

The Treasury

Proactive release of Treasury advice related to the increase to the EQC Residential Building Cap

October 2021

This document has been proactively released by **Minister Responsible for the Earthquake Commission (Hon Dr David Clark)** on the Treasury website at

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Cabinet Economic Development Committee

Minute of Decision

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Property Insurance Markets: Options for Further Work

Portfolios **Finance / Earthquake Commission**

On 11 December 2019, the Cabinet Economic Development Committee (DEV):

- 1 **noted** that changes in insurance markets over the past few years have seen multi-unit buildings in high seismic-risk regions and some high-risk/high-value houses facing significant increases in insurance prices;
- 2 **noted** that the changes in property insurance markets, at least in part, appear to be caused by insurers' better understanding of risk and the damage that can be caused by earthquakes, and insurers increasingly allocating the cost of the risk posed by higher risk properties to those properties (i.e. more granular risk pricing);
- 3 **noted** that some large insurers appear to be reaching the maximum level of exposure to Wellington risk they are willing to take on, given their desired level of capital and reinsurance, and that this has caused relatively low insurance availability for some Wellington properties;
- 4 **noted** that it is currently relatively difficult for the public to ascertain the riskiness of properties and mitigation strategies from an insurance perspective, and how that affects the cost of insurance;
- 5 **noted** that the Minister of Finance and Minister Responsible for the Earthquake Commission (the Minister) has asked the Treasury to continue seeking information from insurers and body corporates in relation to changes in insurance premiums for multi-unit residential buildings;
- 6 **noted** that the Minister has asked the Treasury to engage with insurers to encourage them to improve information for consumers about property insurance pricing and risk, and to consider the government's options for facilitating better public understanding of property insurance and risks, including regulation;
- 7 **agreed** that Treasury undertake further work and provide advice on the following prioritised options to address changes in property insurance markets, with the aim of ensuring that property insurance is affordable and available (particularly in higher risk areas) and can appropriately contribute to New Zealand's long-term resilience:
 - 7.1 a flat across-the-board increase to the EQC cap from \$150,000 up to between \$250,000 and \$400,000;
 - 7.2 a targeted increase to the EQC cap (targeted at certain regions or property types);

- 7.3 the provision of targeted natural hazard reinsurance (targeted at certain regions or property types) by the government;
- 8 **invited** the Minister to report to DEV by July 2020 on the recommended options to pursue (if any), aligned as appropriate with separate advice on other insurance-related work currently being undertaken across government;
- 9 **noted** that:
- 9.1 separate from this process, the Minister intends to bring a proposal to Cabinet in early 2020 for a small Bill to make targeted changes focused on the Earthquake Commission Act's calculation of residential areas for the purposes of determining if a building is a residential building under that Act;
- 9.2 the Bill is intended to better align the Earthquake Commission Act's treatment of public residential spaces, such as access corridors to apartments, with private residential spaces, such as apartments.

Janine Harvey
Committee Secretary

Present:

Rt Hon Winston Peters
Hon Kelvin Davis
Hon Grant Robertson (Chair)
Hon Phil Twyford
Hon Dr Megan Woods
Hon David Parker
Hon Nanaia Mahuta
Hon Stuart Nash
Hon Iain Lees-Galloway
Hon Jenny Salesa
Hon Kris Faafoi
Hon Shane Jones
Hon Julie Anne Genter
Hon Eugenie Sage

Officials present from:

Office of the Prime Minister
Officials Committee for DEV

Hard-copy distribution:

Minister of Finance
Minister Responsible for the Earthquake Commission