

The Rosser Roundup

NEWS, VIEWS AND OPINIONS ON INSURANCE AND BUSINESS

ROSSER

QUOTE OF THE MONTH

"Luck? I don't know anything about luck. I've never banked on it, and I'm afraid of people who do. Luck to me is something else: hard work - and realizing what is opportunity and what isn't."

- Lucille Ball



Ryan Clark
Head of Rosser Underwriting

Highlights and heads-up

Dear Broker Partner,

When I lived in London, one of my most memorable experiences was the chance to go ice swimming in Finland. You cut a hole in the ice before plunging yourself into the freezing water, before jumping out and racing to the sauna.

The first dip feels like a thousand needles on every inch of your body. But somehow, you went back in again and again, smashing the thin ice that had quickly re-formed with a hammer. Why do it repeatedly? Because it was exhilarating and refreshing, and you were doing it with friends!

Six weeks into running Rosser, I feel myself drawing parallels to the rewarding aspects of this experience on a daily basis, as well as gaining a new sense of appreciation for the brokers, insureds and business owners with whom we get to work.

Rosser has 30 staff and I have thoroughly enjoyed engaging in person with our teams in Auckland, Hamilton and Wai-pukurau. A Christchurch visit is coming up as this issue goes to press. I am impressed with the calibre and talent of our people, and their openness to our refreshed vision, goals and strategy.

One exciting development that we're hard at work on is the testing and implementation of our newly designed underwriting system, JavIn. Insurance coverage and premiums remain at the forefront of many NZ business owners' minds, with insurance availability heavily influencing future investment decisions. Implementation is due later this year and we look forward to being able to better accommodate multiple products and carriers and improving our offering to our broker partners.

Warm regards
Ryan

July 2022

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Mel Gorham
IBANZ CEO

Will market reality negate intention of EQC cap increase?

IBANZ CEO questions whether EQC Minister's premium pricing plan will succeed.

As we head towards October and the increase in the EQC cap from \$150,000 to \$300,000, what can we expect?

Any of you watching this space will recall that in reaching his decision to increase the EQC cap, Minister Clark was concerned about sudden changes in insurance prices putting stress on households to the point affordable insurance for some was no longer accessible.

Specifically, he pointed to a long but increasingly used insurer practice of risk based pricing, which hit three regions hard for what appeared to be attributed to insurers seismic risk models.

Minister Clark noted *"...risk-based premium pricing had made home insurance more expensive for homeowners in areas including Wellington, Hawke's Bay and Canterbury."*

His aim, with doubling the EQC cap on a flat rated basis was reported as an effort to restore some balance in the price structure and increase the portion that is "community-rated".

The modelling the government commissioned for considering increasing the cap certainly showed that those in Hawkes Bay, and Wellington (amongst others) were expected to benefit by a sizeable drop in total premiums for houses.

That same modelling also showed that the majority of New Zealanders (approaching 65%, including those in Canterbury,

Auckland, Northland, and Waikato) were expected to pay more.

Further detail on the data and view which lead to this decision can be found in [this July 2021 cabinet paper](#).

If not already done, now would be a good time for brokers to review what the government expected the impact to be 12 months ago so you can ready your clients in light of the market reality.

"...IT IS DIFFICULT TO SEE THAT INSURER PRICING WILL BEHAVE AS THE MINISTER EXPECTED WHEN HE ANNOUNCED THE CAP INCREASE."

A year on, that reality is shaping up to be wildly different for several reasons.

First amongst them is inflation, which creates a double whammy for insurance purchasers. Not only have we seen insurers referring to escalation in claims costs, there is also the need to revisit sums insured. On top of that are the increases in operational costs for businesses.

In the September 2021 quarter, Stats NZ had inflation sitting at 4.9%, which was up from 1.4% a year earlier. This week confirmed that inflation to the June 2022 quarter has jumped to 7.3%.

Then there is the rise in frequency and severity of weather-related events which are large contributors to claims as reported through the media.

Climate change is a factor that insurers are signalling they cannot be relied upon to solve. Both in New Zealand and Australia there are frequent articles about concerns over the un-insurability of some areas.

All these aspects will be contributing to the news insurers are delivering to many brokers, which confirms there are no savings to be had despite the EQC Cap doubling.

