

General

To assist with the understanding of how current world and local severe Weather and Earthquake events will impact in this year's Renewal Round for the RMCA Insurance Scheme, I have had discussions with Insurance personnel in the Christchurch area, and with our Insurance Scheme Manager. Also because there is an extra component this year, being an increase in the Fire Service Levy, I have read the material provided for information and submissions and also a recent NZ Herald article on the subject.

As a start, in setting premiums, Insurers work on models of floods, storms, fires and earthquakes. They then model on events which range from annual through to 50 year and 100 year events and how often a peril might occur in those periods. From those events they then go to multifactoral events such as severe weather which may affect sea levels and therefore inundation levels both on coastal areas and inland. Secondary inundation from high tides is also factored in.

If there are weather events which spawn fires, these are also factored in. Plus, the level of fire fighting capacity available in an area, which might impinge upon whether there might be a total loss of an item or only a partial loss, due to easier access to fire fighting capability.

Premiums are dictated by the level of perceived risk which are compounded to their likelihood of occurrence. All these factors drive risk profiles of any item to be insured. In conjunction with the above there are Capital events to be factored in. If there is a surplus of capital available for the market, then Investors will be prepared to take higher risks.

Currently, there has been increased capital put into the Reinsurance market as returns from it have recently been higher than the traditional Bond market.

Modelling and Underwriting is now all driven by data. So Insurers are modelling the past and predicting the future, and it's all about risk sharing.

Our Scheme

Our Scheme Manager reports that post the Wellington and Kaikoura Earthquakes, and the inundations of Cyclones Debbie and Cook, they are seeing the insurance market harden. Insurer capacity to write accounts in the high risk regions, e.g. Wellington and Christchurch is very limited and some Insurers are reducing the percentage of the account they are willing to insure. E.g. instead of insuring an item of 100% they are only opting to take 30-50% of accounts.

With the high costs associated with the losses from the earthquakes and storms, insurance pricing is increasing. Crombie Lockwood is seeing Perils rates (fire, storm, flood, earthquake, accidental damage) increasing from 10 to 30%, and the natural disaster rating is substantially increasing to an amount from anywhere between 20-65% depending upon location and values. Crombie Lockwood have spoken to RMCA's insurer regarding the RMCA program coming up in July and at present they are anticipating an estimated 10 %, or maybe more increase in premiums at this stage, due to the earthquakes and storms. This is said to be in line with the current market. The London Insurers are also reducing capacity locally, however Crombies have confirmed that the syndicates for the RMCA program are not undertaking this reduction, and there are others who will be interested in replacing any syndicates that may decide to remove themselves from the program.

Currently the renewal process of the RMCA Scheme has begun and Crombies have had a number of responses already. Last year all documentation and premium payments to insurers were made on time and they are aiming to do the same this year, so your continued cooperation would be appreciated.

Fire Services Levies

It has been confirmed that there will be increases in the Fire Service Levies effective from 1/7/17. As yet the Insurance Industry have only been advised of the Motor vehicle and domestic increases. Thus far they have not advised the increases for non residential buildings. However the projected rises are ; Residential properties from 7.60 cents per \$100 insured to 10.60. cents per \$100 insured (capped at \$100k for buildings and \$20k for contents) and non residential properties the same increase. There will also be increases in Travel insurance despite there being no direct benefit. Crombies will advise us as soon as the figure is known.

RMCA did put in submissions in opposition to the rises on behalf of the Clubs at the relevant time and that document has been circulated previously.

There has been a recent NZ Herald Article on the subject. Essentially it is a tax to help fund NZ's Emergency Services. The Rural and Urban Fire Services are being merged to form ' Fire and Emergency New Zealand' (FENZ). The Insurance council submitted that the cost should be part of general tax rather than via insurance policies. However the government's discussion document claims the cost increases will be small. But it admits its modelling is indicative only because there are still too many unknowns.

The link to the consultation document is

<http://www.firelevy.co.nz/Resources/FireLevyConsultationDocument.pdf>

Claims

Members will all be aware that after the Insurance AGM last year and due to the fire at Aorangi, that a claims process has been instituted for claims under the RMCA scheme. Documentation was handed out at the AGM to explain the process. If any Club needs a refresher on that process please let us know.

Conclusion

The bottom line is that as a result of natural disasters both locally and worldwide our premiums will increase. Then because of the FENZ levy they will increase by an as yet unknown amount even further.

However Crombie Lockwood advise there are still considerable advantages for Clubs to remain part of the RMCA combined scheme, rather than go it alone.