TE TAI ŌHANGA
THE TREASURY

Reference: 20230528

31 January 2024

[redacted]

Dear [redacted]

Thank you for your Official Information Act request, received on 22 November 2023. You requested:

> *Treasury's advice on residential flood insurance issues provided to Ministers at the end of 2022*

The time to respond was extended by 15 working days due to time needed for agency and external consultation.

Information being released

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	10 November 2022	Treasury Report T2022-2196 - Residential flood insurance issues - Objectives and approach	Release in part

I have decided to release the document listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- commercially sensitive information, under section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information,
- sensitive information, under section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar

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information, or information from the same source, and it is in the public interest that such information should continue to be supplied, and

- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing, social engineering and other scams. This is because information released under the Official Information Act may end up in the public domain, for example, on websites including the Treasury's website.

While this advice was tendered to Ministers under the previous Government, we are withholding substantive parts under 'active consideration' grounds as we intend to continue to provide advice to the current Government on this topic.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Mary Llewellyn-Fowler
Team Leader, Financial Markets

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Residential flood insurance issues: Objectives and approach

Date:	10 November 2022	**Report No:**	T2022/2196
		File Number:	SH-11-4-3-4-14-1

Action sought

	Action sought	Deadline
Hon Grant Robertson **Minister of Finance** Hon Kiri Allan **Associate Minister of Finance** Hon Dr David Clark **Minister Responsible for the Earthquake Commission**	**Discuss and agree** to the recommendations in this paper with Ministers with an interest in climate adaptation, natural hazard risk management, and housing policy. s9(2)(f)(iv) [redacted] **Direct** Treasury to report to you in early 2023 with further advice on enhanced monitoring of home flood insurance. **Direct** Treasury to report back in the first half of 2023 on possible interventions to achieve the Government's preferred objective.	25 November 2022

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Sam Thornton	Senior Analyst, Financial Markets	s9(2)(k) [redacted]	N/A (mob)	✓
Mary Llewellyn-Fowler	Acting Manager, Financial Markets		N/A (mob)	
Daniel Jury	Senior Analyst, Financial Markets		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to the Treasury.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Residential flood insurance issues: Objectives and approach

Executive Summary

Residential flood insurance is currently widely available and generally affordable, even for homes with relatively high flood risk. A key driver is the widespread and longstanding practice by insurers to set premiums for high flood risk homes that do not fully reflect their risk.

This practice is changing as insurers move to reflect the specific flood risk of individual homes more accurately in premiums (referred to as risk-based pricing). Information and modelling about flood risk and insurer pricing systems is improving, enabling insurers to move to greater risk-based pricing if they wish. Competitive pressures also incentivise moves in this direction. One small insurer (Tower) has recently implemented greater flood risk-based pricing.

The timing and extent of this change is uncertain. s9(2)(f)(iv) [redacted] However, a more abrupt transition is still possible. Even under a relatively phased transition, the highest risk homes will likely face larger and more abrupt changes.

What is the impact of this change?

There will be both positive and negative impacts from any major shift to greater risk-pricing for flood insurance. Risk-based pricing provides an incentive for homeowners and governments to better manage flood risk, and benefits homeowners in low flood risk areas that currently cross-subsidise those in higher risk areas.

However, any widespread move by insurers to risk-based pricing is likely to result in a relatively small number of homeowners facing significant premium increases or the loss of insurance entirely. An abrupt transition would increase the negative impacts on those affected by reducing their ability to prepare for the impacts of risk-based pricing and could lead to inefficient responses. Those who are more deprived, and Māori (who are more heavily represented in vulnerable communities) are more likely to be impacted.

What are the Government's options?

The Government has difficult choices about the objective and timing of any intervention in response to risk-based pricing given:

- the uncertainty about the timing and extent of a shift to risk-based pricing,
- the risk of setting a precedent for climate adaptation policy, which is currently under consideration; and
- the risk that intervention reduces incentives on homeowners and governments to reduce flood risk (i.e. moral hazard).

s9(2)(f)(iv) [redacted]

s9(2)(f)(iv) [redacted]

Next steps

We recommend you discuss the proposed approach with Ministerial colleagues with an interest in climate adaptation, natural hazard risk management, and housing policy (the Prime Minister, Minister of Housing, Minister for the Environment, Minister of Local Government, Minister of Climate Change, and Associate Minister of Local Government). Subject to those discussions and agreement to the proposed approach, the Treasury will report to you in in early 2023 on enhanced monitoring and in the first half of 2023 on options for intervention.

