

The Treasury

Treasury Advice Related to Modernising the EQC Act Information Release

December 2021

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Coverage of mixed-use buildings under the Earthquake Commission Act

Advising agencies	The Treasury
Decision sought	Agree to amend the Earthquake Commission Act 1993 to extend EQC cover of mixed-use buildings, and amend the EQC Act definition of ‘residential building’.
Proposing Ministers	Hon Grant Robertson, Minister of Finance, Minister Responsible for the Earthquake Commission

Summary: Problem and Proposed Approach

Problem Definition

The Earthquake Commission (EQC) scheme provides a capped level of insurance for residential buildings, to allow insured home owners to recover in the event of a qualifying natural disaster. The EQC scheme has two core elements relevant to the proposal considered in this RIS:

- the scope of insurance cover provided by EQC to home owners, and
- the manner by which EQC determines eligibility for that insurance cover.

It is proposed that both elements of the EQC scheme be amended through a targeted Bill to ensure that the EQC Act equitably accounts for property owners¹ use of and interest in common areas in mixed-use buildings (MUBs).

Residential building test

A building is classified as a residential building when 50% or more of its floor area is made up of dwellings (the residential building test). Under the EQC Act, these properties receive EQC cover for the entire building and corresponding insured land.

Conversely, buildings are classified commercial,² when less than 50% of the total area is made up of dwellings. These properties do not receive EQC cover for the entire building and may have less (or no) insured land. The areas covered by EQC for commercial buildings with dwellings are limited to those dwellings (such as apartments), appurtenant structures,³ and services.

The area within a commercial building not covered by EQC is subject to private insurance, and there is greater complexity in determining a repair strategy in cases where EQC only covers part of a building (i.e. MUBs which fall below the 50% threshold). For example, it can be difficult to reconcile who covers what when it comes to foundation or roof repair if the dwelling is on the ground floor or top floor, or floor versus ceiling in mid-floor dwellings.

¹ This paper uses the term ‘property owners’ to refer to owners of residential property in a mixed-use building. This term is not intended to refer to owners of commercial property.

² This paper uses the term ‘commercial’ to refer to buildings and areas within mixed-use buildings that are non-residential under the EQC Act. Non-residential areas in mixed-use buildings may not necessarily be commercial in nature, for example these can also include not-for-profits or incorporated societies.

³ EQC practice takes ‘appurtenant’ to be that it belongs to the dwelling, in a way that is ancillary, i.e., ownership interest or use for household purposes. Appurtenant structures are generally areas such as resident carparks and storage lockers. See section 1.3, page 6 of the EQC insurers’ guide: https://www.eqc.govt.nz/sites/public_files/documents/EQCover/EQCover-Insurers-Guide-Feb2019.pdf

Problem definition

Most MUBs are either clearly residential (>50% residential dwellings) or clearly commercial (<50%). It is only in the apparently few cases where MUBs fall either side of, and are close to the 50% threshold, where the residential building test and its technicalities appear to become problematic, due to the fact that the design of the current residential building test results in inequitable outcomes for MUB owners.

Under the current definition of 'residential building', common areas and appurtenant structures in a MUB are excluded from counting towards residential floor space for the purposes of determining whether a building is residential. This does not reflect the wider residential use of and interest in a MUB, which creates a problem of horizontal equity between MUB owners and owners of standalone houses.

There are two key issues within this problem:

- **Problem 1:** That the residential building test does not reflect owners' actual use of and interest in a MUB, and
- **Problem 2:** That EQC cover for property owners in primarily commercial buildings does not reflect owners' actual use of and interest in a MUB.

Scope of change

A change is unlikely to significantly address affordability and availability concerns in high risk areas such as Wellington, due to the limited number of buildings that would be affected. The increased EQC entitlements (and hence costs) will be significant for some affected building owners. However, as the change is expected to affect a very small fraction of buildings insured by EQC, the increase in costs is expected to be very small as a proportion of total EQC claims.

Out of scope problems related to the residential building test

Stakeholders raised a number of other issues related to the residential building test and EQC Act more broadly that are out of scope of this work. A key issue raised was whether the bright line 50% threshold is set at the right level.

The Treasury considers that whether the 50% threshold is fit for purpose is a matter best suited to consideration as part of a wider review of the EQC Act, as it directly relates to broader policy questions and rationale for the scope of EQC cover.

Summary of Preferred Option

The Treasury's preferred option for progressing a change to the coverage of mixed-use buildings under the EQC Act is to consider this as part of a wider review of the EQC Act. The rationale for this is to minimise any unintended consequences of a change, and so that the issues can be considered as part of wider questions about the scope of EQC cover.

Based on Government priorities, it has been determined that this work will be progressed as a targeted Bill to amend the EQC Act. This is due largely to the expected timing of the wider review of the Act, which officials consider is unlikely to be executed prior to 2022. Progressing this change as part of a targeted Bill will ensure these changes are able to take effect earlier, and will be in place should a significant natural disaster event occur prior to the completion of the wider EQC Act review.

The EQC Amendment Bill will expand the areas in a mixed-use buildings that receive EQC cover. That is, the Bill will expand EQC cover in a largely commercial building to also include a proportion of common areas that are used by the residents in the building, which are currently not covered by EQC. This will ensure EQC cover better reflects residential owners' use of and interest in MUBs that are not primarily residential.

This proportional approach will also be extended to how EQC determines what buildings are eligible for cover. In taking a proportional approach to the residential building test, the test would make a direct comparison of the residential floor area (including appurtenant structures) and the commercial floor areas in the building, and then allocate common areas to the residential area on a pro-rata basis. This means:

- the area of the **dwelling** would be allocated to the residential area (status quo)
- the area of the **appurtenant structures** such as resident carparks and storage areas would also be allocated to the residential area (these areas are, in effect, allocated to the commercial area under the status quo), and
- a **proportion of the total common area** would in effect be allocated to the residential area (these are allocated to the commercial area under the status quo).

The practical effect of this approach would be a more equitable residential building test, as it will better account for the residential use of a building. Further, some increase in the floor area that is counted in the residential building test is likely to allow some currently commercial buildings to become residential, therefore extending EQC cover to the entire building.

Section B: Summary Impacts: Benefits and costs

Who are the main expected beneficiaries and what is the nature of the expected benefit?

