

Competition and Profitability

in New Zealand's General Insurance Sector: emerging policy issues

Abstract

This article examines competition and profitability in New Zealand's general insurance market. Given the country's high exposure to earthquakes, severe weather and climate risks, effective competition is vital for ensuring that insurance markets deliver efficient risk pricing, protect consumers from excessive costs, and safeguard financial stability. Benchmarking against international peers using combined ratios, returns on equity and net profit margins shows that New Zealand insurers consistently report higher profitability. Although differences in data and scope limit the precision of these comparisons, the overall pattern is evident. While catastrophe exposure explains part of the divergence, the scale and persistence of 'excess profits' point to structural weaknesses in competition. Strengthening competition and improving affordability will be critical to protect households and support financial resilience.

Keywords general insurance, property insurance, competition, profitability, climate risk, New Zealand

Amara Anyanwu holds a PhD in Economics from Lincoln University, with postgraduate degrees in economics from the Australian National University and Macquarie University, and a BA in Economics from the University of New South Wales. He has worked in academia, at UNESCAP, and in several New Zealand public sector agencies.

Insurance has become one of the fastest-rising costs for New Zealand households. According to Consumer NZ (2025), house insurance costs have risen more than ninefold since 2000, far outpacing household income growth and forcing many households to reduce or drop cover. Yet insurers remain persistently profitable – a paradox that raises questions about market power and competition. The core question is why New Zealand's general insurance sector has sustained profitability well above international norms, whether this reflects unavoidable risk factors or weaknesses in competition, and what this implies for competition policy.

Both domestic and global pressures lie behind these increases. Natural hazard events such as the Canterbury earthquakes (2010–11), the Kaikōura earthquake (2016), record weather-related losses (2017), and more recently the Auckland Anniversary weekend floods and Cyclone Gabrielle (2023) exposed insurers to billions of dollars in claims. These shocks drove premium hikes and accelerated the move towards risk-based pricing. In addition, rising reinsurance costs, construction inflation, and climate adaptation uncertainty have added upward pressure on premiums.

The implications are significant. Affordability challenges are already evident: in 2022, 7% of households who cancelled their house insurance cited cost as the reason; today that figure has climbed to 17%. If these trends persist, large parts of New Zealand risk becoming effectively uninsurable within the next decade, with consequences for household resilience, financial stability, housing markets and social equity. Insurance remains a cornerstone of security, but escalating costs and reduced availability raise concerns about whether the market delivers outcomes consistent with effective competition and fairness.

This article applies the structure–conduct–performance (SCP) framework to assess how market structure, firm behaviour and profitability shape competition, affordability and resilience. It also aims to shed more light on the extent to which observed profitability reflects structural market power or unavoidable risk factors.

Structure

As of 2023, New Zealand's private insurance sector held about \$27 billion in assets (7.5% of GDP), modest compared with the banking system's \$667 billion. Although 89 insurers are licensed, the market is highly concentrated and largely foreign-owned: around 55% of insurers are foreign-owned, controlling about 85% of assets (Reserve Bank of New Zealand, 2024). Australian groups IAG and Suncorp dominate through multiple brands and trans-Tasman reinsurance arrangements. Nearly nine in ten insurer assets are controlled offshore, meaning strategic decisions and profits are largely shaped abroad. This heavy foreign ownership frames the market's structure and gives a small number of large players significant influence over outcomes.

The industry is divided into three segments: general, life, and health, which differ in structure, regulatory requirements, and risk profiles. In 2023 it generated about \$13 billion in premiums, dominated by general insurance (\$8.1 billion, 62%), followed by life (\$2.8 billion, 22%) and health (\$2.1 billion, 16%). Within general insurance, property (residential and commercial) accounted for 43% of gross

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written premiums, followed by motor (33%), commercial (15%), earthquake (11%) and liability (9%), with marine and other niche products contributing only marginally (Insurance Council of New Zealand, 2024). General insurance dominates revenues and policy debates, making it the natural focus for competition analysis.

