The Treasury

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

October 2021

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[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;

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Modernising the Earthquake Commission Act: Options to address affordability and availability of insurance, including through the EQC cap

Date:	10 December 2020	**Report No:**	T2020/3282
		File Number:	SH-11-4-3-4-7 (Property Insurance Markets)

Action sought

	Action sought	Deadline
Minister Responsible for the Earthquake Commission (Hon David Clark)	**Agree** to increase the EQC cap to $200,000 plus GST **Indicate**, if your decision is to increase the cap, whether you prefer to do so via legislation or regulation (regulation is recommended for an increase to $200,000 plus GST)	14 December 2020 (Prior to meeting with InnerCity Wellington)
Minister of Finance (Hon Grant Robertson)	[33] **Indicate** whether you would like to discuss targeted insurance options and their priority and resourcing within the wider Treasury work programme	14 December 2020

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Dasha Leonova	Manager, Financial Markets	[39] [35]	
Helen McDonald	Manager, Earthquake Commission Policy Team		
David Shewan	Senior Analyst, Financial Markets		✓

Minister's Office actions (if required)

Return the signed report to the Treasury.

Note any feedback on the quality of the report

Treasury Report: Modernising the Earthquake Commission Act: Options to address affordability and availability of insurance, including through the EQC cap

Executive Summary

Cabinet's objective is to ensure that residential property insurance is affordable and available in New Zealand (particularly in higher-risk areas) and can appropriately contribute to New Zealand's long-term resilience. This report provides information to support your decision on whether to raise the Earthquake Commission (EQC) cap to achieve these objectives. It also provides high-level alternative options, and updates you on, and proposes several options for, work to facilitate improved consumer understanding of insurance pricing and risk.

Trends in property insurance markets

Residential property insurance premiums have increased around 10 percent to 20 percent per year since late 2016 across regions with high seismic risk (eg. Wellington, Christchurch and Hawkes Bay), with more substantial increases for high-risk, high-value houses in those regions. The highest increases have been for Wellington multi-unit buildings (MUBS). The changes have been driven to a large extent by the move from insurers to price risk more granularly, coupled with inflation of dwelling insurance prices in the Consumer Price Index (CPI) of 36 percent across New Zealand since Q4 2016. While prices have risen for many, we have evidence of only a few buildings not being able to get insurance at all, or bodies corporate choosing not to insure. We cannot be certain in predicting future trends – the hardening reinsurance market is likely to lead to premium increases and there is also potential for an upward impact on premiums if the Reserve Bank of New Zealand's review of solvency standards results in a higher capital charge for insurers.

Increasing the monetary cap on EQC building cover

Increasing the cap is likely to have net positive impacts for affordability and availability in high risk areas. It is likely to result in price increases for those in low risk regions, due to the need to increase the EQC levy. Based on EQC's updated modelling, the EQC levy needs to increase by around $70 per property per year if the current $150,000 cap is retained – the modelling indicates that an additional increase of at least $20 (for a $200,000 cap) and $230 (for a $400,000 cap) per property per year would be required. There would not be material reductions in insurer pricing for low risk properties. The final insurance premium for each property depends on how insurers price the above-cap portion of the cover. The price impacts would depend on the property and the insurer – the impacts may be more noticeable for lower value properties, but more limited for high-value, high-risk properties (even at high levels of the cap).

The policy work that led to the increase in the cap last year to $150,000 plus GST commenced in 2015. That work recommended an increase from $100,000 plus GST, emphasising the goal of ensuring the great majority of homeowners buy insurance. With aggregate insurance uptake remaining high, it is a finely balanced judgment call as to whether the pricing changes in the market in recent years would lead us to recommend a further cap increase on the same reasoning as the last review. However, Cabinet's objectives for this review have a clear focus on improving affordability and availability (particularly in higher risk areas). In order to advance these objectives, while keeping unintended consequences to a minimum, we recommend increasing the cap to $200,000 plus GST.

The cap level requires choice along a spectrum, and there is no 'perfect' level. We think that higher levels of cap warrant caution due to unintended consequences and recommend against a significant increase at this stage. For instance, a high cap sets a stronger precedent for how the Crown might deal with climate change related loss, mutes the price signal from insurance, and poses more uncertainty around claims handling models and how insurers choose to participate in the market. In addition, there are distributional impacts from increasing the cap, as higher levels of cap will lead to higher cost increases in low-risk areas (some of which have low median housing-adjusted incomes). Setting the cap at a high level could therefore have some detrimental effects on the contribution of insurance to long-term resilience, which need to be balanced against the benefits for availability and affordability in high-risk regions.

A cap increase comes with increased (and uncertain) fiscal risk exposure at a time of elevated Crown debt. You may therefore wish to review EQC's risk exposure and levy sufficiency following the process set out in the modernising legislation, once it is passed. Unless implementation of the increase in the cap was delayed, or the work prioritised ahead of any cap increase, two separate EQC levy changes may be necessary a few years apart (one due to an increase in the cap and another if the later review reveals a need for different levies).

Targeted options for high-risk buildings:

An increase to the EQC cap may not have a material impact on insurance affordability for high-value, high-risk MUBS. We have considered at a high level some alternative options to the EQC cap to improve the affordability and availability of insurance for MUBs in high-risk areas. Generally, these options have the potential to provide more targeted premium relief and/or availability to buildings with insurance problems. However, they also involve significant design complexity and establishment costs, boundary issues, and a strong precedent for the government's approach to climate change induced loss.

The cap as a broad intervention will not address the concerns of all property owners, however it has the least complexity and a wider coverage than targeted options. We recommend taking some time to observe the impact of the cap increase on MUBS in the first instance.

Facilitating greater consumer understanding of insurance pricing and risk

We have also considered opportunities to facilitate improved public understanding of how natural hazard risk affects insurance pricing.[33]

Recommended Action

We recommend that you:

