The Treasury

Insurance Update Information Release

October 2024

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Insurance update

Date:	27 June 2024	**Report No:**	T2023/2206
		File Number:	

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Note** the contents of this report **Refer** this briefing to the Minister Responsible for EQC and the Minister for Housing	None

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Lisa Davies	Senior Analyst, Financial Markets	[39]	N/A (mob)	✓
Disee Anorpong	Manager, Financial Markets		[35]	

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: None

Treasury Report: Insurance update

Executive Summary

This report provides a brief update on results from recent insurance price and availability data collection and the Treasury's ongoing work on insurance.

While there are a range of agencies involved in insurance policy and regulation, the Treasury provides a lead role in policy advice on key insurance issues and has specific responsibilities in the public provision of insurance. These are:

- Administering the NHI Act and providing primary policy advice on EQC.
- Monitoring ACC, EQC, and Southern Response.

Due to this, the Treasury was given responsibility by Cabinet in 2018 as the lead economic and fiscal advisor on the functioning of insurance markets generally [CAB-18-MIN-3079].

To ensure we are well placed to fulfil these roles, we have been collecting data on the price and availability of insurance across New Zealand. No other agency is currently collecting this information. We have also recently completed a survey of multi-unit dwelling insurance to fill a specific knowledge gap.

The data we have collected shows that insurance remains largely available despite a greater move to risk-based pricing and significantly higher prices (24% increase in 2022). Even so, availability is starting to reduce in areas that have both a high seismic and high flood risk.

Results from the multi-unit dwelling insurance survey show:

- there have been significant increases in premiums
- availability of multi-unit dwelling insurance is limited
- financing earthquake-prone building (EPB) strengthening can be difficult, and strengthening EPBs does not reduce insurance premiums
- issues were raised about insurance obligations for unit titled properties imposed by the Unit Titles Act.

Responsibilities for some of these issues lie with other agencies and we have informed them of our findings.

Following your feedback on our Emerging Insurance issues paper (T2023/1934), we have ceased policy development to address the risk of any near-term widespread shift to greater risk-based pricing in residential flood insurance and are continuing our core responsibilities with a focus on the role of insurance in climate change adaptation.

Treasury Report: Insurance update

Purpose of Report

1. This report outlines the Treasury's role in insurance policy and provides you with key trends from recent insurance price and availability data, including the recent survey on multi-unit building insurance. It also updates you on how we are shifting our insurance focus to climate change adaptation.

Treasury's Role and Focus in the System

The Treasury has specific insurance policy responsibilities and responsibility for general insurance advice

2. The Treasury has specific responsibilities in the public provision of insurance:

   a Administering the NHI Act and providing primary policy advice on EQC, with support from EQC.

   b Monitoring ACC, EQC, and Southern Response (the government-owned company responsible for settling claims made by AMI policyholders for Canterbury earthquake damage).

3. In addition, Treasury provides advice on insurance as the government's lead macroeconomic and fiscal advisor. We focus on insurance market functioning,[1] insurance pricing and availability, and the fiscal interests of the Crown.

Other agencies also have a role in insurance policy and regulation

4. Responsibility for advising on and regulating insurance is shared:

   a Reserve Bank of New Zealand (RBNZ) provides advice on financial stability – including twice yearly reports on the stability and resilience of New Zealand's financial system. The Reserve Bank is also the prudential regulator for the insurance sector where it sets prudential requirements for insurers, and administers the Insurance (Prudential Supervision) Act.

   b Ministry of Business, Innovation and Employment (MBIE) is the lead microeconomic advisor for the government. It provides advice on consumer protection and competition policy. It also monitors the conduct and competition regulators (the Financial Markets Authority (FMA) and Commerce Commission).

   c FMA is the regulator that monitors both insurers and the financial advisers selling insurance products to ensure they are meeting conduct, statutory and regulatory requirements.

5. Treasury collaborates with these agencies and through the Council of Financial Regulators (CoFR).

[1] The responsibility for advice on the functioning of insurance markets was mandated by Cabinet [CAB-18-MIN-3079] following the 2018 disestablishment of the cross-agency group directed to work on Canterbury earthquake insurance issues.

6. Other agencies have touchpoints with insurance policy, including:

   a EQC Toka Tū Ake (EQC) – a significant intervention in the residential property disaster insurance market, and a large buyer of reinsurance for New Zealand's disaster risks.

   b Ministry for the Environment (MFE) – climate change adaptation and planning issues and the Climate Change CE's interdepartmental executive board.

   c Housing and Urban Development (HUD) – housing and planning issues.

   d MBIE – building code and earthquake-prone buildings.

   e National Emergency Management Agency (NEMA) and local government – building the resilience of communities to, and facilitating efficient and effective recovery from, natural hazard events.

   f Crown Research Institutes – generate research that helps refine global insurance models for assessing New Zealand's risk.