Concentration metrics highlight how this structure shapes outcomes. The Herfindahl–Hirschman Index (HHI), which ranges from 0 to 10,000, places New Zealand's general insurance sector in the 'moderately concentrated' range. The HHI fell from just over 2,100 in 2018 to around 1,857 in 2022, suggesting that while a few large firms still dominate, competitive pressures have modestly increased. The three-firm concentration ratio provides another lens: levels above 80% typically signal collusion risk, while in New Zealand the top three insurers account for about 66% of revenue. At the firm level, IAG remains the largest with a 38% share in 2022 (down from 41% in 2018), followed by Vero (16%), AA Insurance and QBE (7% each), FMG (5%) and Tower (4%) (Reserve Bank of New Zealand, 2024). Although not extreme by international standards, this degree of dominance still shapes competitive discipline and helps explain high returns.

While formal measures classify the sector as 'moderately concentrated', the small market size and dominance of IAG and Suncorp mean competitive pressure resembles that of a highly concentrated market. In addition, the aggregate HHI (1,857) masks variation across product lines: for house, contents and motor insurance, concentration is much higher, often at or above 2,500, because of the dominance of IAG and Suncorp. In this context, describing the sector as only moderately concentrated risks understating the weakness of competition.

Elevated profits also reflect barriers to entry. In competitive markets, high returns attract new entrants, pushing down margins. Where barriers are strong, incumbents can sustain profitability well above competitive levels. In New Zealand, prudential regulation is often cited as one such barrier, although its effects are more nuanced. A distinctive feature of the Reserve Bank's framework is the catastrophe risk charge, which requires insurers to withstand a 1-in-1,000-year event, a far more conservative standard than the 1-in-200 or 1-in-250 standards common elsewhere (Insurance Council of New Zealand, 2024). While S&P Global Ratings describes entry barriers as moderate, the licensing regime is seen as reasonably onerous. Importantly, the catastrophe risk charge is not insurmountable, since it applies mainly to seismic risk and is typically managed via global reinsurance markets. More broadly, the mix of licensing, governance, capital and risk requirements illustrates how prudential standards safeguard stability while also constraining entry. This trade-off bolsters resilience but sustains elevated profitability, underscoring the persistent tension between stability, efficiency and affordability in the insurance sector.

While structure shapes the boundaries of competition, firm behaviour determines how that structure translates into market outcomes. The next section examines how insurer conduct reflects and reinforces these competitive dynamics.

Conduct

How firms behave under concentration reveals whether competition disciplines them or entrenches market power. In

New Zealand's insurance sector, conduct offers this lens. It can be assessed through customer satisfaction, switching behaviour, innovation and marketing activity, each showing how competitive pressures or their absence affect consumers.

In competitive markets, firms improve price and service to retain customers. Where rivalry is weak, these incentives fade. Consumer NZ (2023) found that 60% of households were worried about house insurance and 52% about contents, and concerns may have grown since then. The most common complaints involved declined claims and poor service. Only 29% of consumers were satisfied with outcomes, compared with 55% across other sectors, such as utilities and groceries (Commerce Commission and Ministry of Business, Innovation and Employment, 2024). Such low satisfaction suggests systemic weaknesses, yet these concerns rarely create competitive pressure, because switching remains limited.

In competitive markets, exit threats discipline firms. Yet Consumer NZ (2024) found that only one fifth of policyholders considered switching. Complexity, bundling and perceptions of disruption dampen mobility, while opaque product features and loyalty discounts often function as lock-in. Low mobility allows insurers to maintain poor service without losing customers, a hallmark of oligopolistic markets. This inertia is not unique to insurance. Switching rates are also low in banking (3%), mobile services (8%) and electricity (10%), suggesting structural barriers across New Zealand's consumer markets. Limited mobility helps explain why dissatisfaction persists: weak exit threats reduce pressure to cut prices or improve service, allowing margins to remain high and rivalry to remain self-reinforcing.

This weak competitive discipline also affects how insurers approach innovation. Competitive pressure typically drives firms to innovate, but weak rivalry slows adoption. New Zealand insurers have been incremental adopters, with few transformative initiatives. Tower's 'trust both ways' policy is a rare example of using transparency as a differentiator. Some firms have experimented with digital tools, sustainability branding and customer

engagement, but progress remains patchy. Deloitte (2024) notes that New Zealand lags behind Australia in telematics, usage-based insurance and digital claims platforms, reflecting subdued competition more than technological inertia. Underinvestment in innovation reduces consumer choice, weakens adaptation to climate and digital risks, and entrenches inefficiency in claims handling, with direct costs for households.