EQC cap

a **note** that increasing the EQC cap is likely to have positive impacts on aggregate for residential property insurance affordability and availability in high risk areas

b **note** that there are limitations on the impact of a cap increase on affordability and availability in high-risk areas (especially for high-risk high-value properties), and increasing the cap is likely to have some costs, including price increases for those in low risk regions, and muting insurance price signals (which could impact long-term resilience)

c **note** that to address Cabinet's objectives 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, on balance the Treasury recommends increasing the cap to around $200,000 plus GST

d **note** that increasing the cap to a level higher than around $200,000 plus GST would come with higher levels of unintended consequences (as discussed in paragraphs 21-26) and could push against Cabinet's objective of contributing to New Zealand's long-term resilience

e **Agree** to increase the EQC cap to $200,000 plus GST
Minister Responsible for the Earthquake Commission: **agree / disagree**

f **note** that the EQC cap can be increased either by legislation, or by regulation – if you decide to increase the cap to $200,000 plus GST, and want to implement this as quickly as possible, the Treasury recommends implementation via regulation, as implementation could occur around 12-18 months sooner compared with legislation

g **indicate**, if your decision is to increase the cap, whether you prefer to do so via legislation or regulation (see paragraph 55)
Minister Responsible for the Earthquake Commission:

i. legislation **Yes** **No**

ii. regulation **Yes** **No**

Targeted policy options

h **note** that there are policy options that have potential to provide more targeted premium relief and/or availability to buildings with insurance problems

i **note** that targeted policy options would involve design complexity and set a fairly strong precedent for the government's approach to climate change induced loss

j **note** that, if you choose to increase the cap, we recommend taking some time to observe the impact of the cap increase on insurance premiums for high-risk buildings before determining whether further government insurance intervention is required

k **indicate** whether you would like to discuss targeted insurance options and their priority and resourcing within the wider Treasury work programme
Minister of Finance: **Yes** **No**

Insurance information for consumers

l **note** that EQC's *Resilience Strategy for Natural Hazard Risk Reduction* is focused on promoting the principle of open and proactive sharing of risk information and aims to inform, enable, and influence the choices and decisions that reduce vulnerability and the exposure of New Zealand's built environment to natural hazard events

m [33]

Minister of Finance: **agree / disagree**

n [33]

Minister of Finance: **agree / disagree**

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Helen McDonald
Manager, Treasury Earthquake Commission Policy

Hon Grant Robertson
Minister of Finance

Hon David Clark
Minister Responsible for the Earthquake Commission

Treasury Report: Modernising the Earthquake Commission Act: Options to address affordability and availability of insurance, including through the EQC cap

Purpose of Report

1. This report provides you with:
   a information to support your decision on whether to raise the EQC cap, and the impact of a cap increase on your objectives of ensuring that property insurance is affordable and available, particularly in high risk locations,
   b information on alternative options to the EQC cap for achieving Cabinet's objectives, and
   c an update on our work in relation to facilitating improved consumer understanding of insurance pricing and risk.

Background

2. The EQC Scheme provides capped natural disaster insurance cover for insured residential buildings, and associated residential land, against loss from earthquake, volcanic eruption, tsunami, landslip, hydrothermal activity, and natural fire.

3. In 2019 the Minister of Finance requested that the Treasury report on changes to the pricing and availability of property insurance in New Zealand. We reported to the Minister of Finance with findings on trends in property insurance markets [T2019/2234 refers] and on options to ensure that property insurance is affordable and available (particularly in higher risk areas) [T2019/2933]. This analysis noted a flat, across the board increase of the EQC cap as the most promising option for further work to meet affordability and availability objectives.

4. In December 2019 Cabinet agreed that the Minister of Finance should direct the Treasury to assess and provide advice on the following options for improving the affordability and availability of property insurance:
   a A flat across-the-board increase to the EQC cap from $150,000 up to between $250,000 and $400,000.
   b A targeted increase to the EQC cap (targeted at higher-risk regions or property types).
   c Targeted natural hazard reinsurance (by region or property type) provided by government.

5. Resource for this work was reprioritised to the Government's COVID-19 response. It was picked up in August 2020 with initial focus on the EQC cap increase as a direct input into the review of the EQC Act.

6. Following our earlier reports, we have:
   a received data on insurance premiums and characteristics of a number of Wellington MUBS,
   b received the results of a survey on insurance uptake in Wellington, Auckland and Christchurch,
   c undertaken targeted consultation with insurers, property ownership advocacy groups, and insurance experts,

d considered additional information including analysis of the impact of the increase of the cap from $100,000 to $150,000 in 2019, and updated consumer price index data.

The residential property insurance market

7. A home is the largest investment many New Zealanders make. Households and New Zealand's financial system are therefore heavily exposed to the housing market. New Zealand is exposed to a high level of natural disaster risk in comparison to many other countries. Residential property insurance is very important in New Zealand, as high uptake reduces the level of distress that can be suffered by property owners after an event. It also reduces fiscal risk because government is less likely to be drawn into ad hoc responses to private loss following natural disasters.

8. New Zealand insurers historically under-priced insurance for seismic risk, and, at the same time, community rated the risk across the country. Historic pricing reflected a lower understanding of risk and the damage that could be caused by seismic activity. The Canterbury and Kaikoura earthquakes changed this understanding and led to the development of more advanced risk models. Over the past few years, there has been a move by insurers to greater granularity of pricing for risk. Premium increases have been around 10 to 20 percent per year for properties in high-risk locations (eg. Wellington, Christchurch and Hawkes Bay), with higher increases for some high-risk, high-value properties and MUBS. The highest insurance rates are paid by MUBS with high-risk characteristics. There have been price decreases for some in lower risk locations. We have not seen any evidence of insurance uptake falling, or, except in very few cases, properties having no access to insurance. See Annex 1 for further detail.

9. It is difficult to predict how trends will play out in the future. Each insurer's approach in moving to more granular pricing is different. [26]

   Some other insurers appear to be moving more gradually. There is likely to be further upward pressure on premiums from the hardening global reinsurance market. There is also potential for an upward impact on premiums if the Reserve Bank's review of solvency standards results in a higher capital charge for insurers.

Why consider a cap increase?

10. A property owner's insurance cost is made up of the EQC levy, Fire and Emergency New Zealand levy, premium cost for above cap cover, and GST. An increase to the cap results in EQC taking on a greater share of the risk for a property. That risk is 100 percent community rated by EQC (ie. all properties pay the same for cover, regardless of risk), reducing the risk held, and priced granularly, by insurers, and the overall cost of insurance for homeowners in high-risk areas.

11. There is no 'perfect' EQC cap level – decision making on the cap needs to take into account Ministers' objectives along with other consequences, and balance the pros and cons. The cap was originally set at $100,000 plus GST in 1994 (roughly the cost of building a basic house at that time) with the idea that the EQC's monopoly on disaster insurance cover should be discontinued, and the scope of the EQC's cover progressively limited as market conditions allowed.

12. The Canterbury earthquakes and the changes in insurance markets that followed led to the cap being reviewed. The cap was increased from $100,000 plus GST to $150,000 plus GST in 2019, following policy work that commenced in 2015.

13. Significant changes in the residential property insurance market in recent years have occurred largely after the policy work on the 2019 cap increase was carried out. The changes include the transition to more granular risk pricing and repricing by insurers of risk leading to an overall decrease in insurance affordability, especially in high-risk areas. The changes have the potential to place financial pressure on the owners of properties in high-risk areas, and to have an impact on their wellbeing.

