The Treasury

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

October 2021

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https://www.treasury.govt.nz/publications/information-release/proactive-release-treasury-advice-related-increase-eqc-residential-building-cap

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Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

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

[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

[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[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;

[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

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [25] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

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Additional Information

ICNZ would like to clarify in respect of their view on the level of cap that they do not have a preference for a particular cap amount. A common view shared by all ICNZ members is that the larger an EQC cap increase is, the greater the potential for distortion and unintended consequences. They believe there are a range of complex and connected considerations, including how risk is best treated, that need to be robustly evaluated on the facts before a decision can be appropriately made about any cap increase. They have raised this with the Minister Responsible for the EQC and the Treasury.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Property insurance: options for further work

Date:	3 October 2019	**Report No:**	T2019/2933
		File Number:	SH-11-4-3-4-7

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson) **Minister Responsible for the Earthquake Commission** (Hon Grant Robertson)	**direct** the Treasury to work with other agencies and insurers to identify opportunities for more coordinated or enhanced provision of information to the public about insurance and property risks. **agree** that further work to improve insurance affordability and availability by making changes to EQC, or related options, be considered as part of that the EQC Act Review. **indicate** whether you want advice on a moderate flat-rate, across-the-board increase to the EQC cap (that is, lifting the EQC cap from the current $150,000 to between $200,000 - $300,000), with a view to implementing the increase as soon as possible.	10 October 2019

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Sam Thornton	Senior Analyst, Financial Markets	[39] [35]	✓
Daniel Jury	Senior Analyst, Financial Markets		
Robbie Taylor	Team Leader, Financial Markets		

Minister's Office actions (if required)

Return the signed report to the Treasury.

Refer this report to the Community Resilience Ministers and other Ministers with related portfolios.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Property insurance: options for further work

Executive Summary

This report is the third in a series of briefings to you about addressing pricing and availability issues for residential property insurance that covers earthquake risk. You have indicated that you intend to seek in-principle agreement from Cabinet in November 2019 that further work be undertaken on prioritised options for addressing these issues, focussing on two main objectives:

- facilitate better public understanding of insurance and property risks to help people manage their risks; and
- ensure that property insurance is affordable and available[1] (particularly in higher risk areas) and can appropriately contribute to New Zealand's long-term resilience.

Property insurance plays a significant role in managing the risks of natural disasters, including earthquakes. Increases in insurance prices and the reduction in availability could reduce its contribution. A small proportion of properties – multi-unit buildings (MUBs) and some high-risk/high-value houses – appear to be facing significant increases in prices, which may place pressure on their owners. These findings are based on limited and incomplete information, but we are continuing to seek further information about what is happening.

Facilitate better public understanding of insurance and risks

Improving public understanding of insurance and risks could improve decision making about where to buy property, mitigating risks, and the coverage required. It is relatively difficult for the public to ascertain the riskiness of properties from an insurance perspective and how that affects the cost of insurance.

We recommend that the Treasury work with other agencies to identify opportunities for more coordinated or enhanced provision of information to the public about insurance and property risks. This includes information about hazards, financial literacy regarding insurance, and information from insurers about how risks impact insurance pricing and availability. We will report to you by March 2020. If insurers do not provide further information about risk and insurance pricing, we will provide advice on options (e.g. regulation) to require insurers to provide information.

Ensure that property insurance is affordable and available (particularly in higher risk areas), and can appropriately contribute to long-term resilience

Risk reduction supports insurance availability and affordability, and resilience over the long-term

The Government has a range of levers for reducing the exposure and vulnerability of the built environment to natural hazards (including regulatory systems that influence where buildings are built), which contribute to insurance affordability and availability, and resilience, over the long-term. If you want to ensure that the Government is progressing policies for optimal risk reduction, we recommend that you continue to engage in the Community Resilience Group of Ministers.

A flat across-the-board increase to the Earthquake Commission (EQC) cap is a promising option to improve the affordability and availability of insurance for existing buildings

In relation to the current insurance issues facing existing buildings, it appears that the most promising option at this stage is reallocating risk through a flat across-the-board increase to the EQC on residential buildings (houses and MUBs). A flat-rate EQC premium (as is the case now) would have the effect of increasing the cross-subsidisation of higher risk properties and regions by

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[1] We have not formed a view as to whether a particular premium level or a particular number of insurers offering cover for a property is 'affordable' or sufficiently 'available'. Rather, we have considered whether and to what extent a policy intervention may impact the price of insurance or the number of insurers offering cover.

lower risk properties and regions (and hence on average is expected to increase affordability and availability for the former). However, there is significant uncertainty as to the effectiveness and potential impacts (including unintended consequences) of this policy intervention, and whether it is preferable to the status quo.

We recommend that further work on lifting the EQC cap be considered as part of the EQC Act Review over 2020/21 when the design features and role of EQC are considered. If considered as part of the Review process, the earliest any increase in the EQC cap could take effect would be 1 July 2022 (or potentially 2023, depending on the progress of the Review).

If you wish to move more quickly than the EQC Act Review, we can provide further advice on implementing a moderate increase to the EQC cap sooner

We can provide you with further advice by mid-October 2019 seeking your decision on lifting the EQC cap from the current $150,000 to $200,000 - $300,000, with a view to you seeking Cabinet approval in November 2019 for the change. The early indication from the Insurance Council of New Zealand (ICNZ) is that insurers would need at least one year advance notice to implement an EQC cap increase (e.g. to make changes to their systems), implying an increase no sooner than about 1 January 2021. However, we could test with insurers' their ability to deal with a shorter lead time. Even putting aside insurer lead times, the soonest an increase in the EQC cap could occur is 1 July 2020, as the current transition to the $150,000 cap runs until 30 June 2020.

We do not recommend further work on other more targeted options at this stage

If you wish to consider interventions that are more targeted at higher-risk properties, there are three main options:

- Targeted changes to EQC – including increasing the EQC building cap for higher-risk residential buildings and reviewing the EQC definition of a residential building in response.
- Government provision of natural hazard insurance to insurers (reinsurance), targeted at higher-risk residential buildings or regions.
- Subsidies to building owners with major insurance affordability problems for insurance costs or seismic resilience improvements.

