August 2023

FINANCIAL / INSURANCE / RISK MANAGEMENT

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NZ Apples & Pears Conference 2023

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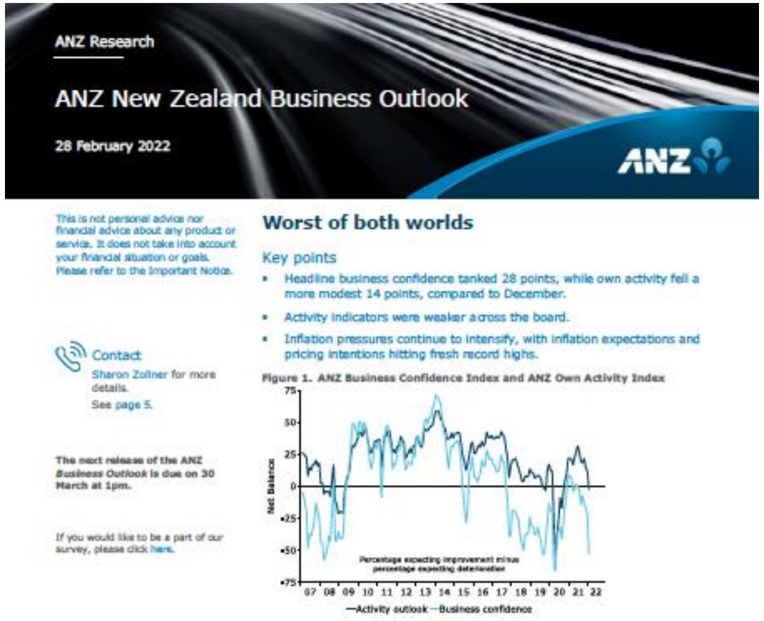
WHAT WE’LL COVER TODAY

1. Economic Backdrop
2. Setting Yourself Up for Success
3. What to do where it doesn’t go to plan
4. Rural Business Resilience

ECONOMIC BACKDROP

- Global Economic Growth is weakening
- Demand for most commodities is relatively weak
- Environmental Impact
- What Consumers are wanting
- What large Organisations are demanding
- We are now selling a story



ANZ Research

ANZ New Zealand Business Outlook

28 February 2022

ANZ

This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.

Contact
Sharon Zollner for more details.
See page 5.

The next release of the ANZ *Business Outlook* is due on 30 March at 1pm.

If you would like to be a part of our survey, please click here.

Worst of both worlds

Key points

- Headline business confidence tanked 28 points, while own activity fell a more modest 14 points, compared to December.
- Activity indicators were weaker across the board.
- Inflation pressures continue to intensify, with inflation expectations and pricing intentions hitting fresh record highs.

Figure 1. ANZ Business Confidence Index and ANZ Own Activity Index

SETTING YOURSELF UP FOR SUCCESS

- Engage with quality Professionals early
  - Have regular engagement
- Formulate a plan and test the assumptions
  - Know your costs!!
  - What are your long-term commitments and capital costs
  - Have a Plan B and understand what are the triggers before they occur
- When planning - use insights and benchmarking data
  - Where do you currently excel and where do you underperform
  - How often do you measure against this
- Interest rates – these are a risk management tool
- Loan Structures – are a key tool

RESPONDING TO A RECOVERY / EVENT

- Prepare for “this will take time”
- Personal Resilience first, Business Resilience second
- Again, invest in good expertise and advisors upfront this will pay dividends in the long run
- Clearly understand what your insurance does and does not cover – engage with your broker and professionals to understand the detail
- Understand what support and funding available to help.
    - support available through government and local authorities,
    - discuss your cashflow / funding support options i.e. ANZ Business Regrowth Loan, NIWE Loan Guarantee Scheme, Green Loans – understand your eligibility criteria.
- Start with a plan for short/medium/long term plan (Crucial) and understand costs with a high degree of oversight.
    - We see the most successful recoveries where a plan and costing upfront is developed and understood well
    - Include a list of the most important priorities that focus on productivity

Rural business resilience

increasing frequency and severity of weather disruption proves challenging for both funding and insurance providers

August 2023

INSURANCE BROKERS | A GALLAGHER COMPANY

Weather frequency and severity

Rather than planning 'what if', business owners need to consider 'when' this may happen…

- NZ's traditional insurance market does not provide cover options for orchard assets and risks
- Stronger risk management planning / equity / risk transfer considerations required
- Alternative / non-traditional approaches to be considered

Insurance market cycle

Prices rise and insurers' reduce coverage. Loss events, dipping underwriter profits and capital retreat signal to the insurance market that prices have risen in order for insurance businesses to remain profitable.

Premium prices and insurer profits start to react to negative pressure. As claims losses rise, the market starts to tighten.

Premiums are higher and cover is more difficult to find. Underwriters may step away from certain markets as they look to rebalance the profitability of their books.

Prices begin to drop, cover becomes more accessible in the absence of major losses or with more capital entering markets, underwriters are more willing to place business.

Widespread premium changes

The cost of rural insurance is rising significantly and underwriters want good risks

- The rural insurance market has enjoyed some wider covers
- Clients will be receiving large increases at renewal, this year and going forward
- Sub-limits are being restricted / reduced / made optional
- Farmers have been loyal to their insurance suppliers BUT
- They are reaching out and looking at options available… affordability is an issue
- An opportunity to introduce Crombie Lockwood for a second opinion

Our advice

1

Build strong relationships ahead of renewal

2

Start renewal preparations early

3

Provide detailed information representing the risk in positive terms

4

Being open to flexible, innovative ways of structuring the insurance programme

Alternative options 1

Parametric Insurance - provides an alternative to help fund the delay costs and economic losses of a project due to extreme weather events such as rain, wind, snow accumulation, heat or cold

- for risks that can be objectively measured and verified by a third-party authority
- once that measurement is triggered, the claim is paid
- requires only that the threshold for the agreed-upon risk is met
- also means claims can be paid expediently
- Insurer bases pricing on probability, to make it affordable needs to be low frequency event

E.g. *trigger could be rain exceeding X millimetres in a specified time period, once exceeded the policy instantly pays out the limit chosen by the client. Challenges for growers is often they are in more remote locations or micro climates meaning the weather they experience is different to metservice data centres, need the data to prove the loss.*

Alternative options 2

Retention Finance Programme (RFP) - essentially a self-funded insurance mechanism

- Select a term and select a limit (say 5yrs and $10mil)
- On limit of $10M you would pay $2M per year
- You could use $10M in one event or use as needed over the 5 year period
- There is a profit share and interest payable back to the client based on claims outturn
- If you use the full $10M in year 1 you still have to pay $2M a year for the 5 years and cover is no longer available. You would need to buy a second limit

Key benefits of this to the client is it satisfies banks security requirements, tax advantageous and can be tailored to clients specific needs.

THANK YOU