Weak innovation incentives also feed into how insurers use marketing. In competitive markets, firms advertise heavily to win customers. In concentrated markets, reliance on inertia weakens this incentive. International evidence shows that churn and advertising intensity rise as concentration falls. In New Zealand, insurer advertising expenditure is undisclosed, reducing transparency. Whether this is a reporting gap or an attempt to avoid scrutiny, the effect is the same: limited advertising reduces consumer choice, raises barriers for new entrants, and entrenches incumbents' market power.

Taken together, poor customer satisfaction, low switching, modest innovation and limited marketing are not isolated shortcomings. They are likely mechanisms through which market power is exercised. Conduct therefore reinforces concentrated structure and helps explain why New Zealand insurers have sustained relatively higher profitability compared with international benchmarks.

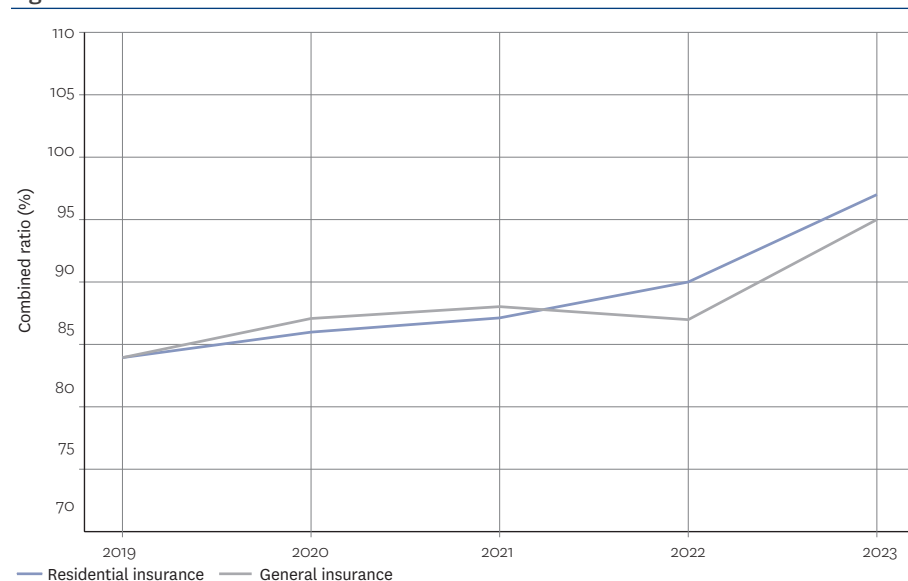
Performance

The behavioural dynamics outlined above feed directly into profitability indicators, making visible the extent to which market power is exercised. These indicators provide a concrete way of benchmarking outcomes, beginning with the combined ratio, which is a key measure of insurer profitability. It is calculated as incurred losses and expenses divided by earned premiums. A ratio below 100% indicates profitability, while a ratio above 100% signals an underwriting loss.

In 2022, the combined ratio for New Zealand's general insurance sector was around 86%, well below international benchmarks. For comparison, combined ratios were 102.4% in the United States, 93% in Australia, 97% in the United Kingdom, 95% in Germany, 90% in Japan, 94% in France and 96% in Italy. Although year-to-year results can fluctuate, especially in catastrophe-exposed markets, the gap in 2022 is nonetheless significant and points to strong profitability in New Zealand.