We do not recommend further work on the above options at this stage. Targeted options are likely to be complex to define and justify who is in and out, with significant equity implications. The targeted changes to EQC and a new Government natural hazard reinsurer would be more complex to implement (requiring legislative change or potentially establishing a new entity, respectively), compared to increasing the EQC cap (which can be implemented by regulation). Similarly, these options also risk a precedent that the Government will support insurance affordability and availability, and adaptation, for properties subject to other significant non-seismic natural hazards, including hazards exacerbated by climate change.

Next steps

We would like to meet with you to discuss this report. We will prepare a Cabinet paper for you to take to Cabinet in November 2019 that reflects your decisions. You have a range of options for announcements following the November 2019 Cabinet paper, including announcing a future review of the EQC Act.

Recommended Action

We recommend that you:

a. **note** that your decisions from this report will form the basis of the paper you intend to take to Cabinet in November 2019 seeking in-principle agreement to further explore options for addressing property insurance market issues

Improving information for consumers about insurance pricing

b. **direct** the Treasury to work with other agencies and insurers to identify opportunities for more coordinated or enhanced provision of information to the public about insurance and property risks, including information from insurers about how risks impact insurance pricing and availability, and report back to you on by March 2020.

Agree/disagree

c. **agree** that if insurers do not provide further information about risk and insurance pricing, the report back referred to in recommendation b will provide advice on regulating to require insurers to provide this information.

Agree/disagree

Options to explore further for improving the affordability and availability of insurance for high risk properties

d. **note** that a review of the EQC Act is planned for 2020/21, which is intended to consider core policy and design features of the EQC Act.

Preferred option

e. **agree** that further work to improve insurance affordability and availability by making changes to EQC or related policies, be considered as part of the EQC Act Review over 2020/21.

Agree/disagree

Preferred option if you want to move more quickly than the EQC Act Review

f. **indicate** whether you want advice on a *moderate* flat, across-the-board increase to the EQC cap (that is, lifting the EQC cap from the current $150,000 to between $200,000 - $300,000), with a view to implementing the increase as soon as possible (**not recommended, but preferred option if you want to move more quickly than the EQC Act Review**).

Yes/no

Other options if you want to move more quickly than the EQC Act Review (not recommended)

g. **indicate** if you want to explore increasing the EQC monetary cap on buildings for certain regions or types of buildings, including multi-unit buildings, Wellington buildings, and/or existing buildings in advance of the EQC Act Review (**not recommended**).

Yes/no

h. **indicate** whether you want to explore government provision of insurance to insurers (reinsurance), targeted at higher-risk residential buildings or regions, in advance of the EQC Act Review (**not recommended**).

Yes/no

i. **indicate** whether you want to explore government subsidies to building owners with major insurance affordability problems for insurance costs or seismic resilience improvements (**not recommended**).

Yes/no

j. **note** that if you decide to progress any of the options in recommendations g-i, we will provide further advice at the end of October 2019 on timeframes and the implications for the EQC Act Review.

Announcements

k. **indicate** whether you want further advice on a high-level announcement you could make in December 2019 on a future review of the EQC Act, which does not pre-empt or exclude issues that may be raised in the final report of the Public Inquiry into the EQC (due by March 2020) (**not recommended**).

Yes/no

l. **note** the proposed outline for your speech to the Insurance Council of New Zealand conference on 5 November 2019 in Appendix Two.

Next steps

m. **agree** to discuss this report with the Treasury.

Agree/disagree

n. **refer** this report to:

- the Community Resilience Ministers (the Minister of Local Government, the Minister of Civil Defence, and the Minister for Climate Change),and
- other Ministers with related portfolios (the Minister for Building and Construction, the Minister of Commerce and Consumer Affairs, and the Minister for Land Information).

Refer/not refer

Robbie Taylor
Team Leader, Financial Markets

Hon Grant Robertson
Minister of Finance
Minister Responsible for the Earthquake Commission

Treasury Report: Property insurance: options for further work

Purpose of Report

1. This report seeks your agreement that further work be undertaken on select prioritised options for addressing pricing and availability issues for private property insurance that covers earthquake risk for residential houses and multi-unit buildings (MUBs).

2. In doing so, this report provides high-level advice on the relative merits of a wide suite of potential options to meet your objectives.

Background

3. On 7 August 2019 the Cabinet Economic Development Committee (DEV) invited the Minister of Finance and the Minister Responsible for the Earthquake Commission to report to DEV in November 2019 on the extent and cause of changes in property insurance markets, and to seek in-principle agreement on recommended or prioritised options to improve or maintain property insurance uptake (refer DEV-19-MIN-0208).

4. As a result, you have directed the Treasury to: (i) obtain more comprehensive information on property insurance, pricing, and availability; and (ii) to explore options for addressing any identified problems.

5. We provided you with initial advice in two reports on 29 August 2019 on:

   a market trends and possible objectives for this work (refer T2019/2234), and

   b a policy framework for government-sponsored natural hazard insurance or reinsurance schemes, including a range of possible interventions (with illustrative international examples) (refer T2019/2590).

6. You subsequently confirmed your objectives for this work (see next section below).

7. This report is the third in this series of briefings. It seeks your agreement that further work be undertaken on select prioritised options. You then intend to obtain in-principle agreement from Cabinet in November 2019 to undertake this work.

8. The analysis and options in this report relate to current, short-term trends in insurance markets (which appear to primarily relate to seismic risk). This report does not consider the impact of, or solutions to, longer-term trends or risks in insurance markets (for example, a significant reduction in reinsurance availability or the impact of risk exacerbated by climate change).

The role of property insurance, what is changing, and why

The role of property insurance

9. Natural disasters, including earthquakes, are a significant risk for New Zealand. The risks (and ultimate costs) are borne by property owners, the Crown, insurers, reinsurers, and society at large in varying degrees. It is important that these risks are managed effectively and efficiently to maximise the living standards of New Zealanders.

10. Property insurance provided by the private sector currently plays an important role in managing these risks (alongside other mechanisms like EQC and building rules). For example, property insurance contributes to New Zealand's resilience (e.g. via the '4 Rs': reduction, readiness, response, and recovery), reduces uncertainty for property owners and the Crown, and reduces the implicit liability to the Crown (e.g. of providing ad hoc financial assistance after an event). The extent to which property insurance contributes to resilience will change if the number of under-insured or uninsured properties increases. Insurance can also impact the property market and investment (insurance is generally a condition of mortgage lending).