14. A number of voices in New Zealand have supported revising the cap. The Public Inquiry into EQC noted that consideration should be given to increasing the cap to cover the average cost of building a house in New Zealand, or to removing the cap to provide for EQC cover to the individual sum-insured level. Through our consultation, consumer and property ownership groups (Consumer NZ, Inner City Wellington and the Body Corporate Chairs' Group) have expressed support for a cap increase to help address these issues. One bank submitted support for a $400,000 cap if the main objective was to ensure affordable and availability for properties in high risk areas and suggested that from a bank credit risk perspective an increase to the cap is preferred. Most insurers have expressed strong opposition to increasing the cap.

Impacts of a cap increase

15. The 2019 increase to the cap was implemented in the middle of insurers' moves to price risk more granularly. As a result, it appears that on average prices still generally increased in high-risk regions that year, with a mix of price increase and decreases in lower risk regions. With insurers further down the path of granular risk pricing, we expect there would probably be a more noticeable impact if the cap is increased again.

16. Due to the factors set out in paragraph 20, it is difficult to determine the different premium impacts from an increase to different cap levels. Higher caps would clearly have a greater impact on price, but would also squeeze overheads to a greater degree. Although at higher levels of cap insurers would be covering less risk exposure, the above-cap cover may be priced at higher rates due to risk volatility.

17. In Annex 2 we have set out our expectations for how different levels of cap increase may impact affordability. Generally, we expect a cap increase to improve affordability on average in higher risk regions. We also expect an increase in the cap to reduce affordability on average in lower risk regions – this is because it is very likely that levy increases will exceed any small reduction in the already low insurer natural disaster premium for low-risk properties.

18. The impacts of a cap increase would be different depending on the property and the insurer. They may be more noticeable for low and average value properties insured with companies not moving further towards more granularity (perhaps 5 to 10 percent reduction if the cap is increased to $200,000). Impacts may not be particularly noticeable for high-value, high-risk properties. Such properties may not see significant cost-relief even at high levels of cap, due to the high level of remaining over-cap risk. Annex 3 illustrates that changes to the cap have varying impacts on the ratio of private cover to EQC cover for given MUBs in Wellington, with increases making a big difference in the proportion for some buildings, and minimal difference for others.

19. Increasing the cap would probably increase the aggregate capacity (private insurer plus EQC) available to cover houses in high-risk areas, and should therefore improve the availability of insurance. We have heard that from a broker's perspective the 2019 increase in the cap was positive for availability for MUBS in Wellington. Insurer decision-making around reinsurance purchasing (see paragraph 20.d) may mute the impact on availability to some extent.

Limitations of a cap increase

20. There are limitations on how a cap increase may impact on the insurance price. In addition to levy rates, factors that will affect the final insurance price include:

    a *How insurers choose to price the remaining above cap risk* – Some insurers that have already reached a high level of granularity with pricing may decrease the earthquake premiums charged to their customers in high risk regions. Other insurers that are not yet at the end-point in moving to more granular pricing may use the increase as an opportunity to move further towards pricing the modelled earthquake risk.

    b *For some properties, a large portion of natural disaster exposure will remain with the insurer* – High risk, high value properties are likely to continue to face high prices, even at high levels of cap. Their insurability will still be determined by insurers, and above-cap amounts will be priced at high rates.

    c *Impacts on revenue vs expenses* – a reduction in private insurer exposures through raising the cap would not result in a proportionate cost saving for insurers. This is due to factors, including floors on the minimum cost of private reinsurance capacity and the impact of a reduction in premium revenue (ie. expenses other than reinsurance would remain constant while the scale of risk covered would decrease).

    d *The impact on reinsurance purchasing* – Some insurers have noted that the impact on capacity for Wellington MUBS may be limited on the basis that varying the cap will lead insurers to reduce reinsurance cover in response to a cap change.

    e *Market concentration* – In a highly concentrated market, the pass-through of the benefits of a cap increase to consumers is likely to be lower than it would be in a highly competitive market. The outcome of a cap change on final premiums still depends on the insurer decision-making.

Potential for unintended consequences

The distributional impacts of a cap increase

21. A higher cap is likely to lead to higher overall insurance costs for the majority of dwellings in New Zealand (outside of areas like Wellington, Christchurch and Hawkes Bay), through increases in EQC levies. In this context there are trade-offs – on one hand, some high-risk property owners (such as retirees who purchased apartments before the changes in insurance pricing) are on lower incomes and likely to be having real difficulty servicing the additional cost of insurance from recent price increases. On the other hand, on average Wellington and Canterbury have the highest household (after housing costs) equivalised disposable income in New Zealand.[1] An increase in insurance costs of around $300 a year in the case of a $400,000 cap for those in lower risk areas would have a real impact on some low-risk property owners.

Claims processing

22. Insurers and EQC have agreed the claims partnership model, where insurers process the EQC portion of natural disaster claims on EQC's behalf. The model is the main way in which the need for customers to interact with both EQC and their insurer is minimised.[2] At higher levels of cap:

    a The commercial incentive for insurers to keep claim costs down when processing them is lower, [34] and EQC is exposed to a higher level of risk. EQC is developing a comprehensive assurance programme to ensure that private insurers managing claims on EQC's behalf are meeting all statutory, contractual and service level obligations, which should mitigate this issue to some extent

    b [38]

The role of insurance as a signal

23. Insurance pricing can act as a signal for the level of risk to a property. Insurance price signals are blunt and have limitations. Sometimes buildings cannot be strengthened in reaction to them in a way that reduces the insurance premium. However, in the case of particularly high-risk buildings they indicate the otherwise hidden cost of the danger of those buildings. They can therefore spur tough decisions around necessary strengthening or demolition. This can contribute to safety and the strengthening of the built environment over time but can also have a significant impact on the wellbeing of those whose homes are affected.

[1] https://www.stats.govt.nz/information-releases/household-income-and-housing-cost-statistics-year-ended-june-2019#:~:text=For%20the%20year%20ended%20June,and%20transfer%20payments)%20was%20%2445%2C744

[2] The Public Inquiry noted that increasing the cap would reduce the number of over-cap claims. This would thereby reduce the number of people who are required to deal with both EQC and their private insurance company and reduce the delays associated with settling their claims.

Setting a precedent for the government's approach to climate change losses

24. The government already takes on some climate change risk through EQC via its cover of residential buildings for landslip damage, and its cover of residential land for storm and flood damage. However, building damage caused by sea level rise and storm damage is not covered by EQC, and government policy in this area is in the early stages. The Ministry for the Environment is anticipating that advice on funding and/or financing for climate change will be presented to Ministers in the first half of 2021, though timing is still to be confirmed. It is likely that there will be pressure on the government to include such climate change perils within EQC cover in the future, regardless of whether the cap is increased.[34]

Incentivising high-risk building conversions

25. A high cap (particularly up around $400,000) may encourage developers in high-risk areas to focus on cheaper new buildings with more apartments, or converting lower-strength buildings, to ensure that the sum insured is largely (or fully) covered by the cap, potentially taking the focus of some developers away from resilience.