Minister Clark made the following statement when he announced the EQC cap increase *"If insurer pricing doesn't behave as expected, the government is open to considering options such as a competition study to give customers assurance that the market is competitive."*

Therein lies the problem with hopes and expectations. Life doesn't stand still. Pricing is influenced by many factors.

Given what has transpired in the last 9 months, it is difficult to see that insurer pricing will behave as the Minister expected when he announced the cap increase. The big questions are: will he simply accept there are reasons for that, will he commission a study or, is there another course of action he will look to?

As at least some clients begin to face the unenviable decision not to insure or to drop sums insured, one certainty is: wallets continue to be squeezed.

Provisional claims for Levin's May tornado top \$8 million



Tim Grafton
Chief Executive
Insurance Council of New Zealand



A woman surveys damage to her Levin property including parts of a shed blown across the street during the May tornado.
Photo/ NZ Herald

Provisional insurance claims data collected for the 20 May tornado affecting Levin amount to \$8.1 million across 807 claims comprising 532 domestic, 184 vehicle, 86 commercial, two business interruption and three other claims.

"While there have always been tornados, they seem particularly unusual in Horowhenua but reflect the type of weather we can expect to see more of as a result of climate change," said Insurance Council of New Zealand Te Kāhui Inihua o Aotearoa (ICNZ) Chief Executive, Tim Grafton.

"A warmer atmosphere is more energetic and capable of holding more moisture which can give rise to more extreme weather events such as storms and related phenomena such as tornados."

The average domestic claim came in at just over \$12,000 and the average vehicle claim at just over \$4,200. At the top end of the domestic claims, several homes were extensively damaged with some requiring major work to repair their rooves.

Some homes were rendered uninhabitable with whanau relying upon their insurers to pay for temporary accommodation while insurers and local tradies put things right.

"Given the average cost of claims, especially for people's homes and vehicles, and that damage can seemingly come out of nowhere, this event really does underline the importance of insurance" added Grafton.

ICNZ advice for your clients affected by this week's flood & storm damage

The Insurance Council of New Zealand urges people affected by flood and storm damage from Northland to the South Island to put their safety first, heed the advice of local civil defence and contact their insurer early.

"There are some simple things that will help reduce loss and damage and speed recovery," says ICNZ Chief Executive Tim Grafton. These include:

- Act on the instructions of local authorities to keep safe
- Move valuables and electrical items out of reach of potential floodwater
- Move vehicles out of flood danger and avoid driving
- Check gutters and drains are clear of debris
- Farmers should secure irrigators and machinery, and move property and stock to higher ground

Insureds should contact their insurer early especially if emergency repairs are needed – but these should only be undertaken if they can be done safely. It's also important to take photos of damaged or ruined items.

Potential growth rate and neutral OCR are unobservable, yet important

Economic commentary from **Cameron Bagrie**



Cameron Bagrie
Managing Director & Chief
Economist - Bagrie Economics

Two invisible lines need to be more visible.

The first is the potential growth rate or anaerobic capacity of the economy to grow without generating inflation. It is a function of labour supply, endowments (think land) and the efficiency of resources.

The stronger the potential growth rate of the economy (adjusted for inflation, or real potential growth rate), the quicker we can eat into that gap between demand and supply from the bottom up, rather than hitting demand from the top down.

The second is the neutral Official Cash Rate (OCR), or where the Reserve Bank (RBNZ) has the foot on neither the accelerator nor the brake. The neutral OCR is estimated to have fallen from 5.5 percent two decades ago to 2.0 percent now. A lower neutral OCR has lowered actual OCR outcomes over time.

Both potential growth and the neutral OCR are unobservable, yet important. Potential growth is the economic base that supports well-being. The neutral OCR guides how high the RBNZ needs to lift interest rates to tighten policy.

Anaerobic capacity

Both the Treasury and RBNZ estimate that potential growth is around 4 percent in 2022/23 (March year). This is slightly stronger than normal, boosted by the end of many restrictions, opening of borders and Covid challenges becoming easier.

Stronger potential growth is one factor that helps dissipate inflation but that is not happening in 2022/23. Lacking normal immunity, partly because we have masked up, the flu has now hit the workforce, harder than normal.



Covid, and supply chain problems are playing havoc with worker availability and productivity. Net migration is an outflow, not an inflow. Go talk to any business and they will give examples of difficulties managing supply, staff and getting items from A to B.