What is changing and why

11. We previously provided advice on what is happening in the property insurance market and why (refer T2019/2234). This advice was based on limited and incomplete information. In summary:

    a It appears that insurance premiums have increased in high-seismic risk regions such as Wellington (moderately on average, but significantly for MUBs and a small proportion of high-risk/high-value houses). It also appears that availability has declined in high-seismic risk regions, but we have seen no evidence yet of properties having no access to insurance. The available evidence suggests these changes have not resulted in any material increase in the number of uninsured properties at this stage. We have no information about how underinsurance may have changed as a result of the changes in the insurance market. We expect average affordability and availability to worsen in the near term, but longer term impacts are uncertain.

    b These changes, at least in part, appear to be caused by insurers' better understanding of risk and the damage that can be caused by seismic activity[2] and insurers increasingly allocating the risk posed by higher risk properties to those properties (i.e. greater risk based pricing). Some large insurers also appear to be reaching the maximum level of exposure to Wellington risk they are willing to take on given reinsurance buying requirements.[3]

We are seeking further information on what is happening

12. Further information would assist us in providing future advice. We are currently exploring how to gather further data. We recently commissioned a research survey of freehold residential owner-occupied buildings to better understand the availability of property insurance in Auckland, Wellington, and Christchurch. We will report to you on the findings in late October 2019. For MUBs, we currently only have limited anecdotal information. We do not have comprehensive information about the uptake, price, availability, and level of underinsurance. Insurers and brokers have so far been unwilling or unable to provide data. We are currently exploring a survey of body corporate chairs to acquire this information (building off their earlier survey of 30 Wellington buildings and 16 Auckland buildings), potentially in conjunction with the Wellington Insurance Taskforce. We will keep you updated on progress.

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[2] Some risk models used by insurers to help price risk (e.g. the RMS and AIR models) are updated infrequently (e.g. at 10 year intervals), which could be contributing to more jarring shifts in insurance prices.

[3] We have been told that, given the significant risks and costs of a Wellington seismic event, the amount of catastrophe reinsurance that some large insurers need to buy for their entire group is driven by their Wellington exposures. Increasing exposures in Wellington would require an increase in the reinsurance held by the entire group, and it would not be feasible to try and pass on these extra costs to Wellington insureds.

13. To obtain more comprehensive information about house insurance uptake, and potentially ongoing monitoring, we are exploring the development of a joint research project with ICNZ and insurers. Given the commercially sensitive nature of a lot of the information required, we will work with the insurers to try and find a level of information detail that is agreeable to both sides. The EQC has powers under the EQC Act to compel insurers to supply similar information, which could be considered if necessary.

The concentrated market structure of the insurance industry may be important

14. The concentrated market structure of the insurance industry, combined with insurers managing their exposure to high risk areas, could be a factor in the changes in pricing and availability. It may also affect the effectiveness of possible policy interventions (e.g. the pass through of the impact of EQC changes). The three main insurers (IAG, Suncorp and Tower) cover 85 percent of the New Zealand consumer market for property insurance (refer T2019/1337). The level of competition for some particular properties may be lower than this suggests as not all insurers offer cover for all properties.

15. We do not have sufficient information to judge the influence of market structure or competition dynamics. Further information could be obtained via a Commerce Commission-led market study. The Minister of Commerce and Consumer Affairs recently wrote to you and other Ministerial colleagues asking which industries might be good candidates for a Commerce Commission market study to commence next year. This is an opportunity to put forward the residential property insurance market, although there may be other industries that also merit a market study, eg supermarkets. The Treasury will provide advice to you on which options we recommend putting forward. The Minister of Commerce and Consumer Affairs has requested proposals by 11 October 2019.

Your objectives for this work

16. We previously gave you advice on possible objectives for this work (refer T2019/2234). Following that advice, you asked for further advice on which select prioritised options we recommend investigating further that:

    a facilitate **better public understanding** of insurance (e.g. costs, availability, and risk-factors) and property risks to help people manage their risks and promote confidence in the insurance market, and

    b ensure that property insurance is **affordable and available** and appropriately contributes to New Zealand's **long-term resilience** (i.e. the 4Rs – reduction, readiness, response, recovery) against all natural hazards, including hazards exacerbated by climate change.

17. You asked us to also consider: (i) fiscal costs and risks; and (ii) potential precedent risks (e.g. for how the Government may deal with climate change risks).

18. You also confirmed that residential houses and MUBs should be the focus of this work.

19. We consider that: (i) *distributional impacts*; (ii) *implementation complexity*; and (iii) *wider unintended consequences (not just potential precedent risks)* are important, so have also considered these in our assessment of the merits of the options.

Facilitate better public understanding of insurance

20. This section sets out our advice on facilitating better public understanding of insurance (e.g. costs, availability, and risk-factors) and property risks to help people manage their risks.

21. Public understanding of insurance and risks could be improved. It is relatively difficult for the public (particularly property owners and prospective owners) to ascertain the riskiness of properties from an insurance perspective. We also hear that consumers do not understand what risks drive insurers' decisions about pricing and availability of insurance. There is also evidence that a significant proportion of the public do not understand their insurance policies (e.g. a recent Consumer New Zealand survey found that less than half of consumers surveyed understood the terms and conditions of their insurance policies).

22. Improving public understanding of insurance and risks would improve decision-making about where to buy property, how to reduce or mitigate their property risks, and how much and the nature of the insurance they need. It is also likely to increase community resilience by encouraging property owners to take steps to mitigate their property's exposure to natural hazard risk (including seismic risk) and encourage insurance uptake.

23. We consider that there are three main types of information that is important for public understanding of insurance and property risks:

    - **The hazards associated with particular areas or properties** (e.g. hazard maps, the risks associated with properties is provided by local government in Land Information Memoranda),
    - **How insurance works generally (i.e. financial literacy)** (e.g. how different levels of excesses can affect pricing and the importance of 'sum insured'), and
    - **How risks impact insurance pricing and availability** (e.g. how hazards and property characteristics influence insurance pricing and availability).

