

The Treasury

Material Provided to the Public Inquiry into EQC Information Release

August 2021

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- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
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- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Reference: T2015/639

CM-1-3-15-1



Date: 30 March 2015

To: Minister of Finance (Hon Bill English)
Minister Responsible for the Earthquake Commission (Hon Gerry Brownlee)
Associate Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Paula Bennett)

Deadline: Noon, Monday 30 March

Aide Memoire: EQC Review: Briefing Note for Meeting between Ministers Responsible for EQC Review and Finance Ministers

1. This note provides brief background to support a meeting between Ministers responsible for the EQC Review (responsible Ministers), and Finance Ministers, at noon on Monday 30 March.
2. Responsible Ministers recently agreed a preferred reform package for Cabinet consideration. You wished to discuss this with Finance Ministers prior to finalising the paper for Cabinet.
3. Key features of the currently preferred package for Cabinet are:
 - To increase the monetary cap on building cover to \$200,000+GST per dwelling, with option analysis of increasing the cap to \$150,000+GST;
 - To include in EQC building cover any necessary site and foundation works to repair or replace the dwelling; limiting separate land cover to total losses (i.e. land cover only be paid when it is uneconomic to rebuild on the site).
 - EQC to exit from household contents cover;
 - To increase the current claims excesses of \$200 or 1% of a claim, whichever is the greater, to a flat \$2,000 per claim.
 - To set EQC's premiums so that the premiums appropriately compensate the Crown for the costs and risks of the scheme.
4. This note focuses on the first two issues, as they are the most complex.

Building Caps Discussion

5. In considering a \$150,000 versus \$200,000 cap, responsible Ministers gave weight to the potential for changes by insurers, particularly the move to sum insured, to leave homeowners exposed. Increasing the EQC cap improves affordability in high-risk areas, therefore reducing problems with homeowner

under-insurance. On balance responsible Ministers preferred the \$200k cap. This incurs higher fiscal risks in return for less risk that market developments compromise the other goals of the scheme.

6. These higher fiscal risks are broadly offset by EQC exiting contents cover and increasing excesses. This table from T2014/2145, to MREQC and Finance Ministers, concludes that the preferred package would slightly reduce the fiscal costs and risks of the scheme. As proposed changes to land cover are not modelled, and reduce cost, the expected cost reductions are greater than shown.

| | Expected Annual Loss (average expected claims), \$ million | | | | | Expected Liability, Wellington Reference Event, \$ million | | | | |
|--------------|--|--------|--------|--------|----------|--|---------|---------|---------|----------|
| | Building Cap | | | | | Building Cap | | | | |
| | \$100k | \$150k | \$200k | \$250k | Uncapped | \$100k | \$150k | \$200k | \$250k | Uncapped |
| Claims (\$m) | \$91 | \$100 | \$104 | \$107 | \$109 | \$5,819 | \$6,482 | \$6,824 | \$7,012 | \$7,234 |

Change From Status Quo, \$ million

| | | | | | | | | | | |
|----------------------|---------------|---------------|--------------|--------------|--------------|------------------|----------------|---------------|--------------|--------------|
| Building Cap Changes | \$0 | \$9 | \$13 | \$16 | \$19 | \$0 | \$663 | \$1,005 | \$1,193 | \$1,415 |
| Exit contents | -12 | -12 | -12 | -12 | -12 | -810 | -810 | -810 | -810 | -810 |
| \$2,000 excess | -7 | -7 | -7 | -7 | -7 | -259 | -259 | -259 | -259 | -259 |
| All Changes | (\$19) | (\$10) | (\$6) | (\$3) | (\$0) | (\$1,069) | (\$406) | (\$64) | \$124 | \$346 |

7. To better understand the potential to shed more risk if desired, responsible Ministers have asked EQC to report back on the impact on EQC's costs and premiums of increasing EQC's reinsurance programme.
8. Regarding homeowner insurance premiums, changes to EQC and private premiums from EQC increasing building cover and exiting contents cover appear to be broadly offsetting for homeowners.

Discussion on Land Cover

9. Aligning EQC building cover with insurance and building industry practice that it includes necessary land repairs, and limiting separate land cover to situations where the site cannot be rebuilt on, has the following key pros and cons:

| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> Strongly links cover to restoring housing rather than insuring land as a separate asset. Eliminates disputes regarding the boundary between building and land cover. Improves homeowner certainty. Some homeowners would be better off. Reduces Crown risk, unless building cap under this option is higher than building cap when separate land cover is retained. | <ul style="list-style-type: none"> EQC would only repair land to the extent necessary to repair the home. Impact on future affected homeowners mixed, some will be worse off financially for the change. Likely be seen by homeowners as less generous than the current scheme. Requires separate decision on application of land cover to storm and flood damage. Opposed by most insurers, but qualified support from IAG. |

10. This change has significant administrative and policy advantages. Future advice will consider the extent to which the reform package as a whole manages the disadvantages.

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