Beyond 2022/23, potential growth is estimated to be around 2.5 percent, broadly in line with the pre-Covid environment. Growing consistently at that rate helps restore balance between supply and demand.

The maths on 2.5 percent looks difficult to achieve. Firstly, migration (a key driver of workforce growth) is not the inflow both the NZ Treasury and RBNZ are assuming.



Second, the 5-year average for productivity growth in the business sector is 0.6 percent, which is very mediocre.

Third, this is not a pre-Covid environment. Covid risks need management, which adds to business costs and ties up resources, which subtract from efficiency. Government regulation is throttling business productivity. Subdued labour force growth plus mediocre productivity growth does not

Continued...

Potential growth rate and neutral OCR are unobservable, yet important – Continued

equal potential growth above 2 percent.

Foot on the brake

The RBNZ is now tapping on the brake with the actual OCR marginally above the neutral OCR. The RBNZ project the actual OCR will go towards 4 percent. They note that *“Once aggregate supply and demand are more in balance, the OCR can then return to a lower, more neutral, level.”*



This is all subject to the caveat that the unobservable neutral OCR is around 2 percent. Higher household debt levels mean interest rates carry more economic punch. We can see that with house prices falling and spending pared back, yet interest rates are still historically low.

But when interest rates get so low, which they did, even slight rises mean borrowing costs skyrocket.

Economists point to a range of factors as to why the neutral OCR declined including shifts in savings and investment patterns. However, a low neutral OCR was also driven by low inflation. Central banks had to push hard on the interest rate stimulus (accelerator) to get inflation towards 2 percent.

What if the neutral OCR is higher than 2 percent? After all, a neutral OCR of 2 percent is a real or inflation adjusted OCR of zero (assuming 2 percent inflation).

Shouldn't real rates be positive in some sort of equilibrium? What if the new normal for inflation is 2.5 percent or 3 percent, and drags the neutral OCCR higher?

If the neutral OCR is higher than 2 percent, then the actual OCR might not be returning to a *“lower, more neutral level”*.



The Bottom Line

The hope is we can ease inflation pressure by both reducing demand and boosting supply. Interest rates do not need to move too high.

Both those assumptions have empirical backing in the form of how fast the economy can grow through a supply lens consistently year after year, and the neutral OCR being low.

But those estimates are estimates, on invisible numbers. The supply side of the economy is being thrown around. Talk to any business owner.

Constrained supply means more persistent inflation and the demand side of the equation needs to do more of the heavy lifting when it comes to containing inflation.

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Implications for brokers in amended Financial Markets legislation

Conduct of Financial Institutions amendment passed into law on 29 June 2022

Legal article from Wotton+ Kearney
by Colette Clayton



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In 2018, an Australian Royal Commission enquiry was conducted into the banking and insurance sectors due to concerns of misconduct across the industry.

Due to the close connection between several Australian and New Zealand entities in these sectors, the Financial Markets Authority (FMA) and Reserve Bank of New Zealand (RBNZ) completed their own “conduct and culture” reviews on this side of the ditch.



These reviews recommended significant reform. As a result, we have seen a number of new Bills being introduced including:

- FSLAA – which rejuvenised the licencing of financial advisors;
- Insurance Contracts Bill – a proposed bill to update and consolidate the law relating to insurance contracts;
- The extension of the Unfair Contract Term regime in the Fair Trading Act to protect small businesses; and
- The Financial Markets (Conduct of institutions) Amendment Act (CoFI) – which extends current financial market legislation to the conduct of financial institutions.

CoFI was enacted last month. We provide a summary of the new regime and discuss some implications for brokers.

What is CoFI

CoFI is an amendment to the Financial Markets Conduct Act 2013 (FMC Act). CoFI was introduced in 2019 and passed as law on 29 June 2022.

Unlike most new Acts, CoFI has a three-year transitional period, meaning the new regime will come into effect in early 2025.

Principally, CoFI does three things:

1. Requires banks, insurers and non-bank deposit takers, hereafter referred to as Financial Institutions (FIs), to be licenced in respect of their conduct. These conduct licences will be held with, and regulated by, the FMA;
2. Introduces a fair conduct regime, including an enforcement of fair conduct principles and a requirement for FIs to have fair conduct programmes; and
3. Imposes regulations, which are anticipated to heavily restrict the use of incentive regimes.