24. In relation to the first two types of information above, the government already plays a significant role. For example, central and local government provide information about local area hazards and the Government supports programmes to improve financial literacy (e.g. through the Commission for Financial Capability).

25. Information about how risks impact insurance pricing and availability, however, is primarily held by insurers. ICNZ has acknowledged that the insurance industry could improve its communications to the public about changes in the insurance market toward more granular risk-based pricing. We propose that we write to insurers and ask them to advise what actions they intend to take to improve the public's understanding of how risks impact insurance pricing and availability. We also propose engaging with other government agencies that provide information about hazards and financial literacy to test whether there are opportunities to coordinate and improve across the three types of information. For example, the Department of Internal Affairs (DIA) is currently scoping a project looking at the disclosure regime that informs property purchases. This will include consideration of both information about what has happened to a property in the past and information about forecasts of potential risks.

26. We will report back to you by March 2020 about the information that insurers are willing to provide (both to the government and to customers) and what opportunities there are for more coordinated or enhanced provision of information to the public about insurance and property risks.

27. If insurers are reluctant to provide information, an alternative option would be for the Government to regulate to require insures to provide this information. Depending on the kind of information being sought (and whether the information is intended to be provided

by insurers directly to customers or to the Government to provide to the public), requirements could be introduced under the insurer conduct licensing regime being developed by the Ministry of Business, Innovation and Employment (MBIE) and recently approved by Cabinet (although any solution will also need to recognise the role of brokers in providing information). EQC's information seeking powers is also an option that could be explored to encourage insurers to provide information. If insurers do not provide further information about risk and insurance pricing, the report back referred to above will provide advice on options (e.g. regulation) to require insurers to provide information.

Ensure that property insurance is affordable and available (particularly in higher risk areas) and can appropriately contribute to long-term resilience

28. This section sets out our advice on options to explore further to ensure that property insurance is affordable and available (particularly in higher risk areas) and can appropriately contribute to New Zealand's long-term resilience (i.e. the 4Rs – reduction, readiness, response, recovery).

Risk reduction supports insurance availability and affordability, and resilience over the long-term

29. The most effective and efficient way for the Government to improve the affordability and availability of property insurance over the long term is by influencing the development of more resilient and lower risk new buildings. The Government has a range of levers for reducing the exposure and vulnerability of the built environment to natural hazards, including regulatory systems that influence where buildings are built. For example, the Government is currently undertaking work to improve our management of risk through:

    a the review of the Resource Management Act 1991 (one of the objectives of which is to ensure the system has sufficient resilience to manage risks posed by climate change and other natural hazards),

    b work being undertaken by the Ministry for Business Innovation and Employment (MBIE), Engineering New Zealand, and the Structural Engineering Society to support enhanced resilience in New Zealand's built environment,

    c carrying out national climate change risk assessments, which is a requirement under the Climate Change Response (Zero Carbon) Amendment Bill, and

    d the development of options to support seismic strengthening (via tax and non-tax measures) to lift the New Building Standard (NBS) rating of buildings.

30. Much of the work to improve New Zealand's management of natural hazard risk (including adaptation to risks that are exacerbated by climate change) is coordinated through a joint central and local government work programme to enhance community resilience. This work programme is led by a Ministerial Group on Community Resilience, of which you are a member.

31. In addition, policies that encourage risk reduction (e.g. planning rules and enhanced information about risk) are an important complement to any insurance market intervention that could blunt insurance price signals.

32. The Community Resilience Ministers intend to report back to Cabinet on the scope, direction, and progress of the joint work programme in October 2019. The October 2019 Cabinet paper on the community resilience work programme is an opportunity to consider the overall work programme.

Improving the affordability and availability of insurance for existing buildings

33. Policies to reduce risk over the long-term can improve insurance affordability and availability, but the impact is generally more effective at managing flow of new risk (e.g. new housing developments) compared to managing the risk associated with existing developments.

34. The Government has two broad ways to improve the affordability and availability of insurance for existing buildings:

    a Government reallocates risk. For example, it could regulate insurance product offerings to shift how insurers allocate risks, or take on risk itself. This can improve both insurance availability (by freeing-up capacity for private insurers) and/or affordability (as government controls on how the cost of risk is allocated).

    b Government contributes to insurance costs, either directly by subsidising insurance premiums or indirectly by supporting improvements to the resilience of existing buildings.

35. There are a range of options for each type of intervention above. Our analysis of the costs and benefits of the main options are set out below. Appendix One provides a table to compare between the options.

A flat across-the-board increase to the EQC monetary cap on residential buildings is the most promising option

36. The Government could increase the EQC cap to various levels, including a moderate (raising the cap to between $200,000 and $300,000) or larger increase.

37. Increasing the EQC cap reallocates risk and impacts different groups in different ways. It will improve affordability and availability in higher risk areas and building types by increasing the cross-subsidisation of risk (assuming the continuation of a flat-rate EQC premium). This is expected to increase total premium costs in low-risk areas. The flat-rate EQC premium has the effect of cross-subsidising higher risk properties and regions. However, the extent to which increases in the EQC cap translate into lower private insurance premiums for higher-risk properties is not known [34]

38. The impact on overall resilience is unclear. The impact depends on the extent to which the increase in the EQC cap contributes to maintaining readiness via more widespread insurance coverage (compared with what would otherwise be expected), compared to the impact of reducing risk reduction via blunting risk price signals that incentivise that behaviour.

39. We think that reallocating risk through the EQC is likely to achieve your objectives more effectively, in a more cost-effective manner, with fewer significant unintended consequences, than alternative options such as regulating insurers' product offerings or establishing a government insurer or reinsurer.

40. A review of the EQC Act has started and is planned to continue during 2020/21, and is intended to consider design features of the EQC Act. We recommend that further work on lifting the EQC cap be considered as part of the EQC Act Review over 2020/21 when the boarder strategic questions about the role of EQC are considered. Further work on this option would involve investigating whether increasing the EQC cap would be effective in improving affordability and availability for high-risk properties such as Wellington MUBs, the extent of the impact on incentives for risk reduction (and potential mitigations), and the impact on the private insurers' willingness to offer 'top-up' cover for EQC-covered risks above the EQC cap. As EQC cap increases, it is unclear exactly how insurers might respond. Through the Review process, the earliest any increase in the EQC cap could

take effect would be 1 July 2022 (or potentially 2023, depending on the progress of the Review).

