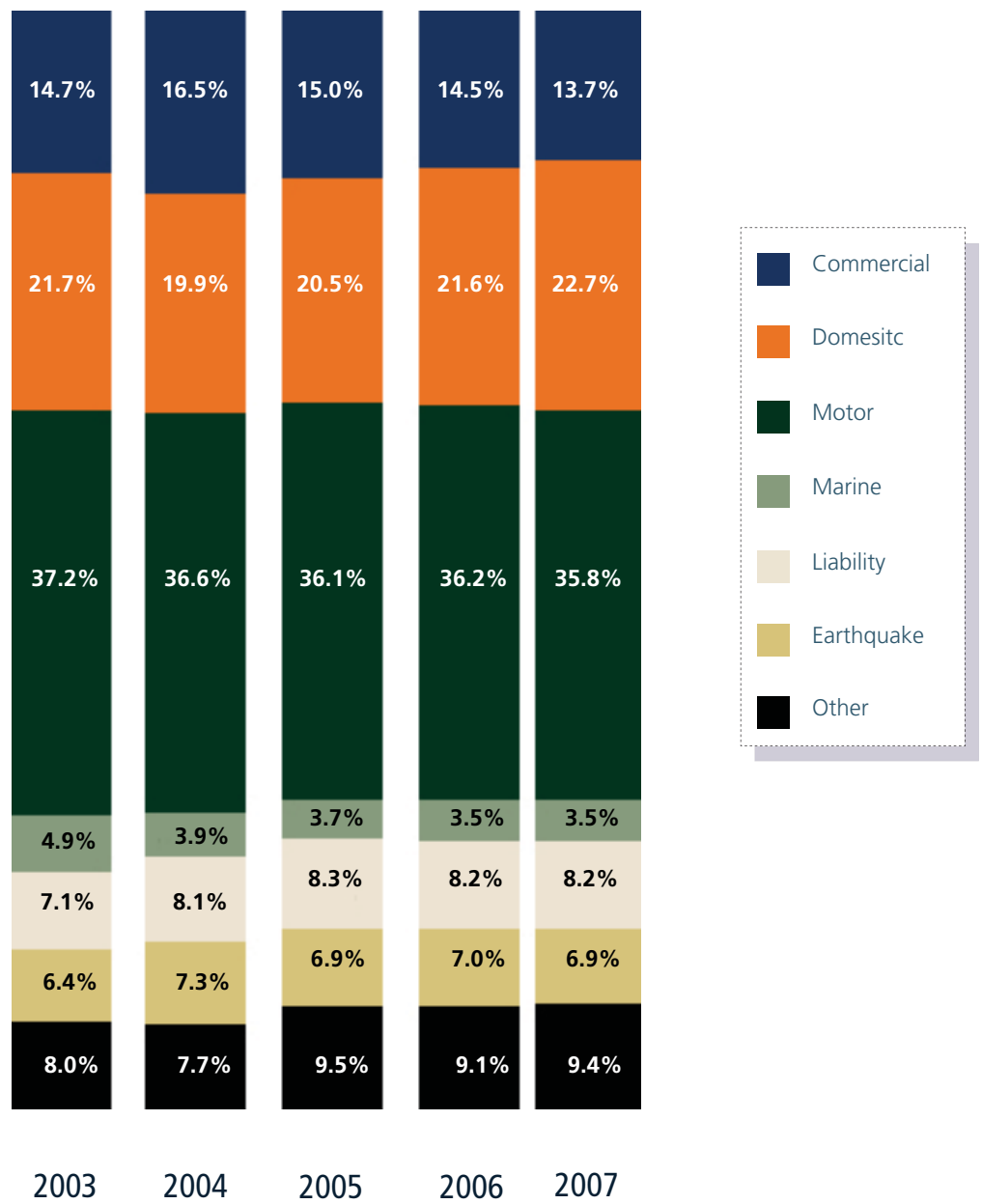
Other Personal Accident, Travel, Livestock and Other 12 months to September

Year-End	2003	2004	2005	2006	2007
Gross Written Premium (\$)	198,173,941	220,180,301	281,847,924	274,911,704	290,398,807
Net Written Premium (\$)	153,110,357	174,046,554	238,553,329	237,670,464	251,321,275
Net Earned Premium (\$)	140,959,445	164,127,154	209,377,799	225,333,056	237,550,889
Claims Incurred (\$)	76,383,845	91,701,592	106,844,003	114,387,824	132,452,434
Loss Ratio (%)	54.19 %	55.87 %	51.03%	50.76%	55.76%