A word of warning: CoFI is an extension of a pre-existing robust enforcement regime under the FMC Act.

A breach of CoFI provisions will be a breach of the FMC Act which can, amongst other orders, result in pecuniary penalties of up to \$1 million for individuals and \$5 million for companies.

Continued...

Implications for brokers in amended Financial Markets legislation - continued

Who does CoFI affect?

The first iteration of CoFI expressly required intermediaries, such as brokers, to comply with each FI's Fair Conduct Programme. Following extensive consultation, this requirement was removed from the Bill.

Various members of the industry highlighted that it would result in high compliance costs, and risks, to require brokers to comply with every separate FI's programme. Instead, CoFI now places the entire responsibility of compliance with the fair conduct regime on the FI.

The regulators have already indicated however that there will be scrutiny of the full "supply chain" of the FI's products and services to ensure compliance with the fair conduct principles. We anticipate underwriters (and other FIs) will expect brokers to be alive to the CoFI requirements to ensure their own fair conduct programmes are being followed.

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Risks with CoFI

If you are a broker, we recommend engaging early with your FI's to ensure you are across the practical implications of their Fair Conduct Programmes and how they will impact your interactions with them.

If you have any FI clients/insureds, it will be important to be alive to the new regulatory regime, particularly the fair conduct regime under CoFI, in regard to any relevant liability policies.

We recommend if you are an FI to engage with your legal advisors and compliance teams now to ensure that you have a thorough understanding of your Fair Conduct Programme and CoFI obligations in advance of the regime coming into force in 2025.

FMA appoints new Head of Enforcement



Margot Gatland

The Financial Markets Authority (FMA) - Te Mana Tātai Hokohoko - has confirmed the appointment of Margot Gatland as its new Head of Enforcement.

Ms Gatland was previously the Acting Head of Enforcement at the FMA.

Liam Mason, FMA General Counsel, said: "Margot Gatland has been confirmed as our new Head of Enforcement after an extensive local and international search.

"This is a crucial role, responsible for leading all the FMA's work to enforce the law and prosecute misconduct.

"Given the importance of enforcement at the FMA, we wanted to test the market to ensure we appointed the best person to the role. We received a high level of interest from both local and overseas candidates.

The interest in the role reflects the high regard in which the FMA is held, and we're delighted that we have the right skills and experience inside the FMA with Margot."

Ms Gatland has been with the FMA since December 2017, when she joined as a senior solicitor. She brought with her extensive experience in both Aotearoa and the UK, having worked at the Serious Fraud Office, Meredith Connell, commercial firms and in government.

Margot is well respected for her credentials as a litigation lawyer and has already led a number of successful FMA prosecutions."

Broker in the spotlight

“What I enjoy most about my role as a broker is the chance to get insight into people’s businesses and to see how they operate,” says **Ben Pearson** of PSC Montage General Insurance in Auckland. “I also enjoy knowing that I’ve given the best possible advice to my clients,” he says.

Like so many in the business, Ben “fell into the insurance industry” starting his career with Vero as a domestic sales support in Takapuna. He quickly moved to the commercial team in a senior sales support role and after about five years entered the brokering world.

Ben had a few other jobs in between, including working for Weta Workshop and dabbling in IT, but the insurance world always beckoned. He says he works with a wonderful team at PSC Montage and is fortunate to have access to a multitude of experiences there, along with an encouraging atmosphere.

Outside of work Ben enjoys adventures with family and friends, and spending time with his 15 months-old daughter.



Ben Pearson
PSC Montage General Insurance
Auckland

What is the main point of difference PSC Montage offers? *PSC Insurance Brokers offer a personalised tailored approach to every one of our clients. With a global presence in mind.*

What is one professional skill you’re currently working on? *Currently looking into managerial and leadership courses to give myself a boost in that avenue of my career.*

How do you prefer to start your day? *Knowing that my daughter didn’t wake me up at 1am....2am...3am in the morning.*

One common perception about insurance I would like to change is... *That it’s a necessary evil... Far from it - it’s about protection. Protecting your future and the things that matter to you the most!*

What key advice would you give someone starting in insurance today? *Never be the smartest person in the room. Find yourself a mentor and soak up as much as possible!*