If you want to move more quickly to increase the EQC cap sooner than the EQC Act Review

41. If you want to increase the EQC cap sooner than the EQC Act Review, we can provide you with further advice by mid-October 2019 seeking your decision on a *moderate* increase to the EQC cap (that is, lifting the EQC cap from the current $150,000 to between $200,000 - $300,000), with a view to you seeking Cabinet approval in November 2019 for the change.

42. The early indication from ICNZ is that insurers would need at least one year advance notice to implement an EQC cap increase (e.g. to make changes to their systems), implying an increase no sooner than about 1 January 2021. The extended implementation periods are in part to enable insurers' (and EQC's) annual reinsurance contract renewals to reflect the new caps on EQC cover. ICNZ has also indicated a preference for a smaller increase to the EQC cap (i.e. to $200,000). We could test with insurers' their ability to deal with a shorter lead time. Even putting aside insurer lead times, the soonest an increase in the EQC cap could occur is 1 July 2020, as the current transition to the $150,000 cap runs until 30 June 2020.

Other more targeted options if you want to move more quickly than the EQC Act Review (not recommended)

43. If you wish to consider interventions that are more targeted at higher-risk properties, there are three main options:

    a Targeted changes to EQC – including increasing the EQC building cap for higher-risk residential buildings and reviewing the EQC definition of a residential building in response.

    b Government provision of natural hazard insurance to insurers (reinsurance), targeted at higher-risk residential buildings or regions.

    c Subsidies to building owners with major insurance affordability problems for insurance costs or seismic resilience improvements.

44. We do not recommend further work on the above options at this stage. Targeted options are likely to be complex to define and justify who is in and out, with significant equity implications. The targeted changes to EQC and a government natural hazard reinsurer would be more complex to implement (requiring legislative change or establishing a new entity, respectively), compared to increasing the EQC cap (which can be implemented by regulation).

45. Similarly, the targeted options risk a precedent that the Government will support insurance affordability and availability, and adaptation, for properties subject to other non-seismic natural hazards, including those exacerbated by climate change. Adjusting an existing intervention (lifting the EQC cap across-the-board) is less likely to create a difficult new precedent.

46. As noted above, the broad review of the EQC Act is intended to consider the core policy and design features of the EQC Act. Accordingly, we suggest considering significant changes to EQC or related policies (such as lifting the EQC cap, targeted EQC caps, or government reinsurance) as part of that the EQC Act Review over 2020-2021 when the boarder strategic questions about the role of EQC are considered.

Targeted changes to EQC – including increasing the EQC building cap for higher-risk residential buildings and reviewing the EQC definition of a residential building in response

47. The monetary cap for EQC building cover, recently increased to $150,000, could be further increased to target buildings that appear to be facing particular insurance affordability and availability issues, for example Wellington buildings, or MUBs, or MUBs in Wellington, or just existing residential buildings in the categories mentioned (to maintain insurance price incentives to construct new buildings to be resilient). The increased cap could be funded by either the general EQC levy or a targeted levy paid by those accessing the higher EQC cap.

48. More targeted changes to EQC's caps and/or funding need to weigh up the advantages of a more targeted change against the resulting complex policy, administrative and precedent issues. This would also need to be balanced against equity issues associated with the pooling and pricing of defined and specific risks across a wide population of policy holders.

49. A key aspect of EQC is flat-rate pricing across residential buildings in New Zealand. Modifying the cap for particular types of buildings/regions is a significant policy departure from the current design (which would require amending the EQC Act). Therefore this option would best be explored within the broader policy work supporting the review of the EQC Act. Our assessment at this stage is that we are unlikely to recommend moving away from the current flat-rate design of the scheme. It would be very difficult to defend asymmetric EQC coverage to any individuals or communities that suffer natural disaster losses and are disadvantaged compared to claimants in regions or buildings with greater EQC entitlements.

Government provision of natural hazard insurance to insurers (reinsurance), potentially targeted at higher-risk residential buildings or regions

50. The Government could provide reinsurance for higher-risk properties. Some government reinsurance structures have similar effects to targeted changes to EQC discussed above (by shifting risk to the Government), but may have lower complexity and cost.

51. We have not identified issues with the availability of treaty reinsurance (the reinsurance that covers layers of an insurer's entire portfolio of properties). Instead, the issue appears to be that insurers' level of Wellington exposure can drive the amount of reinsurance they need to buy for their entire portfolio (spanning both New Zealand and Australia, in the case of trans-Tasman insurers), and therefore they have a maximum aggregate exposure to the Wellington region that they do not want to exceed. Low capacity for Wellington risk appears to exist because the large insurers are near the maximum level of exposure to Wellington risk they are willing to take on given the level of reinsurance they have purchased.

52. Accordingly, potential options for government provision of natural hazard reinsurance are targeted at addressing these issues rather than standard reinsurance availability. Potential structures include the Government taking on natural hazard risk from insurers through:

    a a 'quota share' via commercial agreement (sharing risk and premium of a given percentage of insurance portfolios) in the Wellington region,

    b a 'surplus share' via commercial agreement (sharing risk and premium of insurance portfolios, with government taking the risk above a defined level of loss on a per-building basis) in the Wellington region,

    c taking on risks in excess of a 1:1000 year natural hazard loss for a premium via commercial agreement, or

    d providing 'facultative reinsurance' (providing reinsurance to insurers for specific MUBs) in return for a premium via commercial agreement.

53. The fiscal impacts of reinsurance options would depend on the amount of risk government accepted, and whether the Government kept the risk (taking on very high contingent liabilities), bought reinsurance from a third party, or used alternative risk transfer mechanisms (e.g. parametric insurance). Any final pricing impact for consumers would also depend on the extent to which these changes resulted in different reinsurance allocation decisions made by private insurers that purchase reinsurance at the Australasian group-level (and allocate a portion to New Zealand), such as IAG and Suncorp.