Market attractiveness

26. Most insurers have argued against increasing the cap; the few smaller insurers that have not, have taken a neutral position. There is uncertainty about decisions insurers might make, particularly in response to or following the effects of a large cap increase. Insurance capacity issues could worsen if a large insurer was to decide to place less focus on maintaining or growing its New Zealand business. On the other hand, capacity issues could improve by making the market more attractive to new entrants and smaller insurers through enabling them to hold less capital on a per-risk basis.

EQC levies and fiscal risk

Average annual loss and levies

27. The loss modelling and breakeven EQC levies set out in this section are provided by EQC's reinsurance broker, AON.

28. EQC's current risk management structure is set up with the intention that EQC's claims and expenses over 850 years are covered by the levies charged to insured homeowners (the "breakeven levy").[3] We have set out below the minimum levy increases that would be required to achieve the breakeven levy at different levels of cap, modelled by AON in November 2020.

[3] EQC is not required to hold capital or reinsurance to cover it for the maximum probable loss from a 1 in 1000 year event like a private sector insurer, which enables it to finance risk more flexibly and cheaply.

EQC Cap	Levy (Incl GST)	Increase (p.a.)	Modelled additional exposure to 1/1000 year event[4]
$150,000	$345[5]	$69	N/A
$200,000	$437[6]	$92	< ~ $1 billion
$250,000	$489	$144	~ $1 billion
$400,000	$644	$299	~ $2 billion

29. The levy charged by EQC is set via Ministerial decisions. It has been sticky over time and is currently charged at below the breakeven levy rate. The levies may need to be set moderately higher than the levies in the table to account for this "stickiness" and other risk financing considerations.

Reinsurance, and the risk from large events

30. EQC's current reinsurance programme covers EQC for up to $6 billion of losses with a first loss excess of $1.75 billion (which is currently covered by the Crown guarantee, as the natural disaster fund (NDF) is depleted). Above this level, the Crown covers the risk via its guarantee of EQC. The level of risk taken on by the Crown via its guarantee of EQC increases as the cap increases.

31. Insurers have expressed scepticism about AON's modelling of EQC risk and resulting levies. Among other things, they have submitted that the modelling that we shared with them (see Annex 4) significantly understates insurers' and EQC's risk exposure at different levels of cap (based on insurer data that EQC does not have access to), and that the overall risk exposure is significantly higher than that shown in the models. It is also worth noting that private insurers have been using later version risk models than EQC. If EQC's exposure was higher than the models show, then the levies charged would need to be higher to cover its claims and expenses over time.

32. EQC considers that its models reflect a likely outcome, and it is covering its best understanding of the underlying risks. In the ordinary course of its business, EQC regularly assesses its approach to risk financing, and any decision to increase the cap will impact on EQC's approach to reinsurance purchasing.

[4] Note that this is modelled exposure within given confidence intervals – EQC and the Crown would also be exposed to the risk of higher losses that the model deems less likely, higher risk from lower likelihood events (eg. a 1/10,000 year event) and losses occurring outside the bounds of the inherently uncertain model.

[5] $345 (20 cents per $100 insured) is the current maximum EQC levy – note that it is below the break-even maximum levy of $414 (24 cents per $100 insured) modelled by AON for this year.

[6] According to AON's modelling the required levy rate drops to 19 cents per $100 insured for a $200,000 cap. The maximum levy is $437 at that rate, or $460 if the rate is left at 20 cents per $100 insured.

33. Regular reviews of monetary thresholds in the EQC Act were recommended in our recent report entitled "Modernising the Earthquake Commission Act: Financial Disclosures and Power" (T2020/3648 refers). Given the current elevated Crown debt position, uncertainty around risk modelling, and the uncertain level of fiscal risk taken on via a cap increase, you may wish to use the first review (likely within a year of the modernising legislation being passed) as an opportunity for an in-depth review of EQC's risk exposure and levy sufficiency. Unless implementation of the increase in the cap was delayed, or the work prioritised, two separate EQC levy changes may be necessary a few years apart (one due to an increase in the cap and another if the review reveals a need for different levies).

Other options

Targeted options

34. We have considered at a high level some alternative options to the EQC cap to improve insurance affordability for high-risk, high-value MUBs. These options go beyond the scope of the modernisation of the EQC Act (and beyond what can be developed within the timeframes of the review), but they are useful comparators to the cap when it comes to addressing affordability and availability objectives. At least one insurer has expressed an interest in exploring targeted options with the government.

35. The Treasury's view is that targeted insurance options could be most appropriate either if there was a lack of insurance capacity for well-designed new builds on good land or for existing buildings with these characteristics that are struggling to get insurance at "affordable" rates. However a government insurance intervention may not be the best answer where property owners are paying high insurance prices because of a significant level of risk due to the building.

36. The three targeted options that could be most effective are:

    a *Targeted reinsurance* – to participating insurers in relation to high-risk MUBS and/or to incentivise resilient developments. This could reduce the cost to insurers of providing insurance to the relevant properties depending on the structure and level of government support offered. A reinsurance scheme could potentially be set up in a similar structure to Flood Re in the UK, providing a pool of reinsurance cover available to cover earthquake risk which did not require government funding, time limited and linked to resilience work. Under the Flood Re model, insurers have the option to transfer the premiums (and claims liability) from eligible policies to Flood Re or retain the risk themselves. Flood Re is funded by the premiums collected from insurers on reinsured policies and a general levy collected from all insurers based on market share. Such a model would require significant leadership from the insurance sector (Flood Re was set up by the industry and formalised in legislation).

b *Direct provision of natural disaster insurance for certain MUBs* – this could be via EQC, another government agency or contracted private sector organisation. The main difference between this option and targeted reinsurance is that it gives the government direct control of the insurance premium that the customer pays because it is not transmitted through an insurer to the customer. This option requires very involved decision making about how eligibility would be set out and how insurance would be priced, for example whether the risk would be priced at a market price or lower than market with the government carrying the risk. If provided at a subsidised rate, cover could be linked to strengthening to a percentage of the building code, or an enhanced seismic safety standard. Without a wider portfolio for cross-subsidisation or direct government subsidisation, premiums are likely to still be very high, reflecting the risk.

c *Targeted EQC cap* – the cap could be increased to target particular buildings or areas, or just existing residential buildings in those categories. This option has some of the same limitations as an across-the-board increase in the cap – it has significantly different effects for different types of MUBS, and its transmission is still subject to insurer pricing decisions. It is significantly more complex to implement than an across-the-board increase.