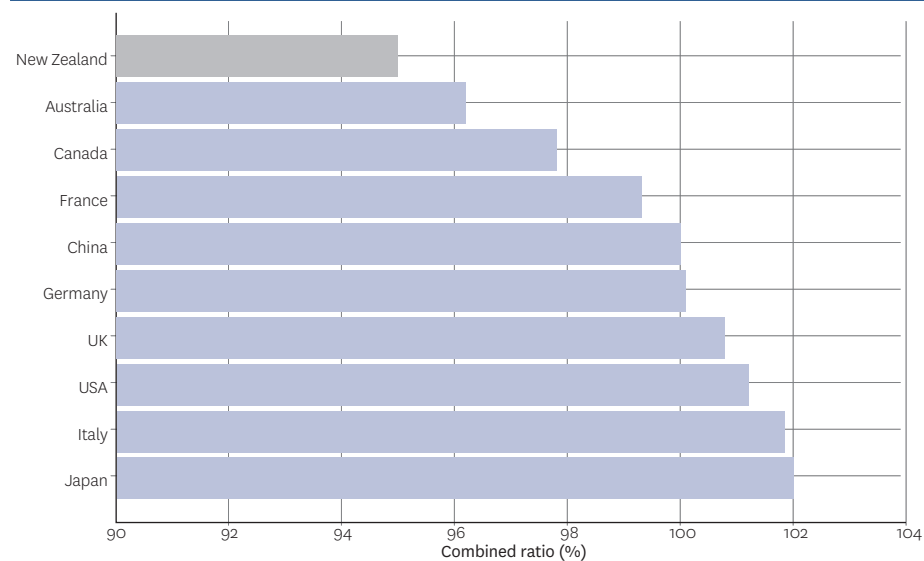
Data for New Zealand's general insurance sector is limited for 2008–17, so property insurance, which accounts for nearly half of premiums, is used as a proxy. The two measures track closely (Figure 1), providing a reasonable basis for comparison over time. Using property insurance as a proxy shows that New Zealand's sector has been consistently more profitable than many international peers (Figure 2). The Canterbury earthquakes in 2010–11

Figure 1: Combined ratio for New Zealand



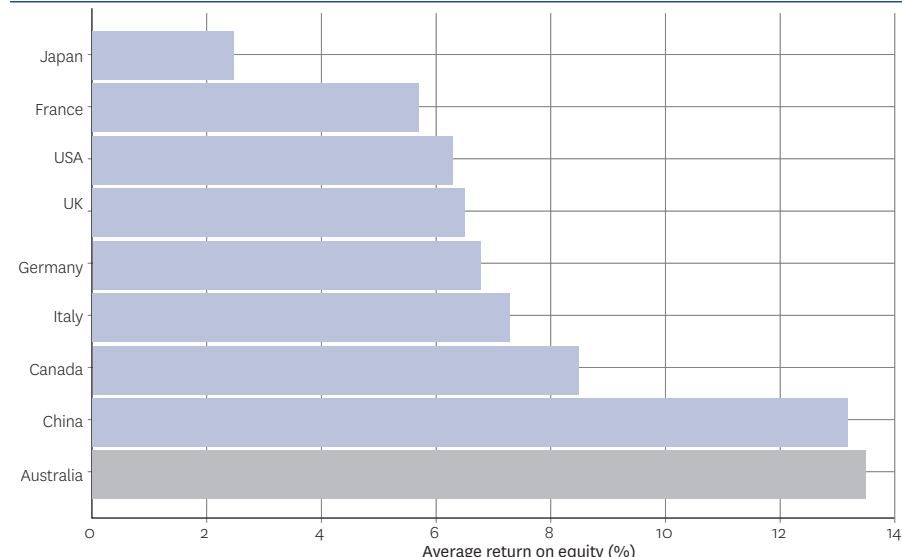
Source: ICNZ 2024; author's calculations

Figure 2: Average combined ratio, general insurance, 2008-2017



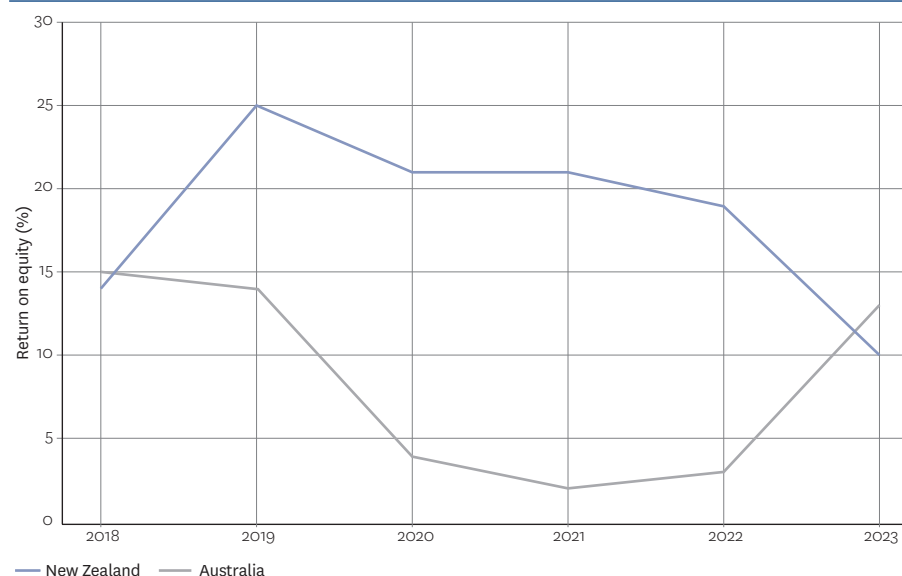
Source: Swiss Re Institute 2018; author's calculations