Recommended Action

We recommend that you:

a **Note** that new flood risk models and data enable insurers to increasingly reflect the flood risk of individual homes in premiums (known as risk-based pricing).

b **Note**, s9(2)(f)(iv) [redacted]

c **Note** the Government faces difficult choices about when to act (if at all) and the objective and timing of any intervention given the uncertainties around the shift to risk-based pricing, the precedent intervention may set for climate adaptation policy, and the risk of moral hazard.

d s9(2)(f)(iv) [redacted]

Agree/disagree

e s9(2)(f)(iv) [redacted]

Agree/disagree

f **Note** this advice only covers insurance market interventions, but if you are interested in considering options for flood risk reduction in the near-term to support insurance affordability and availability, you may wish to discuss this with the Minister of Climate Change and the Associate Minister of Local Government.

g **refer** this report to, and **discuss** it with, other Ministers with an interest in climate adaptation, natural hazard risk management, and housing policy (the Prime Minister, Minister of Housing, Minister for the Environment, Minister of Local Government, Minister of Climate Change, and Associate Minister of Local Government).

Refer/not referred.

Mary Llewellyn-Fowler
Acting Manager, Financial Markets

Hon Grant Robertson
Minister of Finance
_____/_____/_______

Hon Kiri Allan
Associate Minister of Finance
_____/_____/_______

Hon Dr David Clark
Minister Responsible for the Earthquake Commission
_____/_____/_______

Treasury Report: Residential flood insurance issues: Objectives and approach

Purpose of report

1. The purpose of this report is to:

- confirm the Government's overarching objective and approach to responding to increasing risk-based pricing for residential home flood insurance by private insurers; and
- confirm next steps.

Background

2. Home flood insurance is currently widely available and relatively affordable for homeowners. However, recent improvements in flood risk data and modelling allows insurers to better understand the flood risk of a particular home and set the price of a home's flood premium based on its level of risk. As a result, homeowners in higher risk areas could face increasing insurance premiums or loss of insurance entirely.

3. In 2021 Tower Insurance moved to implement greater risk-based pricing for flood insurance. In response, the Minister Responsible for the Earthquake Commission (EQC) asked the Treasury to provide advice considering the potential impacts of a transition by the wider insurance market to risk-based pricing.

4. On 16 February 2022, the Climate Response Ministers Group (CRMG) asked the Treasury to progress work on flood insurance issues in alignment with wider work on climate adaptation policy and the National Adaptation Plan (NAP).[1] Between April and late June 2022, the Treasury engaged with stakeholders and communities to understand the impacts of flooding and extent of insurance issues. This engagement informed advice to Ministers in August 2022 summarising the feedback from consultation and presenting a proposed analytical framework [T2022/1529 refers].

5. Discussions between the Minister of Finance, the Associate Minister of Finance (Hon Kiri Allan) and the Minister Responsible for the Earthquake Commission in September 2022 highlighted the potential for different objectives for addressing issues of flood insurance affordability and availability. This paper seeks Ministers' guidance on the objective of any intervention, to help us develop concrete intervention options that support your objectives, and the sequencing of further advice and decisions on interventions.

The issue

How flood insurance has been priced to date

6. To date a large amount of the cost of insured flooding has been spread across all insured homeowners. This is in part due to a longstanding approach by insurers to spread the cost of flood risk across all insureds (known as community pricing), but also

[1] Developing options for home flood insurance is included as an action in the NAP (Action 5.4).

because information on the nature of underlying flood risk has been limited, making it difficult for insurers to accurately estimate the flood risk of an individual home.

7. However, information about flood risk is improving. New flood risk models enable insurers to price the flood risk for a particular home more accurately, which allows them to set a flood risk premium for an individual home based on an assessment of its specific flood risk. This is resulting in a transition from community priced flood premiums to an approach where homeowners pay a flood risk premium that more closely reflects their risk profile.