The primary beneficiaries of the policy change are expected to be:

- owners whose buildings are commercial under the current definition and become residential under a new definition, and
- owners of buildings that remain commercial under the proposed definition but receive increased cover from EQC due to the new inclusion of the residential share of common areas.

Effects for owners whose buildings are commercial under the current definition and become residential under a new definition

The primary effects for owners whose buildings change from commercial to residential would likely be:

- a lower claims excess on damage outside areas currently covered by EQC
- EQC accepting claims for damage in common and commercial areas of the building (transfer of liability), and
- EQC covering more of the associated land, as residential buildings receive additional land cover from EQC.

By enabling more MUBs to meet the 50% threshold in the residential building test, EQC would cover a greater proportion of the seismic risk for MUBs. For example, in the case of the Marion Square Apartment building, the commercial status of the building led to the need to pay a \$2.3 million excess. This excess likely would have been lower if the MUB had been fully covered by EQC as a residential building.⁴

⁴ The Marion Square Body Corporate made a submission on the Earthquake Commission Amendment Act 2019, and have spoken publicly about their experience being classified as a commercial building by EQC: https://www.parliament.nz/resource/en-NZ/52SCFE_EVI_77657_1874/9958e627f585dc071640c96d8c2c682412d573cf

Effects for owners of buildings that remain commercial under the proposed definition

The primary effects for owners whose buildings remain commercial but who receive an increase in EQC cover would likely be EQC covering damage for a residential share of common areas of the building. These areas would not previously have been covered by EQC.

Increased clarity may help homeowners to set appropriate insurance

More general benefits of the change are expected to be improved clarity of the process and its outcomes for homeowners, brokers and insurers. While the law itself is arguably clear on the residential building test and the 50% threshold, the term 'clarity' is used in this paper primarily to refer to the 'counterintuitive' nature of the residential building test, as has been a key issue raised by stakeholders.

The test is counterintuitive to stakeholders because there is a misalignment between what areas in a MUB are counted as residential for the purposes of the residential building test, and which areas are covered by EQC. The residential building test only counts dwellings, whereas EQC covers dwellings, appurtenant structures, and services in a largely commercial MUB. The Treasury's preferred option for amending the test will help to improve the coherence of the test by including appurtenant structures, along with dwellings, in the calculation, thereby matching it more closely to the scope of EQC cover.

A clearer test will support owners, brokers, and insurers to be informed upfront of the risk that a MUB may not be eligible for full EQC cover. These stakeholders are therefore better equipped to take steps to mitigate that risk, for example by seeking to employ a surveyor or valuer to undertake the residential building test proactively, and/or by securing appropriate private insurance cover.

Benefit to insurers of shifting liability

Private insurers will also benefit from the proposed changes, as some risk will be transferred to EQC through EQC covering a residential proportion of common areas in largely commercial MUBs, and in cases where currently commercial buildings become residential (and fully covered by EQC) under the amended definition.

Where do the costs fall?

The costs of this policy change fall to EQC. The proposals do not change the maximum amount EQC would pay on a claim for a particular MUB, but would mean EQC pays out more compensation to previously commercial, now residential MUBs and MUBs that remain commercial in the wake of a qualifying natural disaster event.

Due to limited data, EQC is unable to model the financial impacts of this change. This could amount to a notable increase in cover and compensation from EQC to MUB owners in commercial buildings in the wake of a natural disaster event, though noting that the number of buildings likely to be affected by the changes is limited.

We also expect that a reduction in liability for private insurers, due to risk transfer for more areas in MUBs to EQC, may also mean a small loss in premium revenue. However, this is not a cost to insurers as it would reflect the reduction in insurer risk.

What are the likely risks and unintended impacts? How significant are they and how will they be minimised or mitigated?

The Treasury has identified several low impact risks associated with the proposals:

- **Increased complexity for claims handling:** The proposals may result in some increase in claims handling complexity, by requiring EQC to work with private insurers to settle their respective proportions of shared common areas in the event of a claim. EQC has advised that this is a low risk due to existing processes and organisational practices with private insurers around agreeing the share of liability on shared elements within a MUB and in deciding whether a building is under or over the EQC cap.
- **Perceptions that the solution does not go far enough:** There is a risk that some building owners may not think this approach goes far enough to align the treatment of MUBs with standalone dwellings. We consider the proposals keep the residential building test settings at the right level to ensure EQC does not take on undue commercial liability.
- **Risk of unintended consequences for related definitions in the EQC Act:** A targeted amendment to the EQC Act does introduce a risk of unintended consequences for other aspects of the Act. For example, related definitions such as the definition of 'dwelling'.
- **Risk of extending EQC cover of earthquake prone buildings:** The extension of the residential building definition may mean that EQC cover is extended to more earthquake prone buildings (EPBs) – which are often multi-unit buildings. This is not expected to be substantial and is expected to diminish over time under the EPB regime.

Section C: Evidence certainty and quality assurance

Agency rating of evidence certainty?

The Treasury is confident in the assessment of the relative merits between the various options. However, Treasury is unable to provide an assessment of the monetised costs and benefits given the limited available data.

The Treasury undertook stakeholder consultation over December 2019 to early January 2020 to inform policy work. Consultation was limited to target key stakeholders due to time limitations and the technical nature of the issue.

Those consulted included EQC, Ministry of Housing and Urban Development (MHUD), Department of Internal Affairs (DIA), Insurance Council of New Zealand, IAG NZ, AON NZ, the Body Corporate Chairs Group, Survey and Spatial New Zealand (formerly New Zealand Institute of Surveyors), New Zealand Institute of Valuers, Wellington City Council, Crombie Lockwood, and the Marion Square Body Corporate.

We have also collated data from a survey 100 body corporates in Wellington. Based on this data, 19 buildings were commercial according to the EQC definition, and 8 of those buildings contained at least 1 apartment. This suggests that around 8% of MUBs could stand to benefit from the proposed policy change – though noting the limitations of the small sample. It should also be noted that the Wellington-based nature of the sample may reduce the application of this data to wider New Zealand, due to the higher earthquake risk and different make up of buildings in comparison to most cities.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:
The Treasury
Quality Assurance Assessment:
The panel considers the RIS meets the quality assurance criteria.
Reviewer Comments and Recommendations:
N/A

Coverage of mixed-use buildings under the Earthquake Commission Act

Section 1: General information

1.1 Purpose

The Treasury is solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by Cabinet on 23 March 2020.