Figure 3: Average return on equity, general insurance, 2008-2017



Source: Swiss Re Institute, 2018

Figure 4: Return on equity, general insurance



Source: Statistics NZ, 2024; Finty, 2022 & 2024

complicate this picture: large claims initially pushed the ratio upwards, reducing measured profitability, but subsequent premium increases and reinsurance recoveries drove the ratio downwards, amplifying profitability. This sequence illustrates how catastrophic events can distort conventional performance indicators.

More recently, the combined ratio averaged about 86% between 2020 and 2024, underscoring sustained high returns. Over the longer period from 2008 to 2024, the average combined ratio was around 92%. This pattern is consistent with limited competition, allowing firms to exercise market power.

Return on equity is a standard measure of insurer performance, indicating how efficiently profits are generated from shareholders' equity. It provides insight not only into profitability, but also into how capital is deployed and rewarded in the market. In 2022, New Zealand's general insurance sector recorded a return on equity of about 19%, far above major international peers: 8% in the United States, 3% in Australia,¹ 7% in the United Kingdom, 5% in Germany, 4% in Japan and 7% in Canada (Figure 3). While single-year results can reflect temporary shocks, the scale of divergence remains striking, suggesting a pattern that cannot be explained by volatility alone.

The longer view reinforces this conclusion. Between 2013 and 2022, New Zealand insurers achieved an average return on equity of 14.1%, compared with a global average of around 9–10%. More recently, between 2018 and 2023, the gap widened: New Zealand insurers averaged 18% compared with just 9% in Australia (Figure 4). Notwithstanding the dip in 2023, a rebound was observed in 2024 and 2025. This persistent divergence indicates that the sector's profitability advantage is not cyclical, but embedded in the structure of the market.

International comparisons underscore the point further. During 2020–22, average return on equity for New Zealand insurers remained well above global benchmarks (Figure 5). In addition, over 2010–19 average returns on equity for non-life insurers in North America, Europe and Asia-Pacific were 9.9%, 10.7% and 9.0%

respectively (Swiss Re Institute, 2023). In other words, while returns in most major markets have hovered around a global ‘normal’ of 9–10%, New Zealand has consistently generated returns well above this range, regardless of the time period examined. Although differences in scope and reporting exist across datasets, the weight of evidence points in one direction: New Zealand’s general insurance sector has sustained profitability significantly above international norms.

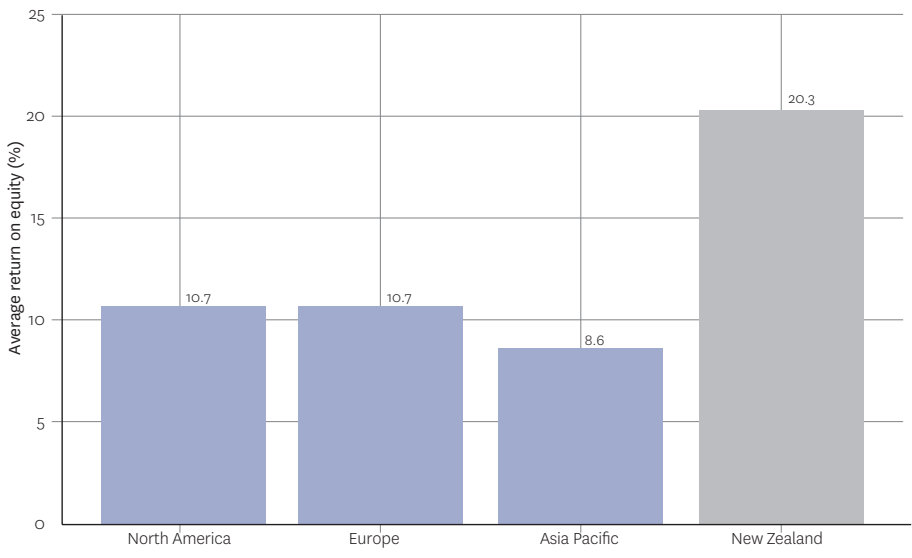
Net profit margin, or insurance profit margin, measures overall profitability by combining underwriting performance (premiums minus claims and expenses) with investment income from premium flows. It reflects both operational efficiency and cost management.