Treasury is mostly focused on residential insurance issues

7. The Treasury primarily focuses on residential insurance due to the importance of housing to New Zealanders to live and as their main asset. This makes the residential insurance market important for financial stability. Successive government policy has indicated there is an implicit fiscal risk associated with post-disaster hardship arising from non-insurance.

Why Treasury Collects Insurance Data

Good information is needed to provide quality advice to Ministers

8. Gathering insurance data is important for early warning of problems and providing informed advice to Ministers. Rising costs or lack of insurance can result in underinsurance, affecting the wellbeing and financial safety of New Zealanders and raising fiscal risks for the Crown after natural disasters.

9. Treasury started its data collection programme in October 2022 in response to information gaps and to monitor the effect of increasing the EQC monetary cap[2]. The information has also been by:

   a EQC and Treasury, for the review of key financial settings, including the level of the residential building cap and levy rate, that is required at least once every five years under the Natural Hazards Insurance Act.

   b RBNZ, for its recent (May 2024) financial stability report, which included a special topic on Insurance Availability and Risk-Based Pricing. It is also important for RBNZ's understanding of the insurance sector's response to seismic and climate-related risk and because of its potential indirect impact on the security of banks' mortgage books.

[2] Cabinet requested that Treasury monitor the impact of the cap increase. Treasury contracted Finity, an actuarial firm specialising in insurance. In July 2023, the contract expanded to include flood risk. More information on the methodology, including limitations, can be found in **Appendix 1**.

c MfE, as the policy underpinning the adaptation framework relies on a robust and well-functioning insurance market. This information will provide early warning signs for potential policy adjustments.

d DIA, for the review of the Fire and Emergency New Zealand (FENZ) levy.

Good data helps us present ourselves well to reinsurers

10. New Zealand's risk of extreme weather is rising, affecting how insurers and international reinsurers view us. This results in pricier and less accessible reinsurance.

11. The government needs to communicate how we are tackling these natural hazards with global reinsurance companies to keep reinsurance options open and affordable. Collecting accurate data boosts our credibility and reputation, by demonstrating we understand and are proactive about our local insurance situation.

Treasury is best placed to lead insurance data collection

12. The RBNZ, Commerce Commission, and FMA do not currently monitor insurance pricing or availability. We have discussed with RBNZ, FMA, and EQC about another agency taking on the data collection, but they indicated they see the Treasury as best placed to collect this data as it:

    a fits with Treasury's role as lead adviser to the government on the economic, fiscal and distributional impacts of insurance policy as a whole (particularly in light of the fiscal risk to the Crown presented by under-insurance), and

    b has a central agency function to bring together different system components.

13. The RBNZ currently collects data directly from insurers on their financial position but has no consumer-facing data. RBNZ's mandate prevents it from considering some aspects of this information, such as the distributional implications of changing insurance pricing.

14. EQC collects insurance information through levy collection, however contract terms with insurers prohibit any sharing of that information, even at a high-level.

Insurance data is limited and shows varying levels of high uptake that is declining

15. There appears to be high levels of uptake of residential insurance. Data shows uptake levels ranging from around 84% to 98%, depending on the data source, though uptake has been declining over time. More information can be found in **Appendix 2**.

16. In your feedback on our last insurance report you asked for information on New Zealand's insurance experience compared to international jurisdictions. This is attached as **Appendix 3**.

Results from the Insurance Data Collection on Pricing and Availability

Online quote data collection summary

17. ***Prices have been rising sharply.*** As of April 2024, prices for the cheapest online insurance premiums have gone up by around 24% since October 2022.

18. ***Insurance is harder to find online in areas with both high flood and earthquake risk.*** For suburbs with high seismic risk, on average three quarters of insurers surveyed made insurance widely available online. But insurance is harder to find particularly in parts of Wellington, Marlborough, and Canterbury. There is less choice, as not all insurers cover these areas online. Property owners might struggle with costs due to high earthquake insurance premiums, even without flood risk.

19. ***In some cases, insurance may still be obtainable offline.*** In a small sample of quotes completed over the phone, insurers were sometimes willing to offer insurance they had refused online. In these cases, customers needed to provide more details. Some insurers also sell policies through brokers, not online.

20. [25] and [26]

On average, around 25% of high-risk homes had flood risk premiums costing at least an extra $250 per year compared to those without flood risk. This result varies by suburb.

21. ***Insurers differ in how they assess flood risk, with no standard among them.*** All insurers use a variety of sources and models to determine flood risk and pricing.