1.2 Key Limitations or Constraints on Analysis

There are limitations around the availability and quality of data on EQC insured property, especially for a narrow class of property such as MUBs affected by changes to the residential building test. For reasons of commercial confidentiality, insurer data is also limited and fragmented for policy makers and regulators. The evidence base for this analysis has been drawn primarily from stakeholder consultation.

These proposals will only affect a minority of EQC insured property (i.e. properties with dwellings in them that would currently be assessed as commercial buildings by EQC). Based on stakeholder consultation, the Treasury is confident that the scale of the problem around EQC cover for MUBs is small. There was consensus among stakeholders on this point, and it was expressed that a majority of buildings are either clearly residential (>50%) or commercial (<50%) and thus are not concerned by the residential building test set out in the EQC Act. A sample of 100 Body Corporates in Wellington suggests that 8% of multi-unit buildings could stand to benefit from the proposed policy change.

1.3 Responsible Manager (signature and date):

Helen McDonald
Manager, Earthquake Commission Policy Team
Economic System Directorate
The Treasury
5 March 2020

Section 2: Problem definition and objectives

2.1 What regulatory system(s) are already in place?

The EQC scheme provides a capped level of insurance for residential buildings, to allow insured home owners to recover in the event of a qualifying natural disaster. The EQC scheme has two core elements:

- the scope of insurance cover provided by EQC to home owners, and
- the manner by which EQC determines eligibility for that insurance cover.

The scope of EQC cover depends on the type of building in question

A building must be a residential building to qualify for EQC cover over the whole building (up to the capped amount).⁵ If the building is commercial, it will only receive cover for:

- dwellings
- appurtenant structures (such as storage lockers and car parks associated with the dwellings), and
- associated services (such as sewerage pipes).

A residential building test determines which buildings qualify for full EQC cover

The EQC Act provides a prescriptive definition of both a home – a dwelling, and what makes up a building with dwelling(s) – a residential building. The definitions are unchanged since 1993.

A building is a residential building when 50% or more of its floor area is made up of dwellings. Under the EQC Act, these properties receive EQC cover for the entire building and corresponding insured land. Conversely, properties are classified commercial when less than 50% of the total area is used for dwellings. These properties do not receive EQC cover for the entire building and may have less (or no) insured land.

Mixed-use buildings

The properties affected by the residential building test are mostly multi-unit buildings, in particular mixed-use buildings (MUBs)⁶ that are used for both commercial and residential purposes.

There is a great deal of diversity across types of MUBs and their ownership models. Common examples include:

- Unit titles: Under the Unit Titles Act 2010 (UTA), where owners own a defined part of a building and share common areas with other owners. Every unit title property has a body corporate.
- Company share: Where rather than purchasing a freehold title, owners purchase a group of shares in a company which owns the entire block.
- Cross-leases: where multiple individuals own an undivided share of land, which they build on, with the land being leased from the other owners (often for a term of 999 years).
- MUBs with a single owner of both the residential and commercial aspects (e.g., a dairy with a dwelling attached).

⁵ EQC cover is currently capped at \$150,000 per dwelling disclosed to the private insurer.

⁶ Multi-unit buildings are also often referred to by the “MUB” abbreviation. However, this paper uses the abbreviation only in relation to mixed-use buildings specifically – where a multi-unit building is being described it will be written in full.

EQC Public Inquiry and Act review

Through previous consultation and policy work on the EQC Act, in particular through the development of a public discussion document in 2015, we are aware of a range of issues relating to how the EQC Act applies to land and buildings in general.

Further issues with the system will likely be raised by the Public Inquiry into the EQC, which is reporting on operational experiences of the EQC after the Canterbury earthquakes. The Government has indicated its intention to review the EQC Act following the report of the Inquiry, which is due by 31 March 2020.

Fire and Emergency New Zealand levy

The current Fire and Emergency New Zealand Act 2017 refers to the definition of 'residential building' in the EQC Act to calculate the Fire and Emergency New Zealand (FENZ) levy.⁷ The levy regime is therefore linked to the EQC Act definition for the duration of the transitional period before the amended Fire and Emergency New Zealand Act 2019 comes into force (currently, until 1 July 2024).⁸ Unless a savings provision is included the new definition would also apply for FENZ purposes.

2.2 What is the policy problem or opportunity?

The design of the current residential building test results in inequitable outcomes

Under the current definition of 'residential building' under the EQC Act, common areas and appurtenant structures⁹ in a MUB are excluded from counting towards residential floor space for the purposes of determining whether a building is 50% residential. This means that the test does not account for wider residential use of and interest in a MUB beyond a dwelling (apartment) itself, which creates a problem of horizontal equity between MUB owners and owners of standalone dwellings (houses).

There are two key issues within this problem:

- **Problem 1:** That the residential building test does not reflect owners' actual use of and interest in a MUB;
- **Problem 2:** That EQC cover for property owners in primarily commercial buildings does not reflect owners' actual use of and interest in a MUB.

7 cl 24, Schedule 1, FENZ Act 2017

8 The Fire and Emergency New Zealand (Levy) Amendment Act 2019 passed into legislation on 7 May 2019 and changed the commencement date for new levy provisions in the Fire and Emergency Act 2017 (sections 80 to 140) to 1 July 2024.

9 EQC practice takes 'appurtenant' to be that it belongs to the dwelling in a way that is ancillary i.e. ownership interest or use for household purposes; see section 1.3, page 6 of the EQC insurers' guide:
https://www.eqc.govt.nz/sites/public_files/documents/EQCover/EQCover-Insurers-Guide-Feb2019.pdf

Out of scope problems related to the residential building test

Stakeholders raised a number of other issues related to the residential building test and EQC Act more broadly that are out of scope of this work. A key issue raised was whether the bright line 50% threshold is set at the right level.

In particular, it has been raised that for MUBs that are close to and on either side of the 50% threshold, for example 49% versus 51%, the EQC cover provided is significantly different despite the buildings being of a similar makeup. This does create horizontal equity issues for similar MUBs on the margins of being 50% residential, however the issue is small in scale due to the small number of MUBs likely to be affected (with most MUBs being clearly under or over the 50% threshold).

The Treasury considers that whether the 50% threshold is fit for purpose is a matter best suited to consideration as part of the wider review of the EQC Act, which is taking place over 2020/2021. This is because it directly relates to broader policy questions and rationale for the scope of EQC cover.