8. Climate change and sea-level rise will exacerbate flood risk over time, but it is not the proximate cause of shift to risk-based pricing for flooding. We expect climate change impacts will be factored into insurer pricing over time, but not materially in the short-term (i.e. next few years). This is because insurance premiums typically reflect risks within the 12-month period of the policy, insurer risk estimates tend to be backward-looking, and the impact of climate change on flood risk is relatively uncertain – particularly at local levels.

How big might this change be?

9. A widespread move by insurers to risk-based pricing for flood risk would result in a relatively small number of homeowners facing significant negative changes to their insurance in the short-term. This is because flood risk is relatively concentrated. s9(2)(b)(ii) and s9(2)(ba)(i) [redacted]

10. Modelling undertaken by Aon for the Treasury illustrates the size of the potential impact (noting that the thresholds used are for illustrative purposes only). This modelling found that a full move to granular risk-based pricing for flooding would mean:

- s9(2)(b)(ii) and s9(2)(ba)(i) [redacted]
- [redacted]
- [redacted]
- [redacted]

11. These flood premiums reflect a view of the technical flood premium component of an insurance premium based on modelled average annual expected loss. The flood premium is just one component of the overall premium charged. The figures above are cumulative and include the number of homes with premiums above each dollar figure.

12. Putting these figures into context:

- A recent initial sample of 1,400 online home insurance premium quotations commissioned by the Treasury and EQC ranged from around $1,200 to $3,000 per annum, s9(2)(f)(iv) [redacted]
- Household expenditure averaged around $70,000 in 2019 (the most recent Statistics New Zealand survey), s9(2)(f)(iv) [redacted]

13. s9(2)(f)(iv) [redacted]

What is the nature of the impacts of this change?

14. A shift by insurers to risk-based pricing, or the expectation of such a shift, will have both positive and negative impacts, including on:

- *Incentives:* Risk-based pricing is likely to improve incentives to avoid and control flood risk to homes (e.g. home-specific adaptions, community flood defences, disincentives to develop flood-prone land). We expect the impact on incentives and behaviour change in the short-term is likely to be greatest where insurance premiums increase substantially and where insurance access is lost entirely. However, some homes may have limited or no adaptation options.
- *Wellbeing:* A shift by insurers to more granular risk-based pricing of flood insurance effectively redistributes the cost of flood risk from low flood risk homeowners to high flood risk homeowners. This means higher risk homes will face increasing insurance premiums, may lose access to insurance entirely, or may only be offered lower quality insurance coverage (e.g. higher excesses or flood cover excluded from their policy). These homeowners may face significant financial losses (in terms of increased premiums and reduced home value). Conversely, homeowners in lower flood risk homes may benefit from premium reductions.
- *Crown fiscal position:* Any un-insurance or under-insurance of homes caused by risk-based pricing could increase the implicit fiscal risk to the Crown of supporting those homeowners after a flooding event (e.g. providing emergency housing, funding the rebuild of damaged homes, or other forms of support). However, we consider this risk smaller than other comparative risks (e.g., for earthquakes) due to the more localised nature of flooding, but further assessment is needed of how the implicit fiscal risk may change.

15. An abrupt transition would increase the negative impacts on those affected by reducing their ability to prepare for the impacts of risk-based pricing (including any adaptation responses) and may also increase the implicit fiscal risk. A more gradual shift provides homeowners with more time to organise their affairs in response to increased insurance pricing or the potential loss of insurance (e.g. reorganising their finances to meet expected cost increases or making adaptations where available).

16. The potential for insurers to withdraw cover for a property in future may also influence bank lending decisions. As banks typically take a longer-term view of the risk of a property when making a lending decision (reflecting the term of a typical mortgage) they may choose to withhold lending for higher flood risk homes where they see a potential for insurers to withdraw insurance coverage for the property in future.
s9(2)(f)(iv) [redacted]

When will this change happen?

s9(2)(b)(ii) and s9(2)(ba)(i)

17. Tower Insurance, which represents around [redacted] of the residential insurance market, implemented risk-based pricing for river and surface flood risk in 2021. s9(2)(b)(ii) and s9(2)(ba)(i) [redacted] s9(2)(f)(iv) [redacted]

18. s9(2)(f)(iv) [redacted]

[redacted] However, a more abrupt transition is still possible. Once one major insurer moves, others may be more likely to follow to avoid being heavily selected against.