37. Each of the above alternative options has pros and cons (see Annex 5). Generally, these options have the potential to provide premium relief and/or availability to buildings with insurance problems. Alternatively, they have the potential to be targeted at resilient new buildings to incentivise good development. However, they also involve significant design complexity and establishment costs, boundary issues (choosing how to determine which buildings have an acceptable/insurable level of risk and which ones don't as well as who gets the benefit of the targeted scheme), and a precedent for the approach to climate change induced loss. The risk would need to be financed, either through additional levies on property owners, or via general Crown/taxpayer subsidisation.

38. In the first instance we consider you could suggest that interested insurers propose a targeted model for the government's consideration. If you would like the Treasury to undertake further work on targeted options, we would welcome a discussion on priority and resourcing within the wider Treasury work programme.

Competition

39. An effective and competitive property insurance market is an important enabler of economic activity and has significant implications for New Zealand's resilience to natural disasters. The market is concentrated; the two largest residential property insurers have around 75 percent market share. The Treasury has previously suggested that a Commerce Commission market study could be useful to inform policy making in this area – this would be particularly valuable ahead of making decisions around any significant cap increase or targeted intervention.

40. However, unless other studies are reprioritised, it would take several years before a study could be completed. It is also important to bear in mind that there are significant regulatory reforms underway that affect insurers, including the Insurance Prudential Supervision Act review, the new conduct regime. Any changes resulting from the recommendations in this report and any market study would need to be sequenced bearing in mind the overall regulatory burden on the industry.

Regulation

41. In addition to the above options, we have considered the option of regulating insurers to compel greater flat-rate pricing of seismic risk, or to take on more risk in higher-risk areas. We recommend against pursuing this option because:

    a it is a high-risk policy with the potential for significant unintended consequences,

    b it would require a detailed and complex regulatory regime covering all aspects of insurance product and pricing. Without heavy regulation, insurers could respond by changing the unregulated parts of their product offerings, such as the quality of the cover, underwriting approaches and the number of policies offered,

    c it is likely to be of limited effectiveness in achieving Cabinet's objectives – it may exacerbate current price and availability pressures, and could potentially cause insurers to exit the market, as happened in California following government regulation after the 1994 Northridge earthquake. The OECD has noted that *insurance price controls result in a withdrawal of coverage for certain risks, which typically leads to pressure for further intervention in the form of an insurer-of-last-resort. Experience shows that removing regulations on insurance prices typically expands coverage*[7], and

    d it pushes against the goals of prudential regulation.

Insurance information for consumers

Background

42. The Minister of Finance directed the Treasury to work with other government agencies and insurers to identify opportunities to facilitate improving public understanding of how seismic hazard risk affects insurance pricing. The Treasury was asked to advise on regulating to require insurers to provide this information in the event that insurers did not provide further information themselves [T2019/2933 refers].

Facilitating better consumer understanding of insurance pricing and risk

43. Given insurers' move to more granular risk pricing (and resulting consumer concerns), there is a role for further targeted information for consumers explaining the relationship between natural hazard risks and insurance premiums. We heard from consumer groups and dispute resolution schemes that consumer understanding and engagement on insurance is low. Bodies corporate report that they have received different or unclear reasons for why premiums have increased, or what they could do in response to reduce premiums. Consumers are more likely to engage during purchase, when requesting a quote, or during policy renewal.

Information that is currently available

44. Insurers provide a range of general information about insurance (e.g. explaining key insurance concepts, and more specific information about risk pricing). This information is available online (and provided with renewal documentation by some insurers), targeted at existing homeowners, and is not personalised for policyholders. Insurers and government agencies also have initiatives to support financial literacy and capability on insurance matters.

[7] https://www.oecd.org/regreform/sectors/1920099.pdf

45. Central and local government agencies hold a significant amount of information and data on earthquake and other hazards. A key challenge is ensuring that information and data on hazards is easy to access and understand. Multiple sources of information can create high search costs and it can be difficult to find and apply the information to a particular property. Information and data that is easy to access and understand would support informed decisions about where to build or buy houses, contributing to resilience over the long-term. For existing homeowners, information and data on seismic hazards (combined with how this affects insurance premiums) could contribute to maintaining trust and confidence in insurance through a better understanding of why premiums change.

46. There is an opportunity for more coordinated and enhanced provision of information by government to the public. For example, the Treasury recommends supporting EQC's *Resilience Strategy for Natural Hazard Risk Reduction*, which is focused on promoting the principle of open and proactive sharing of risk information. The Resilience Strategy aims to inform, enable, and influence the choices and decisions that reduce vulnerability and the exposure of New Zealand's built environment to natural hazard events. To this end, EQC is actively working to ensure the knowledge generated by its investment in science, research, and data is useful and usable to stakeholders, end users, and the public.

47. There are also a number of workstreams underway to improve information and data on natural hazard risks to improve New Zealand's long-term resilience. This includes work to improve risk disclosure in a Land Information Memorandum and to improve data and information for flood risk management.

Two short-term options

48. We propose two options that can be undertaken in the short-term to facilitate improving consumer understanding of risk and insurance pricing. They are:

    a [33]

    b [33]

49. Further detail and analysis of both options is provided in Annex 6. We note that the Minister of Finance previously wrote to the Insurance Council of New Zealand (ICNZ) in December 2019 noting his concern about the lack of information for people about increased risk-rating for their properties and the resulting premium increases, as well as expressing interest in the outcome of a working group between ICNZ and the Insurance Brokers Association of New Zealand to improve information provision. There is value in reiterating your concerns, given the response to COVID-19 has diverted industry attention this year.

Longer-term options

50. There is an opportunity to consider enhancing disclosure to prospective buyers of unit titles under the *Unit Titles Act 2010*, including information about a building's insurance costs, seismic risks, and characteristics. Further detail on this option is provided in Annex 6. The Ministry of Housing and Urban Development (HUD) will be providing advice on reform of the *Unit Titles Act*. We will continue to engage with HUD on this matter.

Breaking down premium components for consumers

51. Our discussions with insurers focused on whether they could 'break down' the components of a premium to explain what had changed and the contribution of natural hazard risks. There are practical constraints to this, in particular:

    a. There are significant challenges to present the components of insurance pricing in a way that communicates a clear message on premiums, and there would be costs involved.

    b. Insurers view their risk assessment as commercially sensitive.

52. In addition, it is not clear that disclosure of how a property's risk contributes to a premium would create an incentive to reduce that risk (a large portion of the risk is often associated with traits like property location which cannot be changed).

53. The Treasury recommends that the government does not regulate to require insurers to provide further information about risk and insurance pricing for a given property. It would be difficult to prescribe the required information disclosure, and we are not confident that the benefits from such regulation would outweigh the costs. Additional regulation at this time may also distract from implementation of other policy priorities such as reforms to conduct and insurance contract law.

