

March 1, 2011

## A.M. Best Comments on Impact of Christchurch Earthquake On New Zealand Non-Life Insurance Industry

A.M. Best has begun to assess the financial impact of the Feb. 22, 2011 Christchurch earthquake on New Zealand's non-life insurance industry, and it expects capital erosion will result in some local company ratings being lowered. For global reinsurers, it is likely to be an earnings event, but ratings should not be impacted. As more information is gathered, ratings that may be directly impacted by the event will be formally reviewed. Subsequent rating actions, if any, will be disseminated in accordance with A.M. Best's credit rating policies and procedures.

Although it will take months to determine the precise impact of the tragedy, which has resulted in more than 150 reported fatalities, catastrophe modelling firm AIR Worldwide has estimated insured losses for the 6.3 magnitude earthquake could be as high as USD 8 billion.

It is worth noting that many insurers and reinsurers revised their initial estimates for the Sept. 4, 2010 quake, and some companies may take a more cautious approach before releasing estimates for the latest event. More time may be required to assess poten-

tial losses, particularly as some damage may have already occurred from last year's earthquake.

A.M. Best is in dialogue with companies to evaluate the impact of the earthquake and is focused on those organizations with the largest exposure relative to their capital base. Based on catastrophe modelling provided by rated entities as part of the rating process, A.M. Best expects all rated companies to be able to meet their commitments. As part of A.M. Best's analysis, each individual company is evaluated based on its ability to withstand the impact from a major catastrophic event (see *A.M. Best's Natural Catastrophe Stress Test Methodology*, July 20, 2009).

Most New Zealand insurers rated by A.M. Best have set net catastrophe retention at conservative levels. However, reinsurance practices and preferences vary among insurers. Rated companies with frequent catastrophe claims in the recent past (floods and storms) have tried to smooth their earnings through multiyear reinsurance structures with underlying layers, and as such they are expected to experience a lower net financial impact. Other insurers that have been less impacted by past catastrophic events (usually

### New Zealand Life and Non-Life – Current A.M. Best Ratings\* of Insurance Companies

AMB Company Name	Business Type	Best's FSR – Current	Best's ICR – Current	Best's FSR Action – Current	Best's FSR Outlook\ Implication – Current	Best's FSR Effective Date – Current
Aioi Nissay Dowa Insurance Co Ltd (New Zealand Branch)	Non-Life	A	a+	Affirmed	Stable	11/16/2010
AMI Insurance Ltd	Non-Life	A+	aa-	Affirmed	Stable	10/6/2010
Ansvar Insurance Ltd	Non-Life	A-	a-	Affirmed	Stable	9/29/2010
China Taiping Insurance (NZ) Co Ltd	Non-Life	B++	bbb	Affirmed	Stable	11/29/2010
CIGNA Life Insurance New Zealand Ltd	Life	A-	a-	Affirmed	Stable	12/28/2010
Consumer Insurance Services Ltd	Non-Life	B++	bbb	Downgraded	Stable	7/15/2010
Farmers' Mutual Group	Composite	A	a	Upgraded	Stable	6/15/2010
Fidelity Life Assurance Co Ltd	Life	A-	a-	Affirmed	Stable	1/19/2011
FMG Insurance Ltd	Non-Life	A	a	Upgraded	Stable	6/15/2010
New India Assurance Co Ltd NZB	Non-Life	A-	a-	Affirmed	Negative	1/24/2011
New Zealand Local Authority Protection	Non-Life	B	bb	Downgraded	Negative	2/25/2011
New Zealand Local Govt Ins Corp Ltd	Non-Life	A	a	Affirmed	Stable	5/13/2010
Pacific International Insurance Ltd	Non-Life	B+	bbb-	Affirmed	Positive	4/22/2010
Risk Reinsurance Ltd	Non-Life (captive)	A+	aa-	Affirmed	Stable	3/9/2010
Sovereign Assurance Co Ltd	Life	A+	aa-	Affirmed	Stable	12/21/2010
TOWER Health & Life Ltd	Life	A-	a-	Affirmed	Stable	7/30/2010
TOWER Insurance Ltd	Non-Life	A-	a-	Affirmed	Stable	7/30/2010
TOWER Life (N.Z.) Ltd	Life	A-	a-	Affirmed	Stable	7/30/2010
Virginia Surety Co Inc NZB	Non-Life	A-	a-	Affirmed	Positive	11/23/2010

\*Ratings as of March 1, 2011

Source: A.M. Best Co.



