Te Kāwanatanga o Aotearoa
New Zealand Government

Information sheet: Property insurance for unit titles and multi-unit buildings

Residential unit title properties are typically apartment buildings and townhouses. Unit title owners own a part of a building, such as an apartment, and share common areas with other owners, such as the building structure, shared walls, lifts, lobbies, driveways, and accessways. Many unit title properties will have a body corporate that you become a member of when you purchase a unit. The body corporate is responsible for purchasing insurance for the building, which is purchased through an insurance broker. Your body corporate fees will pay for your share of that insurance cover and its premium. Owners take out their own contents insurance.

If your unit, or one you're looking to buy, is in a building that doesn't have a body corporate, you may be able to purchase insurance directly from an insurer for your unit. It is important to ask your insurer about what cover is available, especially before you complete a purchase. For further information, see the Insurance Council of New Zealand – Te Kāhui Inihua o Aotearoa (ICNZ) consumer guide on 'Purchasing home insurance in a multi-unit building'.

How does your insurance premium reflect risk?

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'.

There are many factors that are considered in the premium, including: the characteristics of the building 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 has many natural hazards, or risks, including floods, earthquakes, and landslips. Some places are riskier to live in than others, as they experience more natural hazards. Climate change is also increasing some of these risks. There are also other risks that your unit 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 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 building. 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.

If your property is part of a body corporate, its committee or chair should speak to its insurance broker or adviser to find out more about your building's insurance cover, why the premium is what it is, and to explain any changes and how these relate to the risks of your building. If you don't have a body corporate, check your insurer's website for more information.

Why have my building's insurance costs changed?

There are various reasons why your building's insurance premium may change. In the first instance, you should speak to your body corporate chair or committee, who can find out more information from your insurance adviser or broker about why the premium has changed.

There are different things that can affect the amount of your building's premium:

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 cost of claims.

Sum insured increasing – an increase in costs associated with rebuilding a property, 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 may also contribute to your levels of risk, and therefore mean you may pay a higher insurance premium:

- The cost of rebuilding the unit title property, apartment building or townhouse (buildings).
- Location (e.g. buildings in hazard zones, such as flood-prone areas or more seismically active regions, will pay higher premiums).
- Construction material and how the buildings were built.
- The size of the buildings.
- Age of the buildings (e.g. older buildings generally have higher premiums).
- Where the buildings are located (e.g. slope or flat).
- Potential of the land under or supporting the buildings to be damaged (e.g. liquefaction, flooding or landslide risk or amount of ground movement expected during a seismic event).
- Fire risk issues such as flammable cladding and insulation.
- How well the buildings are maintained (age of wiring, shared spaces and property).
- Whether the building is owner-occupied, 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 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?

Under the *Unit Titles Act 2010*, bodies corporate are required to insure buildings to their full insurable value if insurance is available. While it is unlikely that you can change many of the risks that relate to your building, the body corporate should speak to its insurance adviser or broker about ways to reduce the premium, such as taking a higher excess for a premium discount. They have a key role to play in helping the body corporate to make a fully informed decision about its insurance programme, explain the implications of any changes, and make sure all owners understand them.

What is the New Building Standard (NBS), and how does it affect a building's insurance?

Your building may have a New Building Standard (NBS) rating. The NBS is a rating given to a building that shows the percentage of the New Building Standard achieved. A building with a rating less than 67% is an earthquake risk; a rating less than 34% means the building is earthquake prone.

The %NBS rating evaluates the expected performance of a building in *protecting life* during an earthquake, compared with a *similar new building*. It is calculated as part of a seismic assessment of a building. The %NBS rating does not indicate how much damage is expected to be caused or whether the building can be used after an earthquake.

The %NBS rating is *not* a measure of a building's ability to handle an earthquake without damage for insurance purposes and is unlikely to alter the premium.

An increase in the %NBS rating does not necessarily reduce a building's insurance premiums, but it can improve the building's expected performance in protecting life. A building with a higher %NBS rating may not have lower insurance costs than a building with a lower %NBS rating. **When undertaking seismic strengthening, the body corporate should speak to its insurer or broker to understand how this work may affect your insurance costs**.

What else do I need to know about body corporate insurance?

The insurance premium will be part of the body corporate levies that the body corporate charges owners. Before making an offer to buy a property in a body corporate development, you will be provided with information about the body corporate levies. You can also ask for information about the insurance policy, including the name of the insurer, the premium, and the excesses payable under the policy.

If the unit or multi-unit building doesn't have a body corporate it is important to speak to an insurer before you buy to ensure you can secure insurance for the property.

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 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 tsunami.

Anyone with a home private 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.

If your unit title building contains both residential and commercial units, you should speak to your insurance broker or insurer and EQC for more information about how your insurance policy and EQCover will apply to your situation.