Recommendations and next steps

54. On balance, in order to advance Cabinet's objectives while keeping unintended consequences to a minimum, we recommend increasing the cap to around $200,000 plus GST. We note that a more significant increase to the cap would come with greater unintended consequences that could be detrimental to the contribution of insurance to long-term resilience.

55. The cap can be increased either by regulation under section 36 of the EQC Act, or via legislation. Indicative timing for best case scenario implementation is as follows (both include six to 12 months lead-time for implementation from the time of the gazetting or law change):

    a. *Regulation:* Cabinet decision March 2021, gazetted late March 2021, cap change implemented from late 2021.

    b. *Legislation:* Introduction in the House July 2021, passed March 2022, cap change implemented late 2022 / from early 2023.

56. The key trade-off is between when the change will come into force – regulation being some 12-18 months sooner – and the value of the cap change being made as part of the broader suite of reforms that will be included in the EQC Bill. One of the major benefits of the latter is stakeholder participation and transparency through the Select Committee process. Under either approach, the process benefits of legislating a cap increase can be largely achieved by subsequently including any higher cap, established by regulation, in the EQC Bill.

57. Our understanding is that the government is likely to prioritise speed of implementation. If that is the case, we recommend increasing the EQC cap by regulation, and officials provide more advice on that option, following engagement with EQC and insurers on their necessary lead-in times between the regulations being made and entering into force.

58. A cap increase to around $200,000 plus GST through regulation falls within the intended use of Parliament's delegation. While a larger increase would still be allowed by regulation, if you choose a higher cap increase, you could consider doing so through legislation to allow more scrutiny through for example a select committee process.

59. If you choose to increase the EQC cap, before considering further government intervention in relation to insurance affordability and availability, we recommend taking some time to observe the impact of the cap increase on insurance premiums for high-risk buildings. Five yearly reviews of the cap and other monetary measures would allow you to reconsider whether the level of cap is appropriate.

60. If you do wish to pursue further insurance market intervention options in the short or medium term, we would welcome a discussion on priority and resourcing within the Treasury work programme.

Consultation with agencies

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

Annex 1: Trends in residential property insurance markets

Recent trends

1. We have seen the following trends over the last few years:

    a dwelling insurance prices in the Consumer Price Index (CPI) have increased 36 percent across New Zealand since Q4 2016. The cost of building new housing, which increases the value of the risk, increased 13.6 percent over the same period

    b increases in high seismic risk areas depend on the relevant house and insurer, but many appear to have been in the vicinity of 10 to 20 percent per year, and there have been price increases of over 20 percent year-on-year for a small proportion of high-risk, high-value houses in those regions

    c some Wellington MUBs have had price increases of over 50 percent in a given year, with some increases over 100 percent in a year, and commercial properties face similar premium conditions

    d insurance is essentially expensive across the board for MUBS in Wellington when compared with lower risk locations. The MUBS with particularly high prices well above Wellington averages have high-risk characteristics (see Annex 7)

    e there have been premium decreases for some properties in lower risk regions

    f the availability of insurance for residential houses, MUBS and commercial property in the greater Wellington region declined following the Kaikoura earthquake – availability issues appear to have eased somewhat for houses in the past year, but not for MUBS

    g the Treasury has not seen any evidence of insurance uptake falling or properties having no access to insurance - except for a very small number of MUBS not having access to full cover, and being warned that if they do not undertake seismic strengthening, their insurer may decline cover in the future

2. Insurer pricing is now enabled by better understanding of risk under new models. Risk models provide more granular risk estimates for localised areas as new updates are completed. The latest model used by insurers enables greater price differentiation according to property risk within cities. However, models have limitations and ultimately there is uncertainty around predicting the level of loss that could be caused by severe events.

3. Insurance premium prices are also driven in part by the insurance sector's exposure or concentration of risk rather than on a risk per property basis. For example, if an insurer determines it is over-exposed to Wellington or a particular part of Wellington, it may have limited capacity to take more risk there, which will affect the level of pricing offered.

4. Our access to data in assessing trends in property insurance markets has been limited. There is no data source (via EQC or otherwise) that would enable us to determine whether a given property is insured, and how much that insurance costs. The information in this section is based on a combination of pricing information provided in confidence by insurers, information about Wellington MUBS provided by property managers, anecdotal evidence from property owners, analysis of price changes following the 2019 increase of the cap, Statistics New Zealand data, and a Treasury survey on insurance uptake commissioned in late 2019.

Future trends

5. It is difficult to predict how trends will play out over time. Insurance policies are renewed on an annual basis. Each insurer's approach in moving to more granular pricing is different. [25]

   Some other insurers appear to be moving more gradually.

6. Particularly risky MUBs will likely remain unattractive to insurers and see further price increases. Median insurance prices for MUBS in Wellington are likely to continue on an upward trend in the next few years. MUBS' insurance costs are closely linked to the commercial market and insurer appetite for such risks internationally – therefore they experience more price volatility over time.

7. The global reinsurance market is hardening after a period of relatively favourable pricing. We understand that treaty reinsurance premiums (driven by low reinsurer profitability) have increased 10-30 percent on recent three yearly renewals, and these cost increases will have an upward impact on the reinsurance component of pricing. There is also potential for an upward impact on premiums if the Reserve Bank's review of solvency standards results in a higher capital charge for insurers.

Annex 2: Projected impacts of a cap increase

	Low-risk regions	High-risk regions
$150,000 (No change)	Insurer prices are likely to reduce moderately or remain relatively flat over the next few years as more granular risk pricing is implemented (different insurers are at different stages, some are coming to the end of implementation). Beyond the next few years, prices are likely to increase at a sustainable rate over time with building cost inflation and other expenses. Note that based on AON's modelling, the minimum modelled breakeven levy has increased by $69 per year since the levies were last set (which, if passed on, will increase gross residential insurance costs).	Over the next few years: • Prices for lower-risk houses in high-risk regions are likely to be varied (some may reduce moderately, some may rise moderately) • Prices for high-risk houses are likely to rise more as more granular risk pricing implementation continues (different insurers are at different stages, some are coming to the end of implementation) • Prices for MUBS are difficult to predict – they are likely to rise as the reinsurance market hardens, with highest risk hardest hit Beyond the next few years, prices may continue on an upward trend (but with increases less severe as implementation of granularity comes to an end) as reinsurance costs rise and building cost inflation continues.
Increase to $200,000	Net increase in prices – the EQC levy would increase by at least $92 per year for a $200,000 cap. These figures include the $69 increase required to return to a breakeven levy. Levy increases would not be matched by insurer premium decreases, because natural disaster premiums are already low for most low-risk properties. But levy increases may be partially offset in cases where the relevant insurer was still implementing a move to more granular risk pricing. Beyond the year of implementation, prices are likely to increase at a sustainable rate over time with building cost inflation and other expenses, but from the higher starting point.	In the year of implementation: • Potential moderate decrease (perhaps 5 to 10 percent) in premiums for a number of houses in high-risk areas. Some houses may see premiums stay constant or increase moderately due to continuing implementation of risk pricing from some insurers and limitations of the cap's impact on price • Lower-risk apartments in high-risk regions may also see moderate decreases in premiums • The impact on price for high-risk, and high value, apartments in high-risk regions is likely to be marginal Beyond the year of implementation, prices may trend upwards (as for a $150,000 cap) but from the different starting point.
Increase to $250,000	Net increase in prices – the EQC levy would increase by at least $144 per year for a $250,000 cap. Levy increases would not be matched by insurer premium decreases, because natural disaster premiums are already low for most low-risk properties. But levy increases may be partially offset in cases where the relevant insurer was still implementing a move to more granular risk pricing. Beyond the year of implementation, prices are likely to increase at a	In the year of implementation: • Potential moderate decrease in premiums for a number of houses in high-risk areas (perhaps 5 to 15 percent). Some houses may see premiums stay constant or increase moderately due to continuing implementation of risk pricing from some insurers and limitations of the cap's impact on price • Lower-risk apartments in high-risk regions may also see moderate decreases in premiums • The impact on price for high-risk, and high value, apartments in high-risk