I like dealing with Rosser because... *they want to work with you to achieve a goal that works for everyone involved. Rosser should also pride themselves on their rapid communication, especially Tibi and Ngaire, Hats off to you.*

If I hadn’t joined the insurance industry... *I’d like to think I’d be in the film industry doing something. Not sure what that something is- but something!*

Before working in insurance the most unusual job I’ve ever had was... *A customs agent runner. My job was to run around Auckland collecting official shipping documentation.*

What is your favourite memory of the past year? *Here comes the lame answer but I’d say it would be seeing my daughter take her first steps. It didn’t make me shed a tear at all!*

What is your motto or personal mantra? *I’ve only just started to use this motto as it’s a lot easier said than done but – Don’t sweat the small stuff.*

A movie I enjoyed recently was... *“Everything Everywhere All at Once” - one of the craziest movies I have ever seen.*

How would you spend a million dollars in 24 hours? *Buy half a house in Auckland.*

An event I would love to go back in time for is... *I hear the play performance at Ford’s Theatre on the evening of the 14th of April 1865 ended with a bit of a bang!*

What is the weirdest food you’ve ever eaten? *Probably a Century egg... glad I tried it, glad I’ll never try it again.*

My most hated household chore is... *Whoever says they enjoy doing the dishes is a liar.*

The best life lesson I’ve learned so far? *If you’ve had too much to drink, just bring it up (thanks mum).*

What would you call your autobiography? *Ben Pearson – The most accident-prone being on the planet.*

You can claim the credit for a song, film or book... *Right now, it would be Running Up That Hill by Kate Bush.*

If Hollywood made a movie about your life, who would you like to see cast as you? *Seth Rogan. My wife thinks he’s hot for some reason...*

What are three things you have on your bucket list? *Swimming with sharks, Take an ice bath in Finland, Hang out with Gorillas in the Congo!*

What phobias do you have? *Does FOMO count?*

SurePac Support for Sport

\$1,000 Monthly Donation to a Not-for-Profit Insured Sports Group



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**Every month
Rosser donates \$1,000
to a not-for-profit organisation insured
with SurePac Sport.**

Recipients are selected by a random draw from all SurePac Sport policies incepting in the preceding month.

Donations are made in the name of Rosser and the winning organisation's broker.

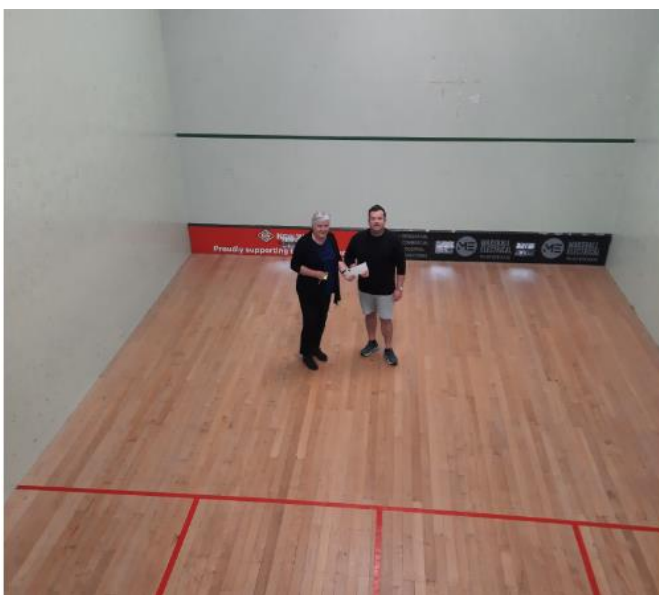
Click [here](#) for information about our multi-line insurance solution for not-for-profit (and commercial) sports, fitness and recreation organisations.

Congratulations to our JULY SurePac Sport \$1000 donation winner



**Greenhithe
Tennis Club**

represented by
Riana Munnik
FG Link Insurance Brokers
Rosedale, Auckland



Pat Hickey (L) of Rothbury Insurance Brokers, Hamilton is pictured handing the SurePac Support for Sport donation to Te Kuiti Squash Club president, Matt Barnett.

Te Kuiti Squash Club welcomes SurePac Support for Sport \$1,000 June donation

Established in the 1970's Te Kuiti Squash and Racquets Club has long been the squash hub for the Waitomo area. The current membership base is 50, supported by a team of volunteers who act as committee members, assist at tournaments and help with cleaning and other tasks.