Gross Written Premiums of Business Classes 12 months to September

Year-End	2003	2004	2005	2006	2007
Commercial (\$)	443,546,637	467,729,535	450,024,879	434,899,307	424,814,574
Domestic (\$)	550,576,291	567,171,746	612,693,480	650,460,420	703,171,694
Motor (\$)	968,606,030	1,039,300,352	1,080,040,406	1,089,367,152	1,108,091,872
Marine (\$)	113,000,957	111,397,160	111,855,941	105,606,534	107,516,864
Liability (\$)	217,329,568	229,924,380	249,505,862	246,227,459	252,485,737
Earthquake (\$)	197,655,611	207,596,836	205,966,145	209,800,798	212,597,837
Other (\$)	198,173,941	220,180,301	281,847,924	274,911,704	290,398,807
Total (\$)	2,688,889,035	2,843,300,310	2,991,934,639	3,011,273,374	3,099,077,385





Council Body

2008 BOARD		2007 BOARD	
President		President	
Nick Hawkins IAG		Rieny Marck Lumley	
VicePresident		VicePresident	
Rob Ryan AIG		Nick Hawkins IAG	
Board Members		Board Members	
John Balmforth AMI		John Balmforth AMI	
Roger Bell Vero		Roger Bell Vero	
Christopher Crowder General Re		Martin Kreft Munich Re	
Martin Kreft Munich Re		Roger Wallace Allianz	
Rieny Marck Lumley		Gordon Smith FMG	
Gordon Smith FMG		Rob Ryan AIG	
Martin Stokes Medical		Martin Stokes Medical	
Working Groups			
Accident Insurance	Fraud Taskforce	Loss Adjusters	
Brokers Liaison	Heavy Vehicle	Motor Assessors	
Claims Managers	ICR	Police Liaison	
Engineering Discussion	ICR User	Regulatory	
Fire Sprinkler	ISO Board		

Standing Committees 2007

Commercial Committee

Graham Byrnes IAG	Mark Cross Vero	Roger Penrose Ansva
Andrew McFetridge FMG	Deborah Cruickshank Munich Re	Dean Sewell Zurich
Mike Cole AIG	Rod Denmead, Chair Lumley	Payal Sharma China
Brian Coleman Allianz	Paul Martin ACE	John Stubbs General Re

Employment and Education Committee

Sue Beckett IAG	Fiona Michel Tower	John Morgan AMI
Graham Bunkall Vero	Barry Mitchell, Chair Allianz	Natasha Poloai Lumley
Tanya Hadfield AIG	Ross McMillan FMG	Alison Shackell Medical

Finance Committee

Mary-Jane Daly IAG	Katherine Griffiths Allianz	Graeme Ross Medical
Tim Felton, Chair Vero	Dave Kibblewhite FMG	Debbie Wilson ACE
Ivan Findlay AIG	David Nicolson AMI	
Geoff Goodwin Tower	Richard Quince Lumley	

Liability Committee

Heather Bailey Vero	Dean Edwards Lumley	David Sutcliffe General Re
Jeremy Batchelor IAG	Andrew Pook Zurich	
Mark Downes ACE	Mike Pryce AIG	

Motor Committee

Nathan Barrett
FMG

Paul Lightfoot
China

Tony Rogers
AMI

Karl Kemp
Lumley

Graeme Lynskey, Chair
Vero

Paul Liddle
IAG

Chris O'Connor
Ansva

Personal Lines Committee

Richard Godman, Chair
Vero

John McSweeney
AMI

Julie Smith
Lumley

Tony Howie
Ansva

Kevin Meekan
Tower

Matthew Zeigler
Allianz

Michael Koopmans
FMG

John O'Hara
IAG

Insurance Council members

ACE Insurance
Allianz New Zealand
AIG New Zealand
AMI Insurance
Ansva Insurance
China Insurance
Civic Assurance
Combined Insurance
Farmers' Mutual Group
General Re
IAG New Zealand
Lloyd's
Lumley General Insurance
Medical Insurance Society
Mitsui Sumitomo Insurance
Munich Re New Zealand
Pacific International Insurance
Simply Insurance
Sunderland Marine
Swiss Re
Tower Insurance
Vero
Zurich

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