



# Information sheet: Property insurance for standalone houses

## How does your property insurance premium reflect risk?

In general, buying an insurance policy transfers your risk to an insurance company. You pay an amount of money, called a premium, to an insurance company. If an unexpected event occurs and it is covered by the wording of your policy, your insurer repairs or replaces the items that are lost or damaged or pays you a sum of money. The process of applying to your insurer, and the insurer deciding whether or not to repair or replace the item or pay you a sum of money, is called an 'insurance claim'.

For property insurance, there are many factors that are considered in the premium, including: the characteristics of the house being insured; previous losses; what is known about future risk; reinsurance costs and the influences of the global capital market; and an insurers' own appetite for risk.

New Zealand faces natural hazards, or risks, including floods, earthquakes, and landslips. Some places are riskier to live in than others, as they are expected to experience more natural hazards. Climate change is also increasing some of these risks. There are also other risks that your house can face, such as fire, burglary, tenant damage, and other sudden events.

Previously, the difference in risks arising from natural hazards across the country was often balanced by pooling the risk and more evenly sharing the non-EQC insurance costs across customers. Instead of spreading these insurance costs across customers, premiums are starting to more precisely reflect the future cost of covering an individual property. This way of pricing is sometimes referred to as **risk-based pricing**. Different insurers apply this pricing method to varying degrees, which can result in different prices for your insurance.

The following information looks to answer some frequent questions. If you need more information either check your insurer's website or speak with your insurance provider.

## Why are my premiums changing?

There are various reasons why your premium may change. If in doubt, you should speak to your insurance provider.

*The extent of risk-based pricing* – if your insurer applies a greater level of risk-based pricing to their premium calculation, you may see your premium increase or decrease, depending on the risks involved, such as where you live.

*More refined modelling/data* – greater scientific knowledge about property risks and hazards and their impact mean your insurer can better model the risks to different aspects of your property as well as to different parts of New Zealand. This means that your risk may be smaller or larger than was previously thought.

*Insurers' exposure to a particular area* – insurers often spread customers across different areas and types of risk to manage the potential impact of a significant event in a particular location. An insurer's level of exposure to a particular area or hazard can change over time and affect what cover it can offer. There may be situations where one insurer is prepared to cover things that another is not.

*Increasing cost of insurance claims* – an increase in building costs and materials for those claims may also require an increase in premiums to cover the expected cost of claims.

*Sum insured increasing* – an increase in costs associated with rebuilding a house, such as building materials, consent or removal of debris, may mean you should increase the sum insured amount, which can result in higher premiums.

*Reinsurance costs* – most insurers purchase their own insurance from large overseas insurers, called ‘reinsurance’. This is important as it helps to spread the insurers’ risk and share this with overseas specialist insurers. Costly natural disasters in New Zealand and around the world can increase reinsurance costs for insurers, which then may be passed onto you in your insurance premium.

*Business and strategy* – other factors that can affect your premium are the business decisions that insurers make, such as their business growth strategy, the profit they are seeking and how much risk they are willing to take on.

The following factors relating to your property may also contribute to your levels of risk, and therefore mean you may pay a higher insurance premium:

- The cost of rebuilding your house.
- Location (e.g. houses in hazard zones, such as flood-prone areas or more seismically active regions, will pay higher premiums).
- Construction material and how your house is built.
- The size of your house.
- The age of your house (e.g. older houses generally have higher premiums).
- Where the house is located (e.g. slope or flat).
- Potential of land under or supporting your house to be damaged (e.g. liquefaction, flooding or landslide risk or amount of ground movement during a seismic event).
- How well the house is maintained (e.g. age of wiring).
- Whether the property is unoccupied, owner/occupied, or a tenanted occupancy or has any mixed use (e.g. used for short-term accommodation such as Airbnb or other business activities).

- Protection measures, including monitored security alarms, smoke alarms and locks on doors, windows and other access points.
- Whether the building is undergoing structural alterations or additions.

The details of your insurance cover (e.g. the excess you have selected and the sum insured), plus the level of cover provided by your insurance policy, will also affect your premium.

## **How do I find out more about the natural hazards in my area?**

You can check your regional council or territorial authority’s website for information on natural hazards in your area. Some regional councils or territorial authorities host online hazard maps that you can search by property address.

Local government is required to consider the effects of a changing climate on communities. Some councils have developed online maps showing the impact of sea level rise – see your council’s website for more information.

A property’s Record of Title (previously called a Certificate of Title) may reference statutory notices about natural hazards. You can also pay for a Land Information Memorandum (LIM) from the relevant local council, which contains information on the natural hazards for your specific property. You can also find information on natural hazards in District Plans, which can contain information not included in a LIM.

## **What can I do to reduce my premium?**

While it is unlikely that you can change many of the risks that relate to your house, the Insurance Council of New Zealand – Te Kāhui Inihua o Aotearoa (ICNZ) has prepared this [list of ways](#) to manage the cost of your insurance if affordability is an issue.

You can also shop around with different insurers, but make sure that you are clear on the cover you are receiving – a cheaper premium may also mean you get less cover and/or benefits (e.g. there could be differences in cover for retaining walls or for fire).

## What else do I need to know about purchasing insurance?

You can purchase insurance directly from an insurer or use a broker. Some insurers only offer insurance through a broker, while some insurers do not use brokers at all. Brokers can also provide advice on your insurance needs.

It's important to know what your private insurance policy covers, as well as what it doesn't cover (these are known as exclusions). Read over your policy in detail before signing on the dotted line. Ask your insurer to explain anything that isn't clear and get this information in writing.

For more information on what you should check before you buy a house, read ICNZ's '[Consumer guide to purchasing home insurance](#)'.

It is important that your sum insured is accurate as this is the maximum amount your insurer would pay if your home is destroyed. If your sum insured is too low, you could end up not receiving enough to rebuild your home after a disaster and having to pay the difference; if your sum insured is too high, you may be paying for insurance you don't need. You can find more information on [Sorted](#) and from [ICNZ](#).

If you are not happy with your insurer or insurance broker, you must first make a complaint directly to them. The [Fair Insurance Code](#) explains your rights and the complaints process that a general insurer who is a member of ICNZ will follow. If they are

unable to resolve your complaint, you can apply to the [Insurance and Financial Services Ombudsman](#), [Financial Services Complaints Limited](#), or [Financial Dispute Resolution Service](#). The maximum financial value of claims that can be considered is \$200,000.

## EQCover

EQCover is the government's natural disaster insurance scheme that covers loss or damage to your home and some associated land caused by a range of disasters such as earthquakes, landslips, volcanic eruptions, hydrothermal activity and tsunamis.

Anyone with a private home insurance policy that covers fire damage (and most do) will automatically have EQCover. EQC levies are collected by private insurers as part of your insurance premium, and that portion is passed on to EQC.

The EQC levy is community rated (the same levy rate per \$100 applies throughout New Zealand) and aims to keep natural disaster insurance more affordable for those in high-risk areas.

In the event of such a natural disaster, EQC has partnered with a range of Aotearoa's private insurers to manage EQCover natural disaster claims on its behalf. This means many customers will have a single point of contact for their insurance claims following an event.

You can find out more about EQCover [here](#).

**Disclaimer:** This document is a guide only. [Please read the disclaimer on the Treasury's website.](#)