The club has two dungeon-style courts – one painted green and the other blue, rather than the traditional white walls. Club president, Matt Barnett, says members refer to this as the "home advantage".

Thanking Rosser and Rothbury's for the June SurePac Support for Sport donation, Matt said, "The club is investigating a new electronic scoring system. If we proceed with this investment, the Rosser SurePac donation will make a significant contribution towards this upgrade."

Rosser Risk Appetite Summary

Effective from 1 January 2022



ROSSER SurePac PROPERTY

Sums Insured including BI up to \$20m

- Aged Care, Rest Home Organisations
- Cafes, Restaurants/Bars
- Chartered Clubs
- Commercial Buildings
- Day Care/Child Care Centres
- Education Facilities
- Engineering Workshops
- Fitness Centres
- Motels, Hotels, Lodges
- Motor Trades
- Non Profit Organisations
- Office Buildings
- Religious Organisations
- Retailers
- Sports Clubs
- Non-sports Recreational Clubs & Groups
- Warehouses (appropriately protected)
- Wholesalers



ROSSER SurePac LIABILITY

Liability Limits up to \$10m, Companies with Annual Turnover up to \$50m/50 Employees

- Charitable Companies
- Charitable Trusts
- Chartered Clubs
- Incorporated Societies
- Iwi Organisations
- Limited Companies
- Partnerships
- Private Trusts
- Professional & Industry Associations
- Quasi Non-Governmental Organisations, Statutory Bodies
- Religious Organisations
- Social Service Organisations
- Sole Traders, Trusts, Body Corporates
- Sports Clubs & Federations



ROSSER SurePac PROPERTY UK

Sums Insured under \$8m

- EQ Prone Buildings and/or Lessees
- Natural Disaster – Higher Risk Cresta Zones
- Premises built prior to 1936
- Premises with low NBS%

NON-TARGET LIABILITY RISKS

- Accountants, Architects, Engineers, Solicitors & Real Estate,
- Construction/Project Management
- Financial Institutions
- Gaming Trusts

NON TARGET PROPERTY RISKS

- Backpackers/Boarding Houses
- EPS Construction
- Entirely Residential Body Corporates
- Flammable Goods Manufacturing/Warehousing
- Jewellery
- Laundry & Dry-cleaning
- Liquor & Tobacco/Cigarettes
- Motor Vehicle Dealers
- Paper Product Manufacturing or Storage
- Plastics Industries
- Recycling and Waste Management
- Remote risks

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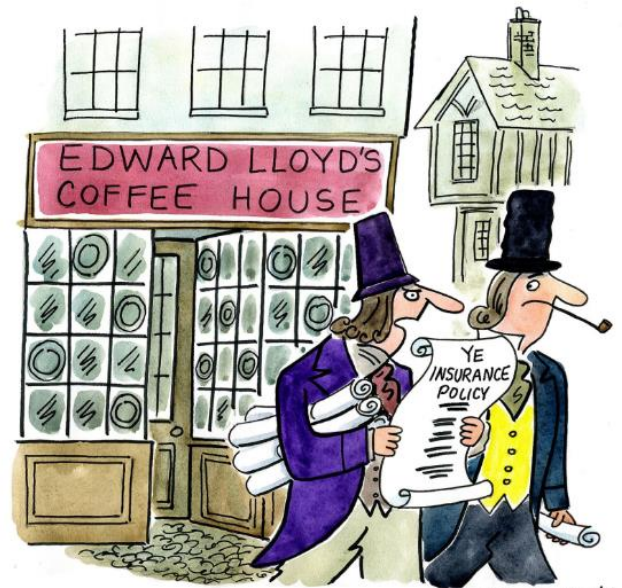
Please contact your Rosser Underwriting Development Manager for quotes or more information. See the final page of this newsletter for contact details.

LAUGHTER



"HONEY, I KNOW THAT YOU'RE A GREAT SALESMAN AND THAT YOU LOVE YOUR JOB, BUT I JUST WANT TO GO TO THE HAIRDRESSERS. I DON'T REALLY NEED TRAVEL INSURANCE."

CartoonStock.com



'Damn it...I only wanted a quick coffee.'

CartoonStock.com

Rosser's underwriting development team is here to help
Contact your UDM for product information, coverage advice, quotes or any other support



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