	sustainable rate over time with building cost inflation and other expenses, but from the higher starting point.	regions is likely to be marginal Beyond the year of implementation, prices may trend upwards (as for a $150,000 cap) but from the lower starting point.
Increase to $400,000	Net increase in prices. The EQC levy would increase by at least $299 per year (including the increase required to return to breakeven) for a $400,000 cap (note the levy may need to be higher, as set out in paragraphs 27 to 33). Levy increases would not be matched by insurer premium decreases, because natural disaster premiums are already low for most low-risk properties. But levy increases may be partially offset in cases where the relevant insurer was still implementing a move to more granular risk pricing. Beyond the year of implementation, prices are likely to increase at a sustainable rate over time with building cost inflation and other expenses, but from the higher starting point.	In the year of implementation: • Larger decrease in premiums for many properties in high-risk areas, but difficult to predict • Some high-risk and high-value houses may still see premiums stay relatively constant (or decrease only marginally), and then continue to increase due to the market effects and limitations of the cap's impact on price • Potential for significant price reduction for low-value, high risk MUBS where sum insured near to fully covered by EQC • Smaller pricing reduction for higher value, high risk MUBS (may not be significant for some buildings) Beyond the year of implementation, prices may trend upwards (as for a $150,000 cap) but from the lower starting point.
	Prices for insurance products other than natural disaster insurance would likely increase as insurer margins are squeezed by the diminished opportunity to charge premium for residential property.	
Increase to sum insured	Residential cover for natural disaster would be fully nationalised and the government would set the premium. Premium would depend on government risk financing strategy. Prices for insurance products other than natural disaster insurance would likely increase.	

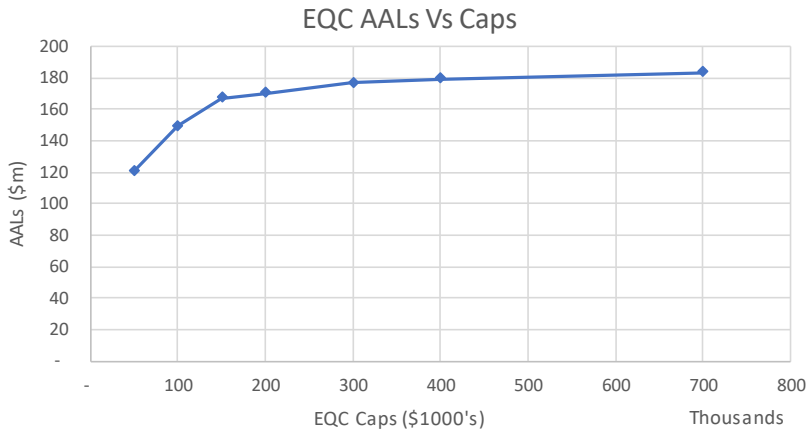
[25]

Annex 4: Comparison of options to improve insurance affordability and availability

Average annual loss

1. Chart 1 below sets out the modelled average annual loss over 850 years at different levels of EQC cap in 2019. The model estimates that EQC's long-term risk does not increase significantly above a cap of around $400,000 (because relatively few claims are above that level).

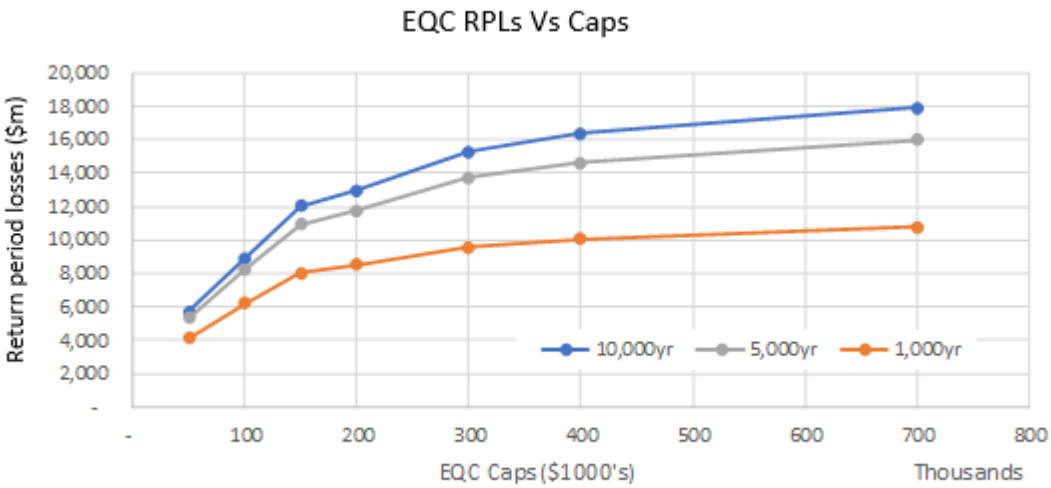
Chart 1



Return period losses

2. Chart 2 below illustrates the 2019 "Return Period losses", or the estimated losses to EQC with a 0.1 percent, 0.02 percent and 0.01 percent chance of occurring in the next year (ie. very large events with low likelihood of occurring).

Chart 2



3. Table 1 below sets out the loss exposure and levy modelling shared with insurers (including AON's modelling of EQC losses as a percent of all residential claims).