54. We do not recommend further work on targeted reinsurance options at this stage. We expect that lifting the EQC monetary cap on buildings would have a similar effect to government reinsurer options (as it shifts risk from insurers to the Government, thereby freeing up capacity for insurers), but is less complex to implement. In addition, the targeted reinsurance options are likely to involve boundary issues that are difficult to justify and define (i.e. property owners in different regions seeking a broadening of the cover to improve their own affordability), distortion of the market in unintended ways (e.g. enabling incumbent insurers to grow at the expense of smaller players), and difficulty with unwinding. They also set a precedent of government stepping in to take on (and potentially subsidise) private risk when insurance becomes expensive in particular high-risk areas. Further consideration of government reinsurer options could be explored within the broader policy work supporting the review of the EQC Act.

Subsidies to building owners with major insurance affordability problems for insurance costs or seismic resilience improvements

55. The government could provide targeted and time-limited funding for properties with significant insurance issues. For example:

    a The Government could provide **subsidies to building owners with major insurance affordability problems**. The overall impact of this option on insurance affordability would depend on the design of the subsidy (e.g. the size of the subsidy, whether it is narrowly targeted, and whether it is time-limited). It is unlikely to affect the availability of insurance. The design choices, including the size of any subsidy, would determine the fiscal cost. The main risks are precedent, and that it would increase demand for insurance (that is, customers' willingness to pay more for insurance), which in turn could increase the average price of property insurance generally (given supply constraints).

    b The Government could provide **subsidies to assist seismic resilience of existing buildings**. The Government is currently developing options to support seismic strengthening (via tax and non-tax measures) to lift the New Building Standard (NBS) rating of buildings. This includes a suspensory loan scheme to assist unit title holders to finance seismic strengthening. Strengthening buildings to lift the NBS rating is a regulatory requirement. The NBS focuses on life risk, which means seismic strengthening for the purposes of raising the NBS may not have a corresponding lowering of expected insured loss and therefore insurance premiums. Additional government funding for improvements to reduce the risk of seismic damage could improve insurance affordability and availability, but the impact on insurance affordability and availability would depend on engineering feasibility and insurers' willingness to provide premium discounts, which we are not confident about.

56. While subsidies can be targeted and time-limited, there are significant equity, boundary, and precedent issues. It would be difficult to define and justify why certain property owners should qualify to receive subsidies, while others should not. There would also be pressure to provide benefits to property owners for non-seismic insurance issues, such as flooding, which are likely to be exacerbated by climate change. For these reasons we do not recommend further work on insurance subsidies or funding for improvements to private properties to reduce the risk of seismic damage for insurability purposes.

Other options not recommended

Government insurer

57. The Government could establish a **new retail insurer** (or purchase and grow an existing retail insurer) that could provide additional competition and capacity to property insurance markets, particularly in high risk regions. However, we do not recommend this option because it would likely have some similar effects to the option to increase the EQC cap for certain properties and some of the reinsurance options. It is less targeted at natural hazard risk, and would likely come with greater financial cost and operational complexity than the EQC and reinsurance options. In addition, the option could encourage established insurers to reduce their insurance offering in higher-risk areas to focus on lower risk areas, and the new insurer could face public pressure to provide affordable cover to high-risk properties. This could potentially lead to the insurer having a risky portfolio with associated performance, profitability, and solvency issues.

Regulate to compel flat-rate pricing of seismic risk

58. The Government could **regulate insurers to compel greater flat-rate pricing of seismic risk**. This would require heavy regulation of multiple dimensions of core features of insurers' product offerings, including the provision of cover, the nature of the cover, and the pricing of cover (e.g. the granularity of insurance pricing). This may be of limited effectiveness and is a high-risk policy with potential for significant unintended consequences. The effectiveness would likely be compromised by insurer responses to regulation (e.g. tightening underwriting requirements further), and increased insurers' perceptions of regulatory risk reducing their appetite for, or increasing the pricing of, New Zealand risk. The more ambitious the regulation, the greater the risk of confounding price or availability responses from insurers (per California following the 1994 Northridge earthquake where insurers ceased to provide earthquake cover – refer T2019/2590).

59. In comparison to regulating insurer pricing and offerings, a flat increase in the EQC cap is administratively simple (the simplest of any option except the status quo) but can increase the extent of flat-rate pricing of insurance.

Buyer compulsion

60. The Government could **require property owners to buy insurance**, but it will not improve insurance affordability. It may have significant negative financial impacts on property owners who are unable to insure due to affordability issues or choose not to for other reasons. Property owners already have strong preferences and incentives to purchase property insurance (e.g. mortgage terms requiring insurance).

Lower the solvency requirements on insurers

61. We are unsure whether **lowering the solvency requirements on insurers** would have a material positive impact on insurance availability in Wellington or elsewhere (based on initial conversations with insurance industry stakeholders), as insurers may continue to hold the same level of capital for their own business reasons. However, if insurers did reduce the levels of capital they hold, it could increase financial stability risks (such as the risk of insurer failure). Setting regulatory capital levels is a responsibility of the Reserve Bank, and the Government currently has limited influence over this process. An upcoming review of the Insurance (Prudential Supervision) Act 2010 is planned, but the timing of this is uncertain.

Reduce government demand for insurance

62. The Government could **reduce the amount of insurance it purchases** (and instead self-insure) to free-up capacity for the private market. This option is unlikely to be effective at improving insurance affordability and availability as residential insurance and government

assets different risk profiles, many government assets are not in high risk areas, and government insurance has higher excesses.

63. MBIE is currently considering a pooled government insurance procurement model that may achieve this effect. Although a pooled government insurance may be ineffective at improving the private market insurance availability and affordability, it may improve the government's management of risk and provide cost savings.

Parametric insurance and catastrophe bonds

64. Parametric products[4] and catastrophe bonds are alternative options for the Government (including EQC), or private insurers, when considering how best to finance risk, but they do not directly affect affordability or availability of property insurance. If we proceed with further work on a higher EQC cap or other options that increase the risk carried by the government, we can also investigate alternative risk financing options to potentially help manage the increased risks.

65. Parametric insurance and catastrophe bonds are generally not available directly to, nor suitable for, homeowners as they do not insure against actual loss.

Other matters

Advice on changes to the Unit Titles Act

66. The Ministry of Housing and Urban Development (HUD) is preparing advice to you on the Unit Titles Act (UTA) requirement for body corporates to insure to full insurable value. HUD will brief you by the end of October 2019. This advice responds to your request for advice on options to amend the UTA to allow body corporates to take out indemnity value insurance, even if full replacement value insurance is available (but with protections for unit title holders who would prefer full replacement value).