For New Zealand’s general insurance sector, comparable cross-country data is limited, so property insurance margins are again used as a proxy, given that property accounts for a large share of premiums. Between 2008 and 2017, New Zealand’s net profit margin averaged 11%, slightly below Australia’s 12.5% (Figure 6). However, this comparison may have been distorted by the Canterbury earthquakes, which temporarily depressed profitability. Excluding those years, underlying margins would likely have been materially higher.

More recent trans-Tasman comparisons highlight New Zealand’s structural advantage. Between 2018 and 2022, both IAG and Suncorp consistently generated higher net profit margins in their New Zealand operations than in Australia. For example, in the year to June 2020, IAG derived just 23% of gross written premiums from New Zealand but over 40% of group profit. Similarly, Suncorp’s New Zealand business accounted for 17% of premiums yet delivered 36% of profits. This disproportionate contribution has persisted through 2024 and 2025, pointing to a sustained profitability gap that appears linked to structural market dynamics rather than a temporary cycle.

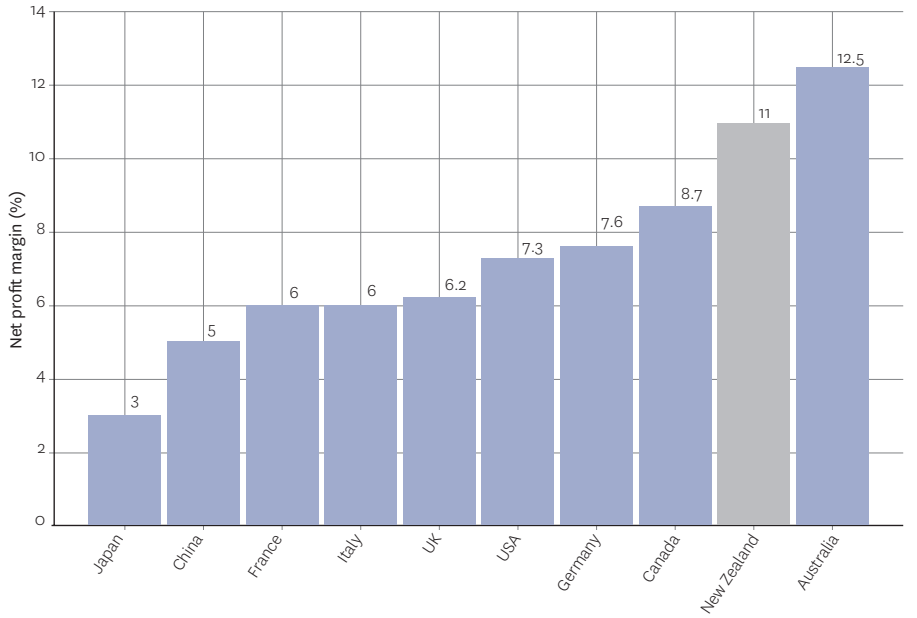
A longer-run view confirms the shift. Between 2011 and 2017 (Figure 7), IAG consistently earned higher net profit margins in Australia. Since then, the gap has shifted decisively in New Zealand’s favour and has endured. The timing aligns with sharp repricing episodes at the

Figure 5: Average return on equity, non-life, 2020–22



Source: Swiss Re Institute, 2023; Statistics NZ, 2024

Figure 6: Net profit margin, general insurance, 2008-2017



Source: Swiss Re Institute, 2018; author’s calculations

household level. Statistics New Zealand data (Figure 8) shows three major step-ups in house insurance costs: after the Canterbury earthquakes in 2010–11,² the Kaikōura quake in 2016, and again in 2022–23. Each episode ratcheted premiums to a higher baseline, reinforcing the profitability gap.

