

Motor premiums are going up: **What's driving this change?**



We've created this information sheet to help explain the key factors contributing to changes in motor premiums.

Insurance premiums are influenced by a number of factors. Some relate specifically to a person, for example, where they live, their past vehicle claims, the sum insured amount and the type of vehicle they drive.

Other factors are more general. For example, advanced technology in newer vehicles and inflationary increases in parts and labour have resulted in increased repair costs and therefore an increase in claim costs. Similarly, an increase in the frequency of extreme weather events has resulted in a higher frequency of claims.

The price for insurance needs to reflect what it costs to provide cover and, as a result, premiums may change.

Increasing number and cost of weather events

We know that New Zealand's weather can be unpredictable, but our claims data shows that severe weather is becoming more frequent and more damaging to people's vehicles.

Between September 2022 and February 2023, IAG NZ recorded ten significant weather events and received 41,596 claims, with 23,497 of those claims coming from the North Island floods, and 14,396 from Cyclone Gabrielle. Our claims data reveals approximately 15% of claims from these two events were for motor vehicles and 85% of affected vehicles could be written off due to flood damage.

The Insurance Council New Zealand reported that Cyclone Gabrielle had already resulted in costs of around \$1.5 billion.¹

Advances in technology and materials

The transport industry has come a long way in terms of safety, with strong advances in technology and materials helping to improve vehicle safety.

Most newer vehicles now come with backup cameras and multiple sensors such as blind-spot detection sensors on mirrors. These components are easily damaged and often cannot be repaired, requiring replacement and recalibration that needs to be done by trained technicians using new, and special, instrumentation.

Manufacturers are also starting to use materials like aluminium to make cars more fuel efficient and safer. However, aluminium can be more challenging to repair, requiring specific tools and techniques.

The added skill and time needed to accommodate these different materials, and the complexities of in-vehicle technology, is contributing to the increasing cost to repair.

¹ Insurance Council New Zealand, September 2023

An example of everyday motor claims and how claims costs have increased

One of our customers recently crashed their 2018 Mazda CX-9.

As well as causing damage to the bumper, the accident crushed the car's sensors. These parts needed to be replaced and recalibrated by a trained technician, which increased costs substantially.

This supposedly simple repair was valued at approximately \$26,000 to fix.



Claims inflation driving up costs

With New Zealand inflation rates at a 32-year high,² and vehicles becoming more complicated to repair, the cost to fix and replace vehicles is increasing.

Figures from the Insurance Council of New Zealand show commercial and private motor insurance claims hit \$1.4 billion in 2022 – up \$281 million since 2018.³ This data is up to September 2022 and excludes claims from the Auckland Flooding and Cyclone Gabrielle.

Claims cost inflation remains high, driven by two key factors – frequency and costs.

Increasing frequency of claims

- ▶ New Zealand is experiencing a higher number of claims as the frequency returns to what it was prior to COVID lockdowns.
- ▶ Our data tells us that the frequency of motor claims has increased by 15% over the previous 12 months.

Increasing cost of claims – what our data tells us

- ▶ Cost of parts
 - The average cost of vehicle parts has risen by 8-10% over the past year.
 - The cost to replace even a car bumper or a cracked windshield has increased, with windscreens costing 12% more since 2020.
- ▶ Labour costs
 - Labour costs and wage cost inflation are increasing as demand grows, and as more skill and time is required to accommodate in-vehicle technology and the new types of materials being used.
 - The average cost of sub-let services (for example wheel alignments, recalibration, or diagnostics) is now \$115-\$160 per hour (previously \$95-\$115).

Helping to control costs

Supply chain management

To help control costs, where possible we encourage our customers to get repairs done through IAG's supplier network. This helps to provide consistent, high-quality repairs, and to avoid lengthy delays.

Preferred repairers

We also encourage sending vehicles for repair through one of IAG's Repairhub facilities. Repairhub is a world-class motor repair shop, concentrating on non-structural repairs for light vehicles.

Repairhub is one part of a network of skilled repairers available for NZI customers, whose work we guarantee. This means customers have a range of vehicle repairers to choose from that won't compromise safety or quality of repair. Using our network of repairers can often speed up the time it takes to repair a vehicle, helping to manage costs.

Through investment in technology and re-designing the traditional panel shop processes, Repairhubs have an average key to key repair time of circa three days and an overall Net Promoter Score rating of 92.

Expert assessors

NZI also retains its own team of expert assessors, which helps us keep ahead of current repair techniques and manage costs.

It's important for these assessments to take place prior to repairs being completed by any repairer.

Dedicated Claims Partnership team

Our dedicated Claims Partnership team will work closely with your broker to ensure the best outcome for you in the event of a claim.

² Stats NZ | Tauranga Aotearoa, July 2022

³ Insurance Council New Zealand Market Data, September 2022