Copyright © 2011 by A.M. Best Company, Inc.

All rights reserved. No part of this report may be reproduced, stored in a retrieval system or transmitted in any form or by any means; electronic, mechanical, photocopying, recording or otherwise.

smaller commercial writers) tend to have simpler reinsurance structures and relatively larger net catastrophe retentions.

## Potential Claims

Although the September 2010 earthquake was more powerful, with a magnitude of 7.1, it is expected to have caused relatively fewer commercial losses, as it took place farther away from Christchurch and there were no fatalities.

AIR estimates last year's earthquake caused as much as USD 4.5 billion in insured losses. More extensive property and infrastructure damage was caused in the February 2011 quake, which hit the centre of Christchurch, a more densely populated and urban area.

In addition to losses from property and infrastructure damage, claims for business interruption are anticipated – for example, covering the costs of relocating offices. Inventory has also been damaged in the recent earthquake.

It is expected that larger commercial insurers and global reinsurers with broader coverage are expected to bear the brunt of large losses from February 2011. Companies that were impacted by the first quake likely will sustain additional losses from the second.

Although residential property and contents losses will partly be covered by the New Zealand Earthquake Commission (EQC), the earnings of personal lines insurers are also expected to be negatively impacted. Reported rescue efforts are concentrated in the Christchurch central business district, but residential losses are also expected to be devastating. Residential premium rates have already seen an upward trend in the past few years, and earthquake losses may cause this trend to continue.

## Reinsurance Rates Set to Rise

A.M. Best considers a diverse range of factors as part of the continuous ratings process. These include evaluating the market conditions for insurers and reinsurers operating in the region, such as the impact of the two earthquakes on pricing, terms and conditions in the domestic market.

While premium rate increases in the past two years have helped rated insurers return to profitability, the recent earthquake activity is expected to dent earnings. A.M. Best believes the cost of calamities in the Australia/New Zealand region have accumulated to impact reinsurers' profitability, and reinsurance rates in the region are expected to increase in the forthcoming renewal season. A.M. Best envisions that direct insurers may find it difficult to fully pass on rate increases, and this will further squeeze insurance margins.

The cost of excess of loss protection in the region is expected to increase across the board as reinsurers seek to recoup their losses. As such, smaller commercial insurers, which may or may not have exposure to the Christchurch catastrophes, will experience higher pressure on earnings.

## Analytical Contacts

Philip Chung, Hong Kong  
+852 2827 3409

Philip.Chung@ambest.com

Robert De Rose, Oldwick  
+1 (908) 439-2200 Ext. 5453  
Robert.DeRose@ambest.com

## Author

Yvette Essen, London  
+44 20 7397 0322  
Yvette.Essen@ambest.com



Founded in 1899, A.M. Best Company is a global full-service credit rating organization dedicated to serving the financial and health care service industries, including insurance companies. For more information, visit [www.ambest.com](http://www.ambest.com) or contact one of our offices.

**A.M. BEST COMPANY  
WORLD HEADQUARTERS**  
Ambest Road, Oldwick, N.J. 08858  
Phone: +1 (908) 439-2200

**NEWS BUREAU**  
830 National Press Building  
529 14th Street N.W., Washington, D.C.  
20045  
Phone: +1 (202) 347-3090

**A.M. BEST EUROPE RATING SERVICES LTD.  
A.M. BEST EUROPE INFORMATION  
SERVICES LTD.**  
12 Arthur Street, 6th Floor, London, UK  
EC4R9AB  
Phone: +44 (0)20 7626-6264

**A.M. BEST ASIA-PACIFIC LTD.**  
Unit 4004 Central Plaza, 18 Harbour Road,  
Wanchai, Hong Kong  
Phone: +852 2827-3400

**Important Notice:** A Best's Financial Strength Rating is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. It is based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile. These ratings are not a warranty of an insurer's current or future ability to meet contractual obligations. The Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. For additional information, see A.M. Best's Terms of Use at [www.ambest.com/terms.html](http://www.ambest.com/terms.html).

SR-2011-B318