The second wave marked a decisive break, with insurance prices rising faster than both construction costs and the CPI. The latest surge reflects construction inflation, successive climate disasters such as Cyclone Gabrielle and the Auckland floods, and a global reinsurance crunch. Premiums have increasingly decoupled from underlying costs or general inflation.

Instead, each catastrophe and reinsurance shock ratchets prices to a higher baseline, widening profit margins over time. This ratchet effect signals a structural shift in pricing dynamics, with implications not only for insurer behaviour and resilience, but also for affordability and competitive discipline.

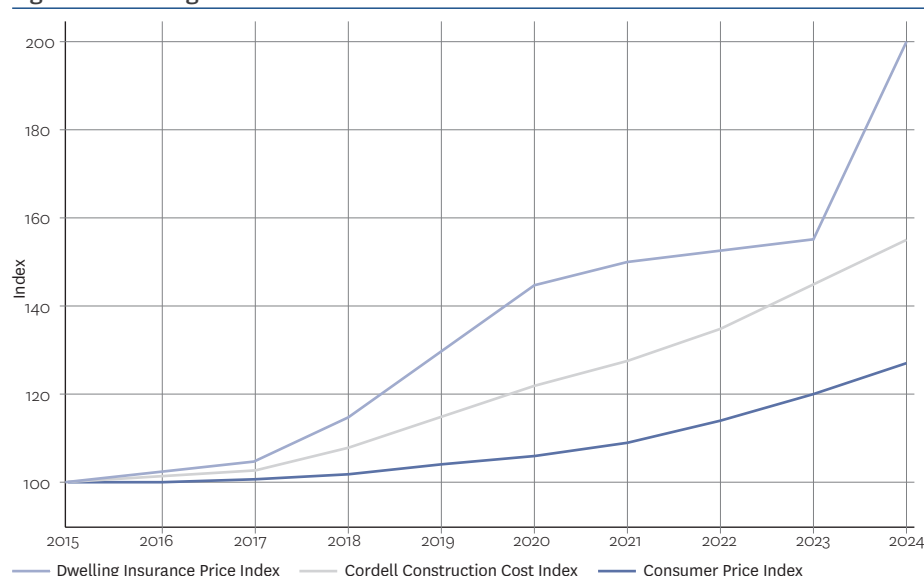
Evidence across combined ratios, ROEs, and profit margins paint a consistent picture: New Zealand insurers have earned sustained returns well above international norms. While catastrophe risk explains some volatility, the durability of high margins reflects structural features of the market – concentrated market power, low switching, and a pricing ratchet effect after

Figure 7: IAG New Zealand and Australia net profit margin, general insurance



Source: author's calculations

Figure 8: Dwelling insurance and construction cost indices



Source: Statistics; CoreLogic

major shocks. These dynamics weaken competitive pressure, reinforce pricing power, and raise affordability concerns for households and businesses.

Why is New Zealand's insurance sector so profitable?

Several factors explain why insurers in New Zealand have remained so profitable. The market is dominated by two large firms, with only a handful of smaller competitors, limiting competitive pressure. Customers rarely switch providers, new entrants are scarce, and past studies have found weak pricing discipline. The most recent detailed analysis, up to 2016, showed price-cost margins in the finance and insurance industry around 50% above variable costs, with competition indicators placing

the sector in the lowest quartile. While newer estimates are lacking, the industry's concentrated structure and sustained profitability suggest that these conditions still hold. High concentration, limited entry frictions and consumer inertia continue to protect margins, making it easier for insurers to pass on shocks without fear of losing customers.

Reinsurance dynamics reinforce this picture through a 'ratchet effect'. When global reinsurance costs surge after disasters, insurers quickly pass these increases on to customers. But when costs ease, premiums rarely fall; instead, they are reset at a higher baseline. After the Canterbury earthquakes in 2010–11, premiums roughly doubled. The Kaikōura earthquake in 2016 lifted them again, and

the 2023 floods added another 20–40% in some regions. Insurers justify premium hikes on cost grounds, but the evidence shows that premium growth has persistently outpaced claims. This suggests that margins are being supported not only by higher risk costs, but also by weak competitive pressure. With customers effectively locked in and rivals reluctant to compete aggressively, premiums ratchet upwards, reinforcing the sustained profitability and elevated margins seen in the insurance market.