Insurance brokers

67. Discussions at the Wellington Insurance Taskforce have raised concerns about the lack of clarity of commissions charged by insurance brokers, and whether brokers are acting in customers' best interests. Many residential property insurance policies are arranged by brokers acting for the property owner and receiving a commission from the insurer.

68. Insurance brokers are regulated primarily under the recent changes to the Financial Markets Conduct Act (FMCA) that were brought in under the Financial Services Legislation Amendment Act (FSLAA). Under the FSLAA regime, brokers must operate under a licence granted by the Financial Markets Authority (FMA), comply with a code of conduct, meet competence, knowledge and skill standards and prioritise their client's interests if they have a conflict of interest. Insureds are not normally aware of the level of commission that a broker receives on their premium - generally, insurance brokers invoice a property for an overall "amount due" (which includes the premium and commission) and only itemise taxes and levies. MBIE is working on regulations under the FSLAA regime that will require disclosure by brokers of any commissions, incentives, or conflicts of interest that could be perceived by a client to materially impact advice.

69. Moreover, the recently announced conduct regulation of banks and insurers will prohibit sales incentives based on value or value targets (e.g. soft commissions and bonuses for

[4] Parametric products are designed with a simple trigger/threshold and pay-out mechanisms to speed up the claims payment process (assuming criteria are clear, unambiguous and not subjective). A party is buying a pre-defined amount of protection which will pay-out based on pre-defined terms. For example, an earthquake catastrophe bond will typically specify both the magnitude and proximity of an earthquake to a reference point location.

selling a certain number of financial products, a higher commission rate based on hitting a sales target). This prohibition applies to insurers and intermediaries (including insurance brokers). The conduct regime will also create new obligations for how insurers design all incentives and how they manage the risks those incentives create.

EQC direct cover

70. Under Section 22 of the EQC Act, EQC is able to provide direct cover (Direct EQCover) to homeowners who are unable to obtain insurance for the perils covered by EQC up to the EQC cap of $150,000. EQC currently provides Direct EQCover to seven homeowners.

71. In the past 12 months, EQC has received less than 50 enquiries for Direct EQCover, and a total of ten applications. Eight of these applications had been considered at the time of the August policy review. Two were declined as they gave affordability as the reason for their application (affordability is not a relevant factor in the current operational policy).

72. The EQC Board has considered the Direct EQCover policy as part of its annual review and it does not see a need to change the criteria it applies for providing Direct EQCover given the small number of enquiries and applicants. EQC will review this policy if enquiries and/or applications change significantly.

73. Given the current low demand for this product, if accessibility and affordability did become an increasing issue, EQC would need to invest in further underwriting capacity to support a significant portfolio of direct cover policies.

Financial implications

74. There financial implications for the Crown are unknown at this stage and will depend on the intervention you choose (if any) and its design. We have discussed material financial implications for particular options when discussing those options in this report.

Consultation

75. The Earthquake Commission, Department of Internal Affairs, the Ministry for the Environment, the Reserve Bank, Ministry for Business Innovation and Employment, the Financial Markets Authority, and Ministry for Housing and Urban Development were consulted on this report. The Department of Prime Minister and Cabinet was notified.

76. Limited consultation outside the public sector has been undertaken thus far given the short timeframe required to prepare this advice. Consultation was limited to initial engagement with the ICNZ on the suite of possible options. ICNZ provided us with written feedback on 30 September 2019, but we have not been able to fully incorporate it into this advice.

77. Broadly speaking, ICNZ has stated that insurance cost increases and affordability issues are being driven by increased understanding by insurers of risks of building vulnerability (due to increased understanding of earthquake risk and building vulnerability). ICNZ advises that issues of insurance availability and affordability appear modest and are limited to situations where risks are clearly high. ICNZ recommended further analysis of the problem definition and the principles underlying any government involvement is undertaken before the Government considering options any further. A key theme of ICNZ’s feedback was that Government should invest in infrastructure and resilience, not in becoming an alternative source of capital (i.e. subsiding risk).

78. We are meeting with ICNZ and insurers for a workshop on 10 October 2019 to discuss their feedback. Our advice to you on the Cabinet paper will therefore be able to take account of this feedback. Given the limited time available in preparing this advice and consulting insurers, it is possible that our recommendations on options to consider further may change. In addition, we are continuing to engage with insurers bilaterally to obtain individual insurers' views (where these may differ from the broader industry) and commercially sensitive information.

79. The Treasury is an observer on the Wellington Insurance Taskforce and has attended two meetings. Findings from the Taskforce will be considered as this work develops.

80. Broader and more extensive consultation is planned when undertaking further work on any selected prioritised options agreed by Cabinet for addressing property insurance pricing and availability issues.

Publicity

81. You have indicated that you wish to announce further work the Government is doing to address insurance issues in a speech you are giving at an upcoming ICNZ Conference on 5 November 2019. We will prepare a draft speech for you, including incorporating material from this briefing into your speech. You will not be able to announce any Cabinet decisions in the speech because the speech is before Cabinet considers (and potentially agrees to) what further work should be undertaken.

82. If you wish to make announcements following the November 2019 Cabinet paper, you could consider packaging the options above into a broader review of the EQC Act and announce a draft terms of reference. The previous Minister Responsible for the Earthquake Commission indicated publicly that there would be a review of the EQC Act following the targeted amendments to the Act that was passed in early 2019. However, no details on the specific issues that the Review will cover have been announced.

83. We suggest that any November 2019 announcement of an EQC Act Review should be high-level so that it does not pre-empt or exclude issues which may be raised in the final report of the Public Inquiry in the EQC (due by 31 March 2020).

84. The previous Minister Responsible for the EQC agreed to the following objectives for the Review. Objectives along these lines could form the basis for an announcement of high-level objectives from a review of the EQC Act:

    a minimise the potential for property owners to experience socially unacceptable distress and loss in the event of a natural disaster,

    b support an efficient approach to the overall management of natural disaster risk and recovery, both nationally and across regions,

    c contributes to the effective management by the Crown of fiscal risks associated with natural disasters, and

    d that, in achieving the above three objectives, the future Act both reflect lessons from previous events, and positions EQC to support government and national preparedness, mitigation and response to future natural disasters, including those exacerbated by climate change.