19. Homes that face the greatest flood risk will likely experience the most sudden and significant changes to their insurance. This is because the commercial drivers on insurers to smooth the transition will not be as great (i.e. these homes cause the greater losses and insurers may be less willing to retain them). Also, it is the most high-risk homes that are expected to lose access to insurance entirely (rather than facing increased premiums).

What are the likely distributional impacts of this change?

20. While a relatively small proportion of homes are affected, the impact on those homeowners may be significant. Modelling provided to the Treasury by Aon illustrates that certain groups may experience more significant impacts from risk-based pricing, including:

- high flood risk communities,
- low-income areas,
- areas with higher deprivation levels, and
- Māori.

21. Annex 1 sets out a more detailed description of the distributional impacts of risk-based pricing on these four groups. The nature of the distributional impacts above are relatively uncertain at this point and will need further consideration as part of developing any insurance intervention.

22. Whether the distribution is considered inequitable or not depends on the value judgements made about what factors are relevant for assessing equity (e.g. how much efficiency or homeowner responsibility matters, whether homeowners could have reasonably foreseen the risk, or how the impacts on the least well-off are prioritised). Forming a government view on what is an equitable outcome is problematic while the Government is concurrently considering equity in relation to climate change adaptation costs and risks[2]. This is because the Government's view of equity in relation to risk-based pricing of flood insurance is likely to be similar to its view of equity in relation to the distributional impact of climate change exacerbated flood risks on private assets.

Objectives and timing

23. The Government has a difficult choice about whether to act and the objective and timing of any insurance intervention in response to risk-based pricing, given:

- the uncertainty about the timing and extent of the shift to risk-based pricing,
- the risk of an insurance intervention setting a precedent for the Government's climate adaptation policy (as noted above); and
- moral hazard (i.e. the risk that intervention reduces incentives for on homeowners and governments to reduce flood risk, which increases the future cost of flooding for all (regardless of the cost-sharing).

[2] The Government is currently developing a national framework for sharing the costs of adapting to the effects of climate change, with equity as a key consideration (for example, the Government's vision, as set out in the National Adaptation Plan is for adaptation to occur in a fair, low-cost, and ordered manner).

24. The Treasury has been asked to consider options to intervene in insurance markets to support insurance affordability and availability for homes with high flood risk. Such insurance market interventions typically involve redistributing the cost of flood risk between high and low flood risk homeowners and/or the Government through mechanisms that subsidise or cross-subsidise the cost of flood insurance. International examples include Flood Re in the UK and the National Flood Insurance Programme in the US.[3] Annex 2 outlines a long list of potential options, s9(2)(f)(iv) [redacted]

25. To help us develop concrete intervention options that support your objectives, this report seeks guidance from you on **the objective of any intervention**, and the **timing of further advice and decisions** on interventions.

s9(2)(f)(iv) [redacted]

[3] EQC is a New Zealand example of an insurance market intervention that redistributes certain natural hazard risks (e.g. earthquakes, tsunami, volcanic eruption, landslips, hydrothermal activity, but not flood damage to buildings) between high and low risk homes.

s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

[redacted]

To mitigate the risk the insurance market moving faster than expected, we recommend enhanced and active monitoring

43. Enhanced monitoring of the home insurance market would help provide an early warning of any future change in approach by insurers, in advance of issues becoming significant and widespread. This would enable triggers or thresholds for government interventions to be developed and better targeting and design of any insurance intervention, thereby improving its effectiveness and minimising risks and costs.

44. The government currently has relatively limited regular information about insurance availability and pricing in high flood risk areas. Our current pricing information is based on a sample of online insurance quotes (not available in all areas). The main uptake information is an ICNZ monthly survey.