Catastrophe risk and prudential rules add a further layer. Insurers must hold capital or reinsurance sufficient to withstand a 1-in-1,000-year event, a higher standard than in most jurisdictions. While this strengthens resilience, the costs are fully priced into premiums, and in practice often more. Since 2017/18, the shift to granular risk-based pricing has raised costs further for high-risk properties, potentially improving portfolio profitability. Tightened prudential standards may deter new entrants, entrenching incumbents and sustaining elevated returns, though it remains difficult to disentangle how much of this premium inflation reflects genuine risk versus market power.

Non-competitive cost pressures also contribute to affordability stress. Government-imposed levies and taxes – including the Earthquake Commission (EQC) levy, the Fire and Emergency New Zealand levy and GST – now account for close to half of total house insurance premiums (Insurance Council of New Zealand, 2024). These charges are uniform across all insurers and are passed directly to policyholders, meaning they have no impact on competitive dynamics or profitability. Nevertheless, they substantially raise household costs and compound affordability pressures. Distinguishing these statutory charges from market-driven pricing is essential: while levies clearly add to premiums, the persistence of strong returns and margins suggests that structural and competitive factors remain central to elevated profitability.

Demand-side dynamics matter too. Mortgage cover is often mandatory, and, even when optional, many households see it as essential. Low switching rates, bundling

and entry barriers reduce consumer mobility, allowing higher premiums to stick. While some households are now dropping cover due to cost, most who remain insured face few alternatives. Elevated returns therefore reflect not just risk, but weak competitive discipline, raising policy concerns about affordability and fairness. Addressing these dynamics may require stronger regulation, new entry, or measures to enhance consumer choice.

Overall, these factors show that profitability is shaped by a mix of risk-driven and structural drivers. Risk-driven factors, such as catastrophe exposure, conservative prudential rules, and the cost of global reinsurance reflect New Zealand's distinctive hazard profile and are difficult to avoid. Structural drivers, by contrast, include high market concentration, weak switching and limited new entry, which are competition issues that sustain elevated margins. Distinguishing between the two is essential for assessing what policy levers are available, since risk-driven factors are largely unavoidable, while structural factors can be addressed through competition policy. This distinction frames the central policy challenge: if profitability

reflects both unavoidable risk and structural competition weaknesses, which interventions can restore balance?

Conclusions

Profitability indicators such as combined ratios, returns on equity, and net profit margins are consistently stronger in New Zealand than in comparable international markets, suggesting insurers may be exercising significant market power. While part of this reflects the country's unique risk environment, the persistence and scale of the profit gap point to structural weaknesses in competition. Large insurers have repeatedly raised premiums faster than claims costs and maintained margins at levels typical of oligopolistic markets.

Cross-country comparisons should nonetheless be treated with caution. Property insurance is often used as a proxy, coverage and reporting differ across jurisdictions, and data sources vary in scope. Not all of New Zealand's high profits are "excess": catastrophe risk and the capital required to cover it explain part of the margin. Timing also matters, as a major disaster can push the combined ratio above 100 percent in a single year. However, once

extreme events are excluded, insurers have maintained strong returns and passed costs on to consumers beyond what risk alone would justify—suggesting weak competitive discipline

Consumers face rising premiums while insurers remain among the most profitable globally. This paradox raises fundamental questions about competitive discipline and market power. It points to potential policy responses: a Commerce Commission market study, measures that support efficient entry and scaling (including insurtechs), improved switching tools and data portability, and greater transparency in pricing and claims handling. More fundamentally, the challenge is to distinguish between margins that are unavoidable and those sustained by weak competition. Even though premium growth has moderated, levels remain high; without reform, elevated profitability will persist, entrenching affordability pressures and weakening market resilience.

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¹ ROE estimates may differ across sources: APRA sometimes publishes statutory, industry-wide returns, while Finity reports normalised figures that adjust for catastrophes, investment volatility or scope.

² From 1992 until around 2010, dwelling insurance premiums moved broadly in line with the consumers price index.