Next steps

85. We would like to discuss this report with you. Once we receive your decisions on the recommendations in this report, we will then prepare a Cabinet paper for you to take to Cabinet in November 2019 that reflects your decisions.

86. We are providing you with advice on the coverage of MUBs through the definition of residential buildings under the EQC Act. This report will be provided to you in the next fortnight.

87. Appendix Three outlines an indicative timetable for the next steps on the insurance markets policy work, including the EQC Act Review.

Appendix One: Summary of possible impacts of options considered to ensure that property insurance is affordable and available (particularly in higher risk areas) and can appropriately contribute to New Zealand's long-term resilience

Policy option	Affordability (for high risk)	Availability (for high risk)	Long-term resilience		Fiscal impacts		Unintended consequences (incl. potential precedent risks)	Distributional impacts**		Implementation complexity	Overall assessment
			Reduction	Readiness	Cost	Risk		Vertical equity	Horizontal equity		
Status quo*	0	0	0	0	0	0	0	0	0	0	**0**
A. Flat across-the-board increase to the EQC cap											
1. Moderate flat rate increase to the EQC cap	+	+	-	+	0	Med	0	+	-	Low	+
2. Large flat rate increase to the EQC cap	+ +	+	- -	+ +	0	High	-	+ +	-	Low	+
B. Alternative options for more targeted interventions											
3. Targeted changes to EQC cap	+ +	+	- -	+	0	Med	- -	-	- -	High	-
4. Government reinsurer (targeted at high risk)	+	+	-	+	Med	Med	-	-	- -	High	-
5. Subsidise premiums	+	0	- -	+	Med	Low	- -	-	-	High	-
6. Subsidise seismic strengthening	+	+	+	+	High	Low	- -	-	-	High	-
C. Not worth considering further											
7. Government insurer (all risk)	0	0	0	0	High	High	- -	0	0	High	- -
8. Regulate insurers to increase cross-subsidisation	? ***	- -	- -	- -	0	High	- -	? ***	? ***	High	- -
9. Reduce solvency capital requirements	+	+	0	+	0	High	-	0	0	Low	- -

Key: **++** much better than the status quo; **+** better than the status quo; **0** about the same as the status quo; **-** worse than the status quo; **- -** much worse than the status quo

Notes: * We expect average affordability and availability to worsen in the near term, which could result in a decline in resilience and an increase in fiscal risk. Longer term impacts are uncertain.
** Distributional impacts: Vertical equity – does the option improve progressivity; horizontal equity – does the option treat different people in like circumstances the same.
*** Impact is particularly uncertain, depends on option design and insurer response.

Appendix Two: Draft speech notes

You will be opening the ICNZ's conference on 5 November. The speech is an opportunity for you to communicate some or all of the following to the public and the industry.

Topic	Possible content
Scene setting for the market	Set out the key developments that you are seeing in the market. This includes the greater move towards risk-based pricing.
Status quo	Outline how New Zealand currently manages seismic risk, and perhaps some key statistics about insurance markets and the industry currently (and possible trends).
Set out your concerns	Outline your concerns regarding developments in insurance markets. We suggest focusing your speech on outcomes and impacts you would like to see (as opposed to say whether you think there is a 'market failure' in insurance markets, which is contestable).
Outline your priorities	Set out your high-level objectives for insurance markets to the industry, including improving insurance affordability and availability and building long-term resilience. You can also provide a high-level framework to highlight your understanding of the trade-offs you see in any solutions.
Set out work underway	Provide an overview of some of the work underway, such as the Public Inquiry, Wellington Insurance Taskforce, and the Community Resilience Working Group.
Set your expectations	Strongly signal your expectation for industry to do more in this area, such as the provision of accurate and useful information to consumers regarding their premiums.
Outline potential work	Set out areas for potential future work in this area, such as a further review of the EQC Act, which would include reviewing the EQC cap to ensure the EQC scheme still achieves the Government's policy goals.
Draw linkages	Draw linkages to other issues, such as climate change and what the future of insurance and related work might look like. This is also an opportunity for you to communicate that insurance markets is just one part of the system to address resilience issues.

Appendix Three: Indicative timetable for further insurance markets work

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2021	2022	2023
Insurance market trends and information	End Oct – Findings of consumer survey on house insurance. recommendations 27 Nov – Insurance markets Cabinet paper considered by Cabinet Committee.	Feb – Update on further information about trends in insurance markets, including information on MUBs and progress of research project with ICNZ.	Further work not yet determined.					
Improving insurance and risk information for consumers		March – Advice on opportunities for more coordinated or enhanced provision of information to the public about insurance and property risks (incl. using regulation).						
Inquiries, Taskforces and other matter	End Oct – Wellington Insurance Taskforce makes recommendations. End Oct – Advice on the Unit Titles Act (Ministry of Housing and Urban Development).	End March - Public Inquiry into the EQC reports back						
EQC Act Review	Oct – Advice on the coverage of MUBs under the EQC Act. Early Dec – Possible announcement of draft Terms of Reference of EQC Act review. By end 2019 – Advice on relationship between EQC scheme and climate change.	Advice on the Government response to Public Inquiry into the EQC (including possible formal announcement of EQC Act review).	Advice on high level design options for EQC. Announcement of the Government response to the Public Inquiry into the EQC.	Advice on types of property covered by EQC. Advice on types of hazards covered by EQC now, and potential changes in hazards covered.		Early 2021 – Discussion document released. Mid-Late 2021 – Policy decisions on EQC Act review.	Early 2022 – Release of exposure draft bill. 2022 – Introduction and passage of EQC Amendment Bill.	Implementation.
Quick, moderate increase to EQC cap (if this option is progressed, the timetable for the EQC Act Review would change)	Mid-Oct – Advice on impact and feasibility of 1 July 2020 or 2021 implementation. Nov – Cabinet decision to increase EQC cap. Regulations made.		1 July 2020 – Possible implementation of moderate EQC cap increase (please note that insurers have requested at least 12 months' notice for a further increase in the cap).			1 July 2021 – Possible implementation of moderate EQC cap increase (if 2020 not feasible)		