45. We consider there are opportunities for enhanced active monitoring, including:

- expanding surveys of insurance pricing and availability in areas with high flood risk,
- s9(2)(f)(iv) [redacted]
- [redacted]

46. If you agree to progress work to increase monitoring, we will report to you in early 2023 on progress.

s9(2)(f)(iv)

[redacted]

s9(2)(f)(iv)

[redacted]

Opportunities for flood risk reduction

If you are interested in options for flood risk reduction in the near-term to support home flood insurance, we recommend you raise this with the relevant Ministers

52. The Government is currently considering its role in supporting the management of current natural hazard risk and the impact on certain communities (Issue A below), and adaptation to sea-level rise and more extreme weather due to climate change (Issue C below). The advice in this report focuses on the impacts of insurers' transition to risk-based pricing (Issue B in the table below) which will affect, or be affected by, these two related issues.

Category of issue	Issue A - Management of current flood risk and the	Issue B - Shift to risk-based pricing of	Issue C - Climate change exacerbated flood risk

s9(2)(f)(iv), s9(2)(b)(ii) and s9(2)(ba)(i)

[redacted]

	impact on certain communities	flood insurance **(focus of this advice)**	
Timing	*Now and ongoing*	*Near-term:* s9(2)(f)(iv) [redacted]	*Emerging issue: Increasing over decades*
Wellbeing impact	Some communities with high flood risk may be flooded causing significant wellbeing impacts (mental and financial), whether or not they have insurance.	A shift by insurers to more granular risk-based pricing for flooding may cause some homes to face large premium increases, and loss of insurance entirely for the highest risk homes.	Climate change and sea-level rise will increase flood risk over the medium term, exacerbating the wellbeing impacts from Issue A and B.
Current policy work	Buller recovery business case (DIA) Central government support for local government investment in flood protection (DIA) Improved flood hazard information (various)	Flood Insurance Project (the Treasury)	Wider climate adaptation programme (e.g. resource management reform, managed retreat, funding and financing adaptation) but some of these are several years from implementation.

53. Ideally the Government's response to risk-based pricing for flood insurance would be developed as part of an integrated package with policies under all issues, including consideration of the full spectrum of natural hazard risk management responses (i.e. avoid-control-transfer-accept, in the Annex 3). This is because:

- Actions to reduce flood risk (e.g. via avoid or control levers) may more efficiently and effectively lessen the impacts of insurance risk-based pricing, alongside wider benefits.[6] Insurance is just one way the financial risk from flooding can be managed.

- The Government's response to risk-based pricing could set precedent for climate adaptation policy because the strategic policy issue is similar (i.e. how the costs and risks of natural hazards, including those exacerbated by climate change, should be shared across society).

54. However, the climate adaptation policies are at a relatively early stage meaning it is too early to determine what the role of insurance should be and how best to integrate it within a broader adaptation policy framework. s9(2)(f)(iv) [redacted] Risk reduction is beyond the scope of this advice (which focusses on insurance interventions) and would replicate the work that other agencies on climate adaptation and improvements to the natural hazard risk management system. Other relevant risk reduction initiatives already underway are set out in Annex 3.

55. If Ministers are interested in exploring opportunities for flood risk reduction in the near-term, or changes to the climate adaptation work programme to respond to risk-based pricing, we recommend you raise this with the Minister of Climate Change and the Associate Minister of Local Government. This would have implications for their existing climate adaptation and community resilience work programmes.

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[6] The New Zealand Institute of Economic Research (NZIER) research commissioned by the Department of Internal Affairs (DIA) found that the hazards with the most scope for cost-beneficial mitigation to 2050 are flooding, storm surge and monitored landslips.

Next steps

56. The Treasury recommends discussing this advice with Ministerial colleagues with an interest in climate adaptation, natural hazard risk management, and housing policy (the Prime Minister, Minister of Housing, Minister for the Environment, Minister of Local Government, Minister of Climate Change, and Associate Minister of Local Government).

57. Should Ministers agree to the advice in this paper, the Treasury will:

- undertake enhanced monitoring (reporting on progress in early 2023), and
- s9(2)(f)(iv)

58. We will also confirm key messages to share with partners and stakeholders (e.g. Māori we have engaged with, insurers) to inform them of the next steps for this work.

Resourcing

59. The Treasury can continue to high-level policy development from existing baselines. However, detailed development of a preferred option will require external commercial and legal advice. The Treasury has been invited the responsible Budget Minister (Hon Megan Woods) to submit a bid for funding in Budget 2023 under the Climate Response Emergency Fund.

Annex 1 – Further information on distributional impacts of risk-based pricing

Homeowners in high-risk communities

60. Across New Zealand, around 250,000 homes are exposed to some flood risk (approximately 14.5 percent of all homes). However, a smaller sub-set of these flood-risk affected homes will face significant premium increases or insurance withdrawal. Modelling by Aon indicates that flood risk is more pervasive in rural areas and is distributed across New Zealand. The highest number of homes exposed to flood risk are present in Territorial Authorities of Buller, Thames-Coromandel, Wairoa, Central Otago, and Gore.

Low-income homeowners

61. Some homes in higher flood risk areas are cheaper, due to the impact of potential flood damage on property value, so are more likely to be owned by those on lower incomes. Those on lower incomes are also more likely to be negatively impacted due to increasing insurance cost from their lower financial resilience and ability to meet abrupt cost shocks. For these homeowners, their financial position may mean they cannot respond to the price signals sent by increasing insurance costs (e.g. move away or invest in flood protection measures) as they may lack the financial means to do so. Modelling by Aon indicates that as flood risk increases, average personal income levels decrease. This trend is clear for river flooding only, and not evident in surface or coastal flooding.

Homeowners with higher deprivation levels

62. Modelling indicates a correlation between those with higher deprivation (higher levels of deprivation on the New Zealand Index of Deprivation) and location on higher risk plains for river flooding. This correlation supports a thesis that those in lower socio-economic situations are more likely to live in higher risk areas for river flooding. Less of a trend was observed for surface water or coastal flooding which may be explained by coastal areas being more desirable (and therefore owned by those with lower deprivation scores) and surface water flooding affecting all areas across catchments.

Māori homeowners

63. Māori homeowners may be more likely to reside in areas with higher flood risks (potentially due to cultural connections to these areas). Modelling by Aon comparing how the average ethnicity make up changes for different flood sources indicates higher proportions of Māori living in high flood risk areas than non-Māori. For example, the proportion of Māori across the country (15.8 percent is the national average) increases to 26.8 percent of Māori living in areas within the 20-year River floodplain. The results for coastal and surface water flooding exhibit a less significant correlation.

64. The Aon analysis investigated correlations between individual socio-economic factors and flood risk but did not control for the ownership status of the property. As such, lower homeownership rates for Māori may lessen the direct impact of risk-based pricing because non-homeowners will not face losses from reduced home values. Instead, pass-through of insurance premium through rents or the impact on contents insurance may be the primary channel.

65. Engagement with Māori to date emphasised the significant impacts flooding has on waiora (wellbeing). Iwi and hapū living near awa (rivers) and moana (ocean) will experience significant negative wellbeing impacts if flooding requires them to move from locations of strong cultural significance and identity. The increasing cost of insurance will also negatively impact Māori. On average, higher proportions of Māori live in areas with higher Deprivation Scores – meaning that for these Māori, increased insurance costs could significantly impact their financial wellbeing and may result in

homeowners choosing to discontinue insurance due to its high cost. In 2013, 23.5 percent of Māori lived in decile 10 areas compared to 6.8 percent of non-Māori.[7]

Is the shift to risk-based pricing inequitable?

66. The distributional impacts of a shift to risk-based pricing of home flood insurance are unequal. However, whether the distribution is considered inequitable or not depends on the value judgements made about what factors are relevant for assessing equity.

67. One possible value judgment is efficiency. A shift to risk-based pricing may be considered *equitable* from an efficiency viewpoint given premium reductions to owners of lower-risk homes are expected to be generally offset by premium increases for owners of flood-prone homes (while also providing incentives to optimise long-term flood risk management).

68. A second possible value judgement is that responsibility matters when assessing equity. If owners of flood-prone homes could not have reasonably foreseen significantly higher insurance premiums or withdrawal (or could not have reasonably foreseen the high flood risk), then the shift to risk-based pricing could be viewed as *inequitable*. Conversely, if it was reasonable to expect the owners to have foreseen higher insurance premiums or withdrawal (or the high flood risk), then the shift to risk-based pricing could be viewed as *equitable*.

69. A third possible value judgment is that flood insurance is a basic good which people need if they are to participate in society at a sufficient level. A shift to risk-based pricing could be viewed as *inequitable* if it means some people miss out on this basic good.

70. A fourth possible value judgement is that policymaking should give priority to people who are worst off, including low income or high deprivation households. A shift to risk-based pricing could be viewed as *inequitable* if it disproportionately impacts on people who are already worse off.

71. Note that some of these value judgments are in tension with each other and require trade-offs. For example, ensuring people have a sufficient level of flood insurance, or prioritising the needs of people who are worse off, may compromise efficiency or allowing people to face the consequences of the choices they are responsible for.

[7] Manatu Hauora (2018). Neighbourhood deprivation. Accessed at: https://www.health.govt.nz/our-work/populations/maori-health/tatau-kahukura-maori-health-statistics/nga-awe-o-te-hauora-socioeconomic-determinants-health/neighbourhood-deprivation#1

s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

Annex 3: Government initiatives which support the management of flood risk to residential buildings

<table>
<tr><th rowspan="2"></th><th rowspan="2"><u>Cross-cutting / foundational policy</u> to support an optimal and equitable approach to flood risk management</th><th colspan="4"><u>Initiatives</u></th></tr>
<tr><th><u>Avoid</u> areas of high flood risk through not building new homes in high flood risk areas, relocation, or abandon.</th><th><u>Control</u> flood risk through measures or engineering works like public flood defences or asset-specific flood mitigations.</th><th><u>Transfer</u> the risk to a third party through insurance (in return for the payment of premiums).</th><th><u>Accept</u> the risk and responding to the impacts after an event (such as post-flood recovery measures and funding).</th></tr>
<tr><td>Near-term implementation (i.e. by mid-2023)</td><td>• Climate adaptation: Status quo cost and risk sharing framework (MfE)
• Climate adaptation: consideration of processes for managed retreat (MfE)
• Review into the Future of Local Government (DIA)
• National Adaptation Plan implementation (coordinated by MfE)</td><td>• Councils required to ‘have regard to’ updated climate change scenarios when changing policy statements or regional or district plans (MfE)
• Improved flood risk information via online data portal (EQC, MfE)</td><td>• Budget 2023 bid to support local government flood risk management (DIA)
• Support for Buller flood resilience (DIA)
• COVID shovel-ready flood control projects (Kanoa)</td><td>• Flood insurance project (TSY)</td><td>• Ongoing work to strengthen disaster emergency response capability (NEMA)</td></tr>
<tr><td>Longer term implementation (i.e. beyond mid-2023)</td><td>• Climate adaptation: ongoing policy (MfE)
• National Adaptation Plan: Monitoring of effectiveness by the Climate Change Commission</td><td>• National Planning Framework and Spatial Planning Act: national direction on adaptation and identifying areas to avoid development (MfE)
• Climate Adaptation Act (managed retreat) (MfE)
• Levers across the housing and urban development system to restrict development in high-risk areas and enable growth in low-risk areas (HUD)
• Reform of the land information memorandum system (DIA)
• Various initiatives to improve flood risk information (e.g. NIWA)</td><td>• Government’s reforms following the review into the future of Local Government (DIA)
• Three Waters for improved stormwater services (DIA)
• Building for Climate Change Programme (MBIE)</td><td>• Ongoing monitoring of insurance market (TSY)</td><td>• More NEMA upgrades (Budget dependent)
• Post-disaster housing recovery (HUD, NEMA, TSY)</td></tr>
</table>

Annex 4: Treaty of Waitangi / Te Tiriti o Waitangi considerations

Article 2 considerations – tino rangatiratanga

91. Tino rangatiratanga means autonomy and self-government to the fullest extent possible.[8] The flood insurance policy process to date has sought to recognise Māori exercise of rangatiratanga by undertaking targeted engagement to ensure Māori have a role in designing any scheme. You have been informed about the outcomes of Treasury's targeted consultation on flood insurance issues earlier this year, including with Māori, which has informed our scoping and development of the problem definition and objectives [T2022/1529 refers].

s9(2)(f)(iv)

92. [redacted]

93. [redacted]

Article 3 questions – equity, and active protection

94. Article three holds that the Crown promises that its obligations to New Zealand citizens are owed equally to Māori. Cabinet office guidance requires that policymakers consider whether proposals aim to achieve equitable outcomes in light of article three (CO 19 (5) refers). To this end, the Crown is required to focus specific attention on inequities experienced by Māori and keep itself informed of all relevant factors affecting Māori needs.[10]

95. The high exposure to flood risk of Māori, and relatively low rates of insurance uptake and other economic resilience measures (e.g. home ownership, access to emergency

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[8] Waitangi Tribunal Hauora report pp. 43-44: https://waitangitribunal.govt.nz/assets/Documents/Publications/Covid-Priority-W.pdf

[9] Reserve Bank of New Zealand (15 April 2021). Discussion paper: An overview of Māori financial services institutions and arrangements. (pp 6-8): https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/analytical-notes/2021/AN2021-04.pdf

[10] Waitangi Tribunal Hauora report pp. 44-45: https://waitangitribunal.govt.nz/assets/Documents/Publications/Covid-Priority-W.pdf

savings) means that it is important that options analysis considers whether the intervention will be effective for Māori. s9(2)(f)(iv) [redacted]

[redacted]

[redacted]

[redacted]

Marae insurance issues

96. In addition to Māori interests in flood insurance issues generally, our previous advice noted that marae insurance accessibility and affordability were raised during initial Māori consultation [T2022/1529 refers].

97. Marae tend to have high insurance premiums[11] for a number of reasons that are unrelated to risk-based pricing. Most marae buildings pose a significant fire risk.[12] Many are in low-lying, coastal areas, and are consequently more susceptible to weather events. Further, those that are remote are difficult to access in case of an emergency and may lack adequate water supplies in the event of a fire. Insurance cover for marae in cities is generally cheaper than rural and remote areas (we understand urban premiums can be up to half the price). Additionally, since the Christchurch earthquakes in 2010/2011, costs have increased significantly as all marae have had to meet new earthquake compliance standards.

98. Under Te Tiriti o Waitangi, the Crown has a duty to actively protect Māori lands, estates, forests, fisheries and other taonga, and must enable Māori to protect these taonga.[13] Addressing the existing issues relating to marae insurance is out of scope of this project, given its focus on addressing issues caused by a move to increased risk-based pricing for flood. However, we note that the Government currently supports the physical and cultural revitalisation of marae through the Oranga Marae programme which provides funding for marae development planning, capital works, and cultural vitalisation activities. Oranga Marae is run by Te Puni Kōkiri and the Department of Internal Affairs. In addition, some iwi (Ngāti Porou, Ngāti Tūwharetoa, Te Arawa, Waikato-Tainui) offer collective marae insurance, with a high rate of adoption. Collective marae insurance enables multiple marae to be insured under one policy. The risk pooling allows iwi to negotiate more competitive pricing and lower premiums (for example, 25-40% savings on premiums).[14]

99. The insurance issues marae already face will become exacerbated as risk-based pricing eventuates. s9(2)(f)(iv) [redacted]

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[11] Rough estimate of $5,000 per annum for every $1million insured in Oranga Marae Programme Research Final Report (Martin Jenkins advice to Te Puni Kōkiri) August 2019

[12] Fire and Emergency NZ: https://www.fireandemergency.nz/outdoor-and-rural-fire-safety/recreational-and-cultural/marae-fire-safety/

[13] Carwyn Jones, New Treaty New Tradition: Reconciling New Zealand and Māori Law (Victoria University Press, Wellington, 2016), at 62.

[14] Based on Nati Insure data as reported in the Oranga Marae Programme Research Final Report (Martin Jenkins advice to Te Puni Kōkiri) August 2019