

The Treasury

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

October 2021

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No information has been withheld

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Office of the Minister Responsible for the Earthquake Commission

Chair, Cabinet Legislation Committee

Earthquake Commission (Building Cover Cap and Premium) Amendment Regulations 2021

Proposal

- 1 Cabinet recently agreed (CAB-21-MIN-0267 refers) to increase the monetary cap on Earthquake Commission (EQC) building cover from \$150,000 (plus GST) to \$300,000 (plus GST) per dwelling. This is to support residential property insurance that is affordable, available, and appropriately contributes to New Zealand's long-term resilience to natural disasters.
- 2 This paper seeks authorisation to submit to the Executive Council the Earthquake Commission (Building Cover Cap and Premium) Amendment Regulations 2021, which allow for a new EQC Cap and EQC premium rate to apply to all new insurance policies that enter force after 1 October 2022.

Relation to government priorities

- 3 Housing is a Government priority. EQC exists to support a high level of homeowner insurance. High insurance uptake is critical for ensuring people have a home to return to following a natural disaster, maintaining the long-term quality of New Zealand's housing stock, and protecting what is many New Zealanders' largest financial asset.

Background

- 4 The EQC Act provides for capped natural disaster insurance cover for residential buildings and associated residential land against earthquake, volcanic eruption, tsunami, landslip, and hydrothermal activity.
- 5 The EQC residential building cap was originally set at \$100,000 plus GST effective at the beginning of 1994.
- 6 The Canterbury earthquakes and the changes in insurance markets that followed led to the EQC cap being reviewed. Following a Cabinet decision in March 2018, the cap was increased from \$100,000 plus GST to \$150,000 plus GST in July 2019, following policy work that commenced in 2012.
- 7 In December 2019, Cabinet [CAB-19-MIN-0675] agreed that the Treasury should provide advice on prioritised options to address increasing prices in property insurance markets. Cabinet's objective was achieving affordable and available property insurance (particularly in higher risk areas) that can appropriately contribute to New Zealand's long-term resilience.

8 Cabinet has agreed to progress a suite of amendments through a Bill to modernise the EQC Act [CAB-21-MIN-0128 and CAB-21-MIN-0177 refer]. I expect to introduce this bill by the end of the year.

9 I prioritised work on the EQC cap because it aligns with the work currently being undertaken to modernise the EQC Act.

Policy

10 EQC cover is mandatory for residential buildings insured against fire. Private insurers issuing fire policies collect and pass on EQC premiums (the EQC levy is called a premium). Currently the EQC premium is 20 cents (plus GST) for every \$100 of home insurance up to the maximum EQC cover. The maximum annual EQC premium is \$345 (including GST).

11 Cabinet recently agreed (CAB-21-MIN-0267 refers) to increase the monetary cap on Earthquake Commission (EQC) building cover from \$150,000 (plus GST) to \$300,000 (plus GST) per dwelling, to support residential property insurance that is affordable, available, and appropriately contributes to New Zealand's long-term resilience to natural disasters.

12 Cabinet also agreed to set the EQC premium rate at 16 cents (plus GST)¹ per \$100 of EQC building cover, up to a maximum of \$552 (including GST). This new premium rate was agreed because EQC estimate it is sufficient to meet the long-run expected costs of EQC and the EQC scheme at a \$300,000 (plus GST) cap.

13 At any cap level, the revenue received through EQC premiums is to compensate for the risk being borne by the EQC scheme, EQC's expectations of its average annual loss, and the cost to administer the scheme.

14 A cap increase to \$300,000 (plus GST), in combination with the proposed EQC premium rate of 16 cents per \$100 of EQC building cover, would mean each residential dwelling will pay up to \$207 (including GST) extra per annum in EQC premiums.

15 The regulations provided give effect to Cabinet's recent decision and do not contain new policy decisions.

Transitional arrangements

16 The transitional arrangements mean that the new EQC Cap and premium rate will apply to all new insurance policies that enter force after 1 October 2022, and to all existing policies on their next anniversary after that date. This mechanism was sought by insurers for the 2019/20 increase in the EQC cap, as it provides an appropriate transition for contracts on shorter-than-annual renewals, e.g. monthly or quarterly.

¹ The decrease from 20 cents to 16 cents reflects that it is more costly to cover the first \$0-\$150,000 than the next \$150,000-\$300,000

- 17 Insurers, industry bodies and relevant policy agencies were consulted on the decision to increase the cap, but not the transitional arrangements, as the transitional arrangements are based on the 2019 phasing provisions, which insurers were consulted on and supported.
- 18 Insurers requested a lead in time of 18 months. However, I had to balance their desire for this against a need to intervene in a reasonable time to achieve my objectives. Insurers will have 12 months lead in time from the announcement of a new EQC Cap until the new cap is in effect.

Timing and 28-day rule

- 19 The regulations are proposed to come into force on 1 October 2022.

Compliance

- 20 The regulations comply with each of the following:
- 20.1 the principles of the Treaty of Waitangi;
 - 20.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993;
 - 20.3 the principles and guidelines set out in the Privacy Act 2020 (if the regulations raise privacy issues, indicate whether the Privacy Commissioner agrees that they comply with all relevant principles);
 - 20.4 relevant international standards and obligations;
 - 20.5 the Legislation Guidelines (2018 edition), which are maintained by the Legislation Design and Advisory Committee.

Regulations Review Committee

- 21 I am unaware of any grounds for the Regulations Review Committee to draw the regulations to the attention of the House of Representatives under Standing Order 327.

Certification by Parliamentary Counsel

- 22 The draft regulations were certified by the Parliamentary Counsel Office (PCO) as being in order for submission to Cabinet.

Impact Analysis

- 23 A Regulatory Impact Assessment was prepared in accordance with the necessary requirements, and provided to Cabinet to support their decision to increase the EQC Cap (CAB-21-MIN-0267 refers).

Publicity

- 24 I intend to announce Cabinet's decision to increase the EQC Cap before 30 September. This will include a press release, and information on the Treasury's website.

Proactive release

- 25 Following an announcement of Cabinet's decision to increase the EQC Cap, I will proactively release this Cabinet paper in full along with other related documents.

Consultation

- 26 I have consulted extensively with insurers and through the Public Inquiry into the EQC to inform Cabinet's decision to increase the EQC Cap. As the regulations to give effect to this decision are straight forward and the transitional arrangements are based on previous cap increases, I have not consulted specifically on the regulations.

Recommendations

I recommend that the Cabinet Legislation Committee:

1. **note** that on 7 July 2021 the Cabinet Economic Development Committee agreed to increase the monetary cap on Earthquake Commission building cover from \$150,000 (plus GST) to \$300,000 (plus GST) per dwelling, and to set the EQC premium rate at 16 cents (plus GST) per \$100 of EQC building cover, up to a maximum of \$552 (including GST) effective for all insurance policies from 1 October 2022 [CAB-21-MIN-0267];
2. **note** that the proposed transitional arrangements mean that the new EQC Cap and premium rate will apply to all new insurance policies that enter force after 1 October 2022, and to all existing policies on their next anniversary after that date;
3. **note** that the Earthquake Commission Amendment Regulations 2021 will give effect to the decision referred to in recommendations 1 and 2 above;
4. **authorise** the submission to the Executive Council of the Earthquake Commission Amendment Regulations 2021; and
5. **note** that the Earthquake Commission Amendment Regulations 2021 come into force on 1 October 2022.

Authorised for lodgement

Hon Dr David Clark

Minister Responsible for the Earthquake Commission