Multi-Unit Dwellings survey results

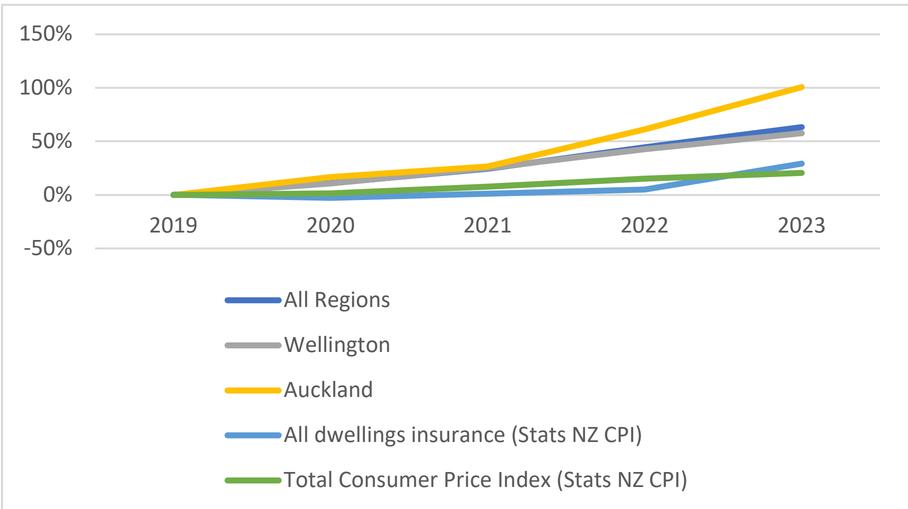
22. Online quotes are not offered for multi-unit dwellings (MUBs), which generally go through a broker or are underwritten as a commercial property. To fill this gap in our knowledge the Treasury has recently done a survey of insurance of MUBs. Information on the methodology, including limitations, is at **Appendix 1**.

23. We had 142 responses to the survey. Of the responses that provided complete answers, 66 were from Wellington and 33 were from Auckland. The rest were from various regions across New Zealand, but we did not analyse them separately as the numbers of responses from those areas were too small. Sixty one were from buildings that had no commercial units in them. We have pulled these out separately to see if having commercial units in a building impacts pricing.

Insurance premiums appear to have risen consistently faster for MUBs than standalone residential housing over the last five years

24. The graph below shows the surveyed cumulative premium increases for MUB insurance since 2019, compared to the Statistics NZ CPI on insurance prices. MUBs appear to have been increasing at a faster rate than general dwelling insurance, and premium increases appear to have been the largest in Auckland in 2022 and 2023.

Multi-unit buildings insurance inflation – cumulative premium increase since 2019



25. The following data gives us an indication of ballpark[3] figures for the average annual insurance premium per unit, shows trends across time, and also gives an indication of regional differences:

Table 1: Average annual insurance premium per unit

	2019	2020	2021	2022	2023
All regions	$3,054	$3,388	$3,799	$4,406	$4,983
Non-commercial only	$2,021	$2,232	$2,472	$2,935	$3,250
Wellington only	$5,208	$5,761	$6,498	$7,425	$8,213
Auckland only	$894	$1,041	$1,129	$1,441	$1,793

26. The survey highlights concerns about rising insurance costs, with Auckland's prices increasing rapidly but Wellington's remaining more expensive per unit.

27. Insurance for multi-unit buildings (MUBs) in Wellington is notably costlier than standard home insurance (for a stand-alone owner-occupied dwelling), with average costs in 2023 at $2,452 in Wellington and $1,867 across New Zealand.[4]

28. Insurers note that MUB insurance is pricier because these buildings are bigger and pose more complex risks, especially damage from seismic events. Wellington's earthquake risk is a significant factor for the insurance industry's capital needs, meaning insurance costs in the city are expected to remain high due to its natural hazard risk.

Limited availability of insurance

29. The survey asked how many quotes people were able to obtain from potential insurers. Of the 112 respondents who provided an answer to this question:

   a Sixty seven percent of respondents indicated that they were only able to get a quote from one insurer. Seventy one percent of these were from Wellington, 22% from Auckland, and 5% from other regions.

   b Thirty one percent said they could get quotes from more than one insurer. Sixty five percent of these respondents were from Auckland, 28% were from Wellington, and 6% from other regions.

30. Of the 142 respondents, only one indicated that they did not have insurance, indicating that while availability is limited, uptake is currently still relatively high.

31. Insurers have indicated that they are still taking on MUB business, but they assess risk and manage exposure very carefully. MUBs have a different risk profile to commercial buildings or standalone dwellings and are not attractive to all insurers.

[3] There are limitations with this data. To find an indication of the price per unit we divided the total price paid by the total number of units. This may not be entirely accurate as different buildings have different systems to attribute costs, based on the size of each unit and access to amenities. Commercial spaces can also skew results.

[4] [Insurance availability and risk-based pricing - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz)]

32. MUB buildings are often co-insured. This means several insurers band together to provide insurance (our survey found that 70% were co-insured). To secure these arrangements an insurance broker seeks bids from insