

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 Document Details

Title: **Cabinet Minute: DEV-21-MIN-0150: Modernising the Earthquake Commission Act: Increasing the Cap**

Date: **7 July 2021**

Creator: Cabinet Office

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Key to sections of the Act under which information has been withheld:

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

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Cabinet Economic Development Committee

Minute of Decision

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Modernising the Earthquake Commission Act: Increasing the Cap

Portfolio **Earthquake Commission**

On 7 July 2021, the Cabinet Economic Development Committee:

- 1 **noted** that the objectives for residential property insurance in New Zealand are that:
 - 1.1 New Zealanders can access affordable residential property insurance, to ensure as many New Zealanders as possible can repair their homes if they are damaged by a natural disaster;
 - 1.2 sufficient funds are available to repair/rebuild following a natural disaster, which minimises fiscal risks to the Crown, including risks such as the collapse of a private insurer;
 - 1.3 there is a robust and competitive private insurance market;
 - 1.4 insurance price is used to signal risk;
 - 1.5 New Zealand continues to be able to purchase cost-effective reinsurance;
- 2 **noted** that increasing the EQC monetary cap on residential buildings will increase the level of community-rating of EQC-covered risks across New Zealand, which can mean, all else being equal, lower insurance premiums for higher-risk regions, and higher insurance premiums for lower-risk regions;
- 3 **agreed** to increase the EQC monetary cap from \$150,000 (plus GST) to \$300,000 (plus GST);
- 4 **agreed** that the increase to the cap be phased in over 12 months from 1 October 2022 to 30 September 2023, as new insurance policies are taken out or existing policies are annually renewed;
- 5 **noted** that insurers have indicated that the timeframe set out in paragraph 4 above would be challenging for them;
- 6 **noted** that the current EQC premium rate is \$0.20 (plus GST) per \$100 of EQC building cover, up to a maximum of \$345 (including GST), for the \$150,000 (plus GST) cap;
- 7 **agreed** to set the EQC premium rate at \$0.16 (plus GST) per \$100 of EQC building cover, up to a maximum of \$552 (including GST), which is the estimated break-even point at a \$300,000 (plus GST) cap;

- 8 **noted** that a cap increase to \$300,000 (plus GST), in combination with the proposed EQC premium rate of \$0.16 per \$100 of EQC building cover, would mean each residential property will pay up to \$207 (including GST) extra per annum in EQC levies;
- 9 **noted** that the Bill to modernise the Earthquake Commission Act 1993 (the EQC Act) will establish a five-yearly review of the cap and other monitoring measures, which will allow reconsideration of whether the level of cap is appropriate based on house cost inflation, and evidence of how the cap is impacting insurance prices;
- 10 [33]

Financial implications

- 11 **noted** that raising the EQC cap will increase risk to net core Crown debt in the short-term due to the Crown guarantee of EQC, but will have no impact on net core Crown debt over the long-term if the EQC premium is set to cover the long-term cost of the EQC scheme;
- 12 **noted** that Crown departments and agencies that own residential property, and currently pay EQC premiums, will be required to pay the higher annual EQC premiums, but may benefit from overall lower insurance premiums depending on the location of the properties they own;
- 13 **noted** that any net increase in Crown department insurance premiums will need to be met from within existing baselines, and any net decrease in insurance premiums will benefit existing baselines;

Legislative implications

- 14 **invited** the Minister Responsible for the Earthquake Commission to issue drafting instructions to the Parliamentary Counsel Office to give effect to the above proposals by regulations under section 36 by way of section 18 of the EQC Act;
- 15 **noted** that the new cap rate will be reflected in the Earthquake Commission Amendment Bill;
- 16 **noted** that the Earthquake Commission Amendment Bill has a category 4 priority on the 2021 Legislation Programme (to be referred to a select committee in 2021);
- 17 **noted** that the Minister Responsible for the Earthquake Commission intends to introduce the Earthquake Commission Amendment Bill by the end of 2021;
- 18 **authorised** the Minister Responsible for the Earthquake Commission to make decisions, in consultation with relevant portfolio Ministers as necessary, and consistent with the policy guidance provided by prior Cabinet decisions, on any additional policy, implementation and commencement, drafting or minor technical issues that arise during the development of the regulations and for the Cabinet Legislation Committee.

Janine Harvey
Committee Secretary

Present: (see over)

Present:

Hon Grant Robertson (Chair)
Hon Dr Megan Woods
Hon David Parker
Hon Poto Williams
Hon Damien O'Connor (via zoom)
Hon Stuart Nash
Hon Michael Wood (part of item)
Hon Dr David Clark
Hon Dr Ayesha Verrall (part of item)
Hon Phil Twyford
Hon Meka Whaitiri (part of item)
Rino Tirikatene MP
Dr Deborah Russell MP

Officials present from:

Office of the Prime Minister
Officials Committee for DEV