Table 1

Modelling of annual expected losses (2019)

EQC Building Cap, $, excl. GST	$150k	$200k	$250k	$300k	$400k	uncapped
Annual expected cost of EQC claims ($m) [1]						
Earthquake	$167.50	$170.10	$174.30	$176.90	$179.50	$183.30
Volcano, tsunami, attritional	$204.00	$234.40	$259.70	$284.70	$293.10	$302.70
Total expected cost, all hazards	$371.50	$404.50	$434.00	$461.60	$472.60	$486.00
EQC losses as percent of all residential claims						
Earthquake	91%	93%	95%	97%	98%	100%
Volcano, tsunami, attritional	67%	77%	86%	94%	97%	100%
All residential claims, all hazards	76%	83%	89%	95%	97%	100%
Total EQC insured exposure						
Gross total sum insured by EQC ($m)	$256,920	$331,963	$394,519	$442,563	$501,337	$550,156
EQC cover as a percent of all residential cover	47%	60%	72%	80%	91%	100%
EQC break-even premiums						
Break-even EQC premium, per $100 of cover[2]	$0.23	$0.19	$0.17	$0.16	$0.14	$0.13
Breakeven annual EQC premium per dwelling ($) [3]	$397	$437	$489	$552	$644	x

(1) These estimates are subject to a range of modelling and other assumptions and caveats.

(2) The current EQC premium rate is 20 cents per $100.

(3) Including 15% GST. EQC's current maximum annual premium per dwelling is $345, including GST.

Note: The maximum annual premium = breakeven premium x EQC cap.

4. Table 2 below sets out updated exposure figures and levies (essentially an update of some components in Table 1 for 2020).

Table 2

All figures in $m unless explicitly stated otherwise

Year Buildings Contents	2016 $150k cap not included	2020 $150k cap not included	2020 $200k cap not included	2020 $250k cap not included	2020 $400k cap not included	2020 uncapped not included
Expected Cost of Claims [1]						
Earthquake		*173.6*	*180.8*	*184.8*	*189.4*	*190.9*
Volcano		*103.5*	*109.6*	*110.8*	*112.9*	*113.9*
Tsunami		*73.5*	*98.0*	*122.6*	*159.3*	*163.4*
Attritional		*32.1*	*32.1*	*32.1*	*32.1*	*32.1*
Total Expected Cost of Claims:		**382.7**	**420.5**	**450.2**	**493.7**	**500.3**
Expenses [2]		80.0	80.0	80.0	80.0	80.0
Cost of risk financing [3]		154.3	158.9	162.0	165.1	170.3
Total Break Even Premium Pool		**617.1**	**659.4**	**692.3**	**738.8**	**750.6**
Gross total sum insured [4]		261,558	338,920	404,452	520,397	576,191
Break Even Premium ($)	**0.20**	**0.24**	**0.19**	**0.17**	**0.14**	**0.13**
Number of risks [5]		1,773,114	1,773,114	1,773,114	1,773,114	1,773,114
Average Break Even Premium per risk ($) [6]		348	372	390	417	423
Final EQC premium (including 15% GST)	**345**	**414**	**437**	**489**	**644**	

Annex 5: Comparison of options to improve insurance affordability and availability

	Strengths	Weaknesses
No action	• Simple, no implementation • Lower fiscal risk than the other options, particularly while uptake remains high • Government does not further subsidise private property risk • Over time, price signals likely to lead to the demolition of unsafe buildings • No precedent set that government will take on private property risk caused by climate change	• Does not address the financial pressures people face from high insurance premiums in high-risk regions (particularly Wellington), and could lead to non-insurance for buildings with particularly high prices • Could reduce the rate of intensification/developments in Wellington, acting as a barrier to achieving government housing policy in the region • Results in uncertainty for property owners, government and council
Moderate increase in the cap	• Simple, relatively easy to implement • Will have some impact on pricing in high risk regions, although not proportionate to risk transfer • A relatively simple and broad intervention, easy to understand and implement • [34] • Government and homeowners will have certainty about extent of customer coverage and levy up to cap amount - the higher the cap, the higher the certainty about the final premium • Lower precedent value for climate risk than other options	• Price increases for lower risk regions like Northland, Auckland and Hamilton (some of these regions have lower average income after housing than high risk regions) • Not effective in solving the affordability problem for high-risk high value apartments • [34] • Higher crown exposure • Precedent for Crown approach to climate risk
Large increase in the cap	• Simple, relatively easy to implement • Will have larger impact on pricing in high risk regions (although not proportionate to risk transfer) • A relatively simple and broad intervention, easy to understand and implement • [34]	• Higher price increases for lower risk regions (eg, Northland, Auckland, Hamilton), some of these regions have lower average income after housing than highest risk regions • Not effective in solving the affordability problem for particularly high-risk high value

	[34] • Government and homeowners will have certainty about extent of customer coverage and levy up to cap amount (the higher the cap, the higher the certainty about the final premium)	apartments • Mutes insurance price signals, and incentivises conversion of high-risk buildings to cheap apartments • [34] • Potential to cause larger insurers to consider exiting the residential property insurance market • Precedent for Crown approach to climate risk
Cap increase targeted at certain properties	• More targeted at localised issues • May be possible to design in a way that does not increase costs in low-risk areas • Could apply means testing	• Adds complexity and administration cost into the EQC Scheme, which is currently simple • Difficult boundary issues (where does government draw the line on who gets the benefit?) • Increases risk weighting of EQC's portfolio • Not effective in solving the affordability problem for particularly high-risk high value apartments (unless taking very high levels of their risk) • Mutes insurance price signals • Precedent for Crown approach to climate risk
Direct provision of natural disaster insurance for high-risk MUBs	• More scope to directly impact availability and affordability • Potential for lower Crown risk-exposure compared with cap increase • Can be directly linked to resilience incentivisation • A less broad intervention for a localised issue (compared with the cap) - does not necessarily increase costs for lower risk regions • Does not require insurer agreement or rely on insurer pricing decisions	• Higher administrative cost and longer implementation period • Less certainty for buildings about whether they are covered (compared with cap) • More pressure to decide what prices are reasonable • More intensive to maintain updated • Equity problems for buildings that are not covered but have high insurance costs • If heavily subsidised, would mute price signals and could come at significant fiscal risk

Targeted reinsurance (e.g. Flood Re model)	• More scope to directly impact availability and affordability for MUBS • No or lower Crown exposure (especially if actuarially priced) • Brings along private insurers (agreement and assistance) – ideally can be run by private sector • Can be directly linked to resilience incentivisation • Does not necessarily increase costs for lower risk regions	• Higher administrative cost, longer implementation period, requires insurer agreement or leadership • More pressure to decide what prices are reasonable • Depending on design, could potentially have less certainty about who is covered (compared to cap) • Depending on design, equity problems for buildings that are not covered but have high insurance costs • Depending on subsidisation, could still mute price signals

[33]

[33]

[25]

[25]