2.3 What is the current state within which action is proposed?

Issues around the residential building test and eligibility for EQC cover are becoming more salient due to wider changes in property insurance markets. More granular risk-based pricing by insurers and earthquake strengthening requirements are adding to financial pressure for homeowners of such buildings.

Consequently, there is more at stake financially for MUBs that do not meet the residential building test for EQC coverage. Certainty of outcomes, cost and equitable access to insurance cover are all related and relevant issues for MUB owners at present.

Our analysis and stakeholder feedback supports the assertion that the feelings of inequitable treatment being expressed by MUB owners in relation to the residential building test are being exacerbated by broader frustrations due to changes in property insurance markets generally.

Work is underway across government to address the various and interrelated issues affecting MUBs. Relevant work underway is set out below:

- policy advice by the Treasury on options for changes to the Earthquake Commission (EQC) cap or [33]
- Cabinet Business Committee approval of the Residential Earthquake Prone Building Financial Assistance Scheme. This Scheme will provide low cost loans to owner occupiers of units in earthquake prone buildings who meet the hardship criteria described in the Scheme settings
- development of guidance by the Ministry of Housing and Urban Development (MHUD) on how body corporates can comply with the requirement under the Unit Titles Act 2010 to insure buildings to full insurable value, and
- engagement between the Insurance Brokers Association New Zealand and the Insurance Council New Zealand on regulatory expectations around product design and communication with customers. This is likely to include discussion on ensuring body corporates are well-informed about premium increases and have sufficient notice periods before policy renewals.

2.4 What do stakeholders think about the problem?

We undertook stakeholder consultation over December 2019 to early January 2020 to inform policy work. Consultation was targeted at key stakeholders and, due to the technical nature of the issue, stakeholders were selected based on their level of experience with the technicalities of the residential building test.

Stakeholders appeared to share our understanding of the problem and its causes, and were broadly supportive of the policy intent. Consultation illustrated that there is no clear-cut solution or overall preferred option across stakeholders.

The key message from stakeholders appeared to be that whatever the approach is, it should be clear so that people can understand their entitlements and source private insurance where necessary. In particular, stakeholders raised that a key source of confusion was the misalignment between what areas are counted by EQC in the residential building test, and what areas are covered by EQC. In a largely commercial MUB, EQC covers dwellings, appurtenant structures, and services. However, the residential building test only counts dwellings. Stakeholders noted that this difference was counterintuitive and seemed incoherent.

Insurers and brokers

The insurers and brokers we spoke with were broadly supportive of the policy intent of the proposed change. Feedback across insurers and brokers was largely consistent, with particular emphasis on the fact that the problem stemmed from a lack of certainty in the current approach to EQC cover of mixed-use buildings. In particular, it was emphasised that:

- whatever the approach selected, it needs to be clear, and
- insurers and brokers prefer an upfront and proactive approach that can be determined at the time of a policy being taken out or renewed.

Affected building owners

Affected building owners expressed a view that the spaces which owners must use to access apartments must be included in the calculation of residential status.

Affected building owners saw the problem as an equity issue, and focused on the fact that the different makeup of a MUB, compared with a standalone house, meant that MUB owners were not getting a fair deal.

They also noted that any new system should be more certain and predictable, and knowable in advance of a claim, but should also be perceived as fair and reflecting the reality of a building's design (e.g. excluding public residential areas would not reflect the reality of the residential function of those areas). It was emphasised that building owners need to be able to make informed decisions about what private insurance cover they should purchase, and there was a sense that no parties are able to do this right now.

Practitioners

The practitioners we consulted emphasised that it is usually obvious whether a building is residential or not, and that surveying or valuation tends to come in in areas of ambiguity.

Survey and Spatial NZ expressed that, on the face of it, removing common areas from the residential building test would reduce complexity. Alternatively, NZ Institute of Property Valuers were supportive of including all common areas in the test, because it was seen to be most equitable when compared to the treatment of a standalone dwelling under the EQC Act.

EQC

EQC sees the issue largely as an education problem among the public, insurers and brokers. In 2019 EQC received around 300 queries to its EQC cover inbox. Around 10-15% of these were for MUBs, predominantly from brokers. The majority of these enquires would be taking place either when new policies are being written or if for some reason a review of the cover was occurring. The key themes included:

- mixture of owner occupied and short-term rental scenarios (including Airbnb, etc)
- residential shared spaces and the effect on the dwelling calculation over 50% of the building
- number of EQC levies applicable – what constitutes a dwelling, and
- EQC cover on units not sold at time of placing the insurance.

In EQC's view, this highlights the need for better education of residential property owners on the nature of the risks that they are entering into when buying a mixed-use building or a portion of one (i.e., an apartment). Similarly, there is an obligation on insurers and insurance brokers to advise and sell the most appropriate product to meet the needs of the insured parties.

2.5 What are the objectives sought in relation to the identified problem?

The chosen policy intervention should ensure the residential building test accounts for property owners' use of and interest in common areas in mixed-use buildings (MUBs). EQC cover of mixed-use buildings, and the residential building test, should be:

- clear and certain – affected owners able to understand the test and what the outcomes will be, and
- equitable – treatment of MUBs is equitable compared with treatment of standalone dwellings, i.e., EQC cover should be proportionate for all residential building owners and consistent with the EQC Act.

Section 3: Option identification

3.1 What options are available to address the problem?

Stakeholder consultation has informed the assessment of alternative options, which are set out below. To help illustrate the impacts of the various options, consider a MUB with the below make up. This MUB will be assessed in accordance with each option (a summary of these examples is at Appendix 1).



- Dwellings: 1000sq/m
- Appurtenant: 100sq/m
- Commercial: 1500sq/m
- Common: 600sq/m
- **Total: 3200sq/m**

Non-regulatory options

Description

We have considered non-regulatory options such as whether the residential building test can be affected through non-statutory guidance by EQC or regulations. In particular, better information and guidance from EQC could address the public understanding issue set out in the problem definition by clarifying the workings of the residential building test and its distinction from EQC cover.

Analysis

However, we consider that non-statutory guidance alone cannot address the issue of horizontal equity of the residential building test itself that stems from the design of the test itself – namely the exclusion of certain areas in a MUB from the test. Legislation is required to change the residential building test itself, as the relevant concepts relating to EQC cover and the residential building test are described in the EQC Act.

The Treasury considers that due to the inherently complex nature of the residential building test and the grey areas that can emerge around the structure of different MUBs, supplementary non-statutory guidance should be developed by EQC to support public education as part of implementing the chosen intervention.

Option 1: Taking a proportional approach to counting common areas

Description

In addition to these existing components of a mixed-use building that are covered by EQC (dwellings, appurtenant structures, and services), a proportional approach to common areas would also extend EQC cover to a residential proportional share of those areas.

This approach recognises that the residents have some interest in the common property in a mixed-use building, regardless of whether the building meets the 50% threshold. The residential building test would also be aligned with this increased scope of EQC cover.

The approach entails allocating the common areas in the MUB on a pro-rata basis in accordance with the residential to commercial proportions of the building. This is similar to the *removing common areas* approach described below. However, it differs by allocating the common areas in the MUB on a pro-rata basis in accordance with the residential to commercial proportions of the building. This option would include in the residential building test:

- the area of the **dwelling** (status quo)
- the area of the **appurtenant structures** (includes carpark areas and storage areas), and
- a **proportion of the total common area** of the building based upon the total residential area component of the building versus the total commercial area component of the building.

Analysis

This option would help to address both elements of the problem definition:

- **Problem 1:** *the residential building test does not reflecting owners' actual use of and interest in a MUB.* This option includes appurtenant structures and in effect a proportion of common areas in the test.
- **Problem 2:** *EQC cover for property owners in primarily commercial buildings not reflecting owners' actual use of and interest in a MUB.* This option extends EQC cover to a residential proportion of common areas in a primarily commercial building.

The practical effect of this approach would be a more equitable residential building test, as it would better account for the residential use of and interest in a MUB. Further, some increase in the floor area that is counted in the test is likely to allow some currently commercial buildings to become residential, therefore extending EQC cover to the entire building.

Extending EQC cover to a proportion of common areas could amount to an increase in compensation from EQC to MUB owners in a significant event.

The Treasury see this outcome as desirable because it is:

- fairer – MUB owners in primarily commercial buildings still receive EQC cover for an equitable proportion of the building; while EQC avoids taking on undue commercial liability for those buildings
- simpler – dividing common areas proportionally removes the need to assess whether residents use each common area element of a building, which also increases the likelihood that MUB owners can determine in advance of an event whether their building is residential, and
- more intuitive – this approach aligns the test with the areas EQC will cover, which makes it easier to understand and communicate.

Example of proportional approach



Is it residential?

Based on the proportional approach:

Residential space (Dwelling + Appurtenant): $1100/2600 = 42\%$

Commercial space: $1500/2600 = 58\%$

Common space: 600 split 42:58 = 252 residential and 348 commercial.

This MUB is **commercial (42%)**.

What is covered by EQC?

Dwellings, appurtenant structures, and services **plus** 42% of common areas.

Option 2: Including all common areas in the residential building test

Description

This approach would include all common areas such as lobbies and access corridors in the residential building test.

The practical effect of including all common areas in the test would be that common areas used by the residents, e.g. access corridors and lobbies, would contribute floor area to the residential building test for determining if a property is a residential building.

The Treasury expect that amending the test in this way would cause a greater number of mixed-use multi-unit buildings that currently do not qualify as residential buildings, to qualify, compared with the expected impact of the alternative options (though we still expect the number of affected buildings to be limited). For those buildings that remain below the 50% threshold, EQC would still cover dwellings, appurtenant structures and services.

Analysis

This option would help to address one key element of the problem definition:

- **Problem 1:** *the residential building test does not reflect owners' actual use of and interest in a MUB.* This option will address this by including appurtenant structures and all common areas in the test.

This option does not address the remaining element:

- **Problem 2:** EQC cover for property owners in primarily commercial buildings not reflecting owners' actual use of and interest in a MUB. Owners whose buildings remain commercial would still not receive cover from EQC beyond their dwellings, appurtenant structures, and associated services.

This option opens up questions around how more ambiguous common areas should be considered in the residential building test. For example, areas of a roof that residents can walk on, or spaces such as lobbies that are shared for commercial and residential purposes. This means that the approach would either require the development of an exclusive list of common areas that EQC would cover, or the development of some criteria. EQC has indicated that the simplest approach would be to include all common areas that residents have a legal right to use, with some exclusions for areas that would not be covered by EQC in standalone dwellings, such as swimming pools, gyms or saunas – to mitigate the risk of EQC overcompensating MUB owners compared with cover provided to owners of standalone dwellings.

Including all common areas would cause EQC to take on undue commercial liability

There is a risk that this option could enable some buildings to qualify as 'residential' where such a classification may be inappropriate. For example, hotels with some permanent residents could become eligible for EQC cover, if large shared spaces such as lobbies are counted as residential space.

This would lead to EQC providing full cover for largely commercial buildings. As the purpose of the EQC scheme is to provide cover for residential property, it is important to note that the purpose of the residential building test is not only to ensure homeowners get adequate cover from EQC, but also to ensure EQC does not take on undue commercial liability.

This approach could also create adverse effects by incentivising developers to add a few dwellings to a primarily commercial building, to help qualify it for EQC cover once all common areas are counted.

Example of all common areas approach



Is it residential?

Where all common areas are counted:

Residential space = Dwellings:
1000sq/m + Appurtenant structures:
100sq/m + Common: 600sq/m =
1700sq/m.

This MUB is **residential** (53.125%)

What is covered by EQC?

This MUB would receive EQC cover for the whole building. This is in spite the majority of the actual used space being commercial (1500sq/m).

Option 3: Removing common areas from the calculation

Description

This option entails removing common areas from the residential building test completely, and comparing residential unit floor space directly with commercial unit floor space.

This option would mitigate some of the risk posed by including common areas, by eliminating such considerations from the assessment.

Analysis

This option would help to address one key element of the problem definition:

- **Problem 1:** *the residential building test does not reflect owners' actual use of and interest in a MUB.* This option would help to improve the status quo by ensuring common areas no longer weight the commercial proportion of the building as they currently do. However, this option still does not fully account for owners' actual use of and interest in a MUB's common areas.

This option does not address the remaining element:

- **Problem 2:** *EQC cover for property owners in primarily commercial buildings not reflecting owners' actual use of and interest in a MUB.* Owners whose buildings remain commercial would still not receive cover from EQC beyond their dwellings, appurtenant structures, and associated services.

The practical effect would be that residential units are compared with commercial units to determine which use has a higher proportion of the building space. This could reduce complexity for MUB owners, brokers and insurers determining the extent of EQC coverage prior to an event.

This option fails to address the discrepancy between what space in a MUB is counted for the purposes of EQC cover and the areas that EQC actually covers. It is also unintuitive as it removes all (non-appurtenant) common areas that affected building owners consider they need access to in order to make their apartments liveable, which was a point expressed by affected building owners through stakeholder consultation.

Example of removing common areas approach



Is it residential?

Based on the proportional approach:

Residential space (Dwelling + Appurtenant): $1100/2600 = 42\%$

Commercial space: $1500/2600 = 58\%$

This MUB is **commercial (42%)**.

What is covered by EQC?

Dwellings, appurtenant structures, and services.

Option 4: Aligning the areas included in the residential building test with the statutory definition of areas the EQC covers

Description

This approach would include both the area of the dwellings and residential areas outside of the dwellings, like storage lockers and residential car parks. Those areas would then be compared with the floor area of the whole building, to determine whether it passed the residential building test. This option would include in the residential building test:

- the area of the **dwelling** (status quo), and
- the area of the **appurtenant structures** (includes carpark areas and storage areas).

Analysis

This option would help to address one key element of the problem definition:

- **Problem 1:** *the residential building test does not reflect owners' actual use of and interest in a MUB.* This option improves the status quo in respect of this problem by including appurtenant structures in the test.

This option does not address the remaining element:

- **Problem 2:** *EQC cover for property owners in primarily commercial buildings not reflecting owners' actual use of and interest in a MUB.* Owners whose buildings remain commercial would still not receive cover from EQC beyond their dwellings, appurtenant structures, and associated services.

Aligning the residential building test with EQC insured areas would address a key source of confusion regarding the test (as outlined in the problem definition) by bringing the second component of EQC cover, appurtenant structures, into the test. We do not consider services to be appropriate for the test as they account for little or no floor space in a MUB (these tend to be pipes and similar structures) and their inclusion would add significant complexity to the test.

We see aligning the residential building test with EQC cover as a major benefit as it will significantly improve the test's coherence, as the current misalignment has been raised by stakeholders as a source of confusion. The main shortcoming of this approach is that it fails to adequately account for residential use of common areas.

Example of aligning the residential building test with current EQC cover



Is it residential?

Where dwellings and appurtenant structures are counted, this MUB is **commercial (34.375%)**.

What is covered by EQC?

Dwellings, appurtenant structures, and services.

3.2 What criteria, in addition to monetary costs and benefits have been used to assess the likely impacts of the options under consideration?

We have used the following criteria as a basis for options analysis:

- clear – affected owners able to understand the residential building test and what the outcomes will be
- equitable impacts for owners of residential space in MUBs – treatment of MUBs is equitable compared with treatment of standalone dwellings, i.e., EQC cover should be proportionate for all residential building owners and consistent with the EQC Act

- equitable impacts for owners of commercial space in MUBs – the option should not cause EQC to take on undue liability for owners of commercial space in MUBs, as this would be inconsistent with the purpose of the EQC scheme which is to provide cover for homeowners
- efficient – low transactional and administrative cost
- robust – resistant to gaming, e.g., by developers of commercial buildings, and
- aligned with existing legislation – as much as possible, align with the principles and methods of the current EQC Act.

3.3 What other options have been ruled out of scope, or not considered, and why?

We considered designing a non-area based residential building test using Ownership Interest in accordance with the Unit Titles Act 2010. Ownership Interest of a building, which is expressed as a percentage, is set by a Registered Valuer when a unit title plan is deposited with Land Information New Zealand. The residential Ownership Interest as a proportion of total Ownership Interest could be used to determine whether the building was residential (with a 50% threshold), rather than using a floor space measure.

Stakeholders expressed significant interest in this option:

- affected building owners considered this would align with building owners' understanding of what they had bought when purchasing an apartment (what the value of the apartment is) and would also align with the levies paid to the Body Corporate, which are based on Ownership Interest
- the Ministry of Housing and Urban Development also favoured this option as it may provide an incentive for buildings to become unit title buildings, which has other advantages for arranging governance and insurance, and
- brokers and insurers were also interested in this option as it would allow for upfront information on whether a MUB was residential without needing to undertake an area-based test.

To implement this option, there would need to be two tests in the EQC Act: one for unit title buildings, and one for other forms of buildings. The Treasury considers that this raises the potential for equity issues between the treatment of different types of buildings, and that one test should apply to all buildings. For this reason, we have discounted this option, despite its potential benefits for unit title buildings.

This option would also retain a mismatch between the residential building test and what is covered by EQC. The Treasury received strong feedback from stakeholders that this mismatch is confusing and counterintuitive.

Section 4: Impact Analysis

	No action	Guidance	Option 1: Proportional	Option 2: All common	Option 3: No common areas	Option 4: Align with EQC
Clear	0	+ : clarify the residential building test and relationship to EQC cover.	++ : simpler approach. Alignment with EQC cover a significant improvement for intuitive nature of test. Two step process requires a calculation of residential to commercial proportions of common areas, however this is expected to be fairly straightforward to undertake.	+ : simpler approach. However there is likely to be confusion around more ambiguous common areas in buildings at the margins of the 50% threshold.	+ : simpler approach due to removal of confusion around common areas, but unintuitive for stakeholders.	++ : simpler approach due to removal of confusion around common areas.
Equitable impacts for owners of residential space in MUBs	0	0 : does not address equity issues.	++ : reflects residential use of common areas in MUBs.	++ : creates greater horizontal equity for owners of residential space in MUBs, increases likelihood that they will receive full cover from EQC.	0 : common areas no longer weight the commercial proportion of the building, but MUB owners in commercial buildings still do not receive cover for these areas.	0 : similar to status quo, though does not go far enough to create significant impact.
Equitable impacts for owners of commercial space in MUBs	0	0 : does not address equity issues.	0 : mitigates the risk of EQC taking on undue liability for owners of commercial spaces in a MUB by ensuring EQC covers only a proportion of common areas that reflect the residential share of the MUB.	- : creates inequities by increasing the likelihood that EQC will provide full insurance cover for largely commercial MUBs, which is inconsistent with the purpose of the EQC Act, and creates horizontal inequities between owners of commercial space in MUBs and owners of commercial space in standalone properties or wholly commercial buildings – who receive no EQC cover.	0 : mitigates the risk of EQC taking on undue liability for owners of commercial spaces in a MUB by restricting the residential building test to consider only residential dwellings in determining whether a MUB is residential.	0 : mitigates the risk of EQC taking on undue liability for owners of commercial spaces in a MUB by restricting the residential building test to consider only residential dwellings and their appurtenant structures in determining whether a MUB is residential.
Efficient	0	0 : does not make the	0 : two-step process requiring a calculation of	+ : likely to be a simpler test than the status quo – reduce	+ : likely to be significantly easier to carry out due to	+ : likely to be easily carried out due to

	No action	Guidance	Option 1: Proportional	Option 2: All common	Option 3: No common areas	Option 4: Align with EQC
		residential building test simpler or more efficient.	residential to commercial proportions of common areas – not expected to be more efficient than status quo.	administrative costs and costs of undertaking test proactively (i.e. hiring surveyor), but some uncertainty for buildings on the margins.	simplicity of test – reduce administrative costs and costs of undertaking test proactively (i.e. hiring surveyor).	simplicity of test – reduce administrative costs and costs of undertaking test proactively (i.e. hiring surveyor).
Robust	0	0 : does not make the residential building test more or less robust.	++ : unlikely to be gamed as common areas are allocated based on proportions of specifically residential space (dwellings and appurtenant structures).	- : may be gamed by developers by incentivising design of largely commercial buildings to include a few dwellings and large common areas.	++ : unlikely to be gamed as only specifically residential spaces counted in residential building test (dwellings and appurtenant structures), common areas removed.	++ : unlikely to be gamed as only specifically residential spaces counted in residential building test (dwellings and appurtenant structures), common areas removed.
Aligned with existing leg	0	++ : within the bounds of existing EQC Act.	+ : better aligned with EQC Act and UTA.	- : potential to take on undue commercial liability not consistent with EQC Act.	- : significant departure from existing EQC approach, unintuitive.	++ : significantly aligned with EQC Act.
Overall assessment	0	+ : guidance will be part of any intervention.	++	+	+	++

Key:

++ much better than doing nothing/the status quo

+ better than doing nothing/the status quo

0 about the same as doing nothing/the status quo

- worse than doing nothing/the status quo

-- much worse than doing nothing/the status quo

Section 5: Conclusions

5.1 What option, or combination of options is likely to best address the problem, meet the policy objectives and deliver the highest net benefits?

The Treasury recommends a proportional approach to including common areas in the residential building test, based on the residential versus commercial use of a building.

We suggest EQC cover over mixed-use buildings should be extended in the event that a MUB does not meet the 50% threshold to become a residential building, to include the residential proportional share of the common areas in the building, in addition to the dwellings, appurtenant structures, and services.

The residential building test should also be aligned with this proportional approach to common areas. This would mean allocating the common areas in the MUB on a pro-rata basis in accordance with the residential to commercial proportions of the building.

This option would include in the test:

- the area of the **dwelling** (status quo)
- the area of the **appurtenant structures** (includes carpark areas, defined as the area nominated as being for the exclusive use of the dwelling owner or occupier, predominantly for the use of vehicle parking; and storage areas, defined as an area separate to the dwelling areas which is for the exclusive use of the dwelling owner or occupier, predominantly for storage), and
- a **proportion of the total common area** of the building based upon the total residential area component of the building versus the total commercial area component of the building.

The practical effect of this approach would be a more equitable residential building test, as it would better account for the residential use of a building. Further, some increase in the floor area that is counted in the residential building test is likely to allow some currently commercial buildings to become residential, therefore extending EQC cover to the entire building.

Extending the scope of EQC cover will likely amount to an increase in cover and compensation from EQC to MUB owners in the wake of a natural disaster event.

The Treasury and EQC recommend this approach as it is:

- fairer – MUB dwelling owners in primarily commercial buildings will receive EQC cover for the proportion of the building that is residential; while minimising the extent to which EQC provides cover for primarily commercial buildings
- simpler – dividing common areas proportionally removes the need to assess whether residents use each common area element of a building, which also increases the likelihood that MUB owners can determine in advance of an event whether their building is residential, and
- more intuitive – this approach aligns the test with the areas EQC will cover, which makes it easier to understand and communicate (this was raised as a major source of confusion by stakeholders during consultation – T2019/4015 refers).

Further, the approach:

- addresses equity concerns between how MUBs are treated in comparison with standalone dwellings
- aligns with the principles of the EQC Act, which is intended to allow insured home owners to recover in the event of a qualifying natural disaster

- better aligns with the approach to common areas implied under the Unit Titles Act 2010, which assigns residential Ownership Interest for a MUB and implicitly pro-rates any unallocated common areas on the basis of the ownership shares, and
- is less likely to be gamed by developers (who could in theory maximise the common areas of largely commercial buildings with some dwellings, in order to receive full EQC cover for the whole building).

Stakeholder perspectives

This option was developed collaboratively with EQC, after stakeholder consultation was completed. Stakeholder views informed the analysis and basis for developing the option, by improving our understanding of the problem and what stakeholders care about – in particular, this is that the test should be clear, intuitive, and equitable in comparison to the treatment of standalone houses.

[26]

5.2 Summary table of costs and benefits of the preferred approach

The costs and benefits have been assessed in respect of costs and benefits to each individual affected party.

Overall, the costs to insurers are low volume in the scheme of an insurance company. However, benefits to individuals are expected to be medium-high.

Affected parties	Comment:	Impact	Evidence certainty
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Additional costs of proposed approach compared to taking no action

Owners of residential space in MUBs ¹⁰ Owners of commercial space in MUBs.	No additional cost	N/A	High
Commercial MUB owners	No additional cost	N/A	High
EQC	Ongoing additional costs due to increased cover for MUBs, and the likely small increase in buildings defined as residential. These costs are unquantified due to data limitations. More detailed analysis of the expected impact of	Monetised cost not available – expected to be low.	Medium

¹⁰ Referred to as 'property owners' in the body of this statement. An equivalent term for owners of commercial space in MUBs has not been used in the paper.

	the proposal is outlined in Section 1.2.		
Private insurers	A reduction in liability for private insurers due to risk transfer to EQC may also mean a small loss in premium revenue. ¹¹ However, this is not a cost to insurers as it reflects a reduction in insurer risk.	N/A	Medium
Total Monetised Cost	Not available	Not available	Not available
Non-monetised costs	Low	Low	Medium

Expected benefits of proposed approach compared to taking no action

Owners of residential space in MUBs	Benefits of increased EQC cover for owners of residential space in commercial buildings and in formerly commercial buildings that become residential as a result of the amendment. Additional benefit of less private insurance due to increased EQC cover. Lower excesses following a natural disaster event.	Monetised benefit not available. Medium impact owners of residential property in commercial buildings and High for owners in formerly commercial buildings that become residential.	High
Owners of commercial space in MUBs	Benefits of increased EQC cover and lower excesses for owners in formerly commercial buildings that become residential as a result of the amendment. There are also benefits for buildings that stay commercial as EQC will pay more towards damage in common areas. Additional benefit of less private insurance due to increased EQC cover.	Monetised benefit not available. Expected High impact.	High
EQC	Benefit of increased owner, broker and insurer understanding of the residential building test which reduces administrative workload and risk of litigation following an event.	Low	High

11 This was not raised as a concern by insurers in stakeholder consultation.

Private insurers	Potential benefit of transfer of liability for a proportion of common areas in commercial buildings to EQC. There are also benefits of currently commercial MUBs becoming residential and receiving full cover from EQC as a result.	Monetised benefit not available. Expected Low impact.	Low
Total Monetised Benefit	Not available	Not available	Low
Non-monetised benefits	Medium	Medium	Medium

5.3 What other impacts is this approach likely to have?

Increased complexity for claims handling

The proposal may result in some increase in claims handling complexity, by requiring EQC to work with private insurers to settle their respective proportions of shared common areas in the event of a claim. There is a relationship between the proportion of the liability covered by EQC and the complexity of the dual claims handling process between EQC and the private insurer – as where EQC covers the whole area, or a private insurer does, this process becomes more straightforward.

EQC has advised that this is a low risk due to existing processes and organisational practices with private insurers around agreeing the share of liability on shared elements within a MUB and in deciding whether a building is under or over the EQC cap. Further, we expect that compensation for common areas would be paid on a cash-settled basis rather than a managed repair, which reduces the complexity by enabling EQC to pay for a proportion of the costed damage rather than attempt to manage the repair for a proportion of the area.

Perceptions that the solution does not go far enough

There is a risk that building owners may not think this approach goes far enough to align the treatment of MUBs with standalone dwellings. This criticism would likely be on the basis that all common areas in a standalone dwelling should, in their view, be covered by EQC and thus should be counted in the residential building test.

We consider that, as EQC policy is to insure residential property, the proposals are appropriate to keep the residential building test settings at the right level to ensure EQC does not take on undue commercial liability by providing insurance cover for largely commercial buildings.

Unintended consequences

A targeted amendment to the EQC Act does introduce a risk of unintended consequences for other aspects of the Act. For example, the EQC Act sets out several interrelated definitions – such as the relationship between the definitions of ‘residential building’ and ‘dwelling’. Broader policy implications, and related policy matters, will be considered as part of a wider review of the EQC Act over 2020/2021.

Extending EQC cover to more Earthquake Prone Buildings

The extension of the residential building definition may mean that EQC cover is extended to more Earthquake Prone Buildings (EPB) – which are often multi-unit buildings. The Ministry of Business, Innovation and Employment has advised that, although this is a potential increase in liability, it is not expected to be substantial and is expected to diminish over time under the EPB regime which is working to reduce the number of EPBs.

Section 6: Implementation and operation

6.1 How will the new arrangements work in practice?

The preferred option will require a legislative amendment to the EQC Act. EQC will also develop non-statutory guidance to support implementation.

Once implemented, EQC will be responsible for the ongoing operation and public education regarding the test.

The Treasury has consulted insurers and EQC on commencement dates for the legislation. Insurers have expressed that they are comfortable with implementation from enactment – with the changes applying as insurance policies are renewed. EQC are working through implications for renewing reinsurance contracts. We expect appropriate transitional provisions for implementing the amendments to the EQC Act would be to delay commencement until EQC reinsurance contracts renew – from 1 June 2020.

6.2 What are the implementation risks?

The main risk is that the changes confuse MUB owners, insurers and brokers. This can be mitigated to a large extent by the provision of detailed non-statutory guidance and communications by EQC.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

As the change will be implemented by EQC, EQC will collect data to inform evaluation through a wider EQC Act review. Data to be collected includes:

- the cost of compensation paid out for common areas in MUBs, and
- the amount of queries received by EQC relating to the residential building test.

7.2 When and how will the new arrangements be reviewed?

EQC Act review

Initial work on a review of the EQC Act began in 2019, and is planned to continue during 2020/21. It will be informed by the Public Inquiry into EQC, which is due to report by 31 March 2020. The review is intended to consider design features of the EQC, and the impact of this amendment will be considered as part of that wider work.

Appendix 1: Option comparison

Status quo



Is it residential?

Where only dwellings are counted, this MUB is **commercial (31.25%)**.

What is covered by EQC?

Dwellings, their appurtenant structures, and services.

Option 1: Proportional (preferred)



Is it residential?

Based on the proportional approach:

Residential space (Dwelling + Appurtenant): $1100/2600 = 42\%$

Commercial space: $1500/2600 = 58\%$

Common space: 600 split 42:58 = 252 residential and 348 commercial.

This MUB is **commercial (42%)**.

What is covered by EQC?

Dwellings, appurtenant structures, and services **plus** 42% of common areas.

Option 2: All common areas



Is it residential?

Where all common areas are counted:

Residential space = Dwellings: 1000sq/m + Appurtenant structures: 100sq/m + Common: 600sq/m = 1700sq/m.

This MUB is **residential (53.125%)**

What is covered by EQC?

This MUB would receive EQC cover for the whole building. This is in spite of the commercial use of the majority of the space (1500sq/m).

Option 3: Removing common areas



Is it residential?

Where common areas are removed:

Residential space (Dwelling + Appurtenant): $1100/2600 = 42\%$

Commercial space: $1500/2600 = 58\%$

This MUB is **commercial (42%)**.

What is covered by EQC?

Dwellings, appurtenant structures, and services.

Option 4: Aligning with EQC cover



Is it residential?

Where dwellings and appurtenant structures are counted, this MUB is **commercial (34.375%)**.

What is covered by EQC?

Dwellings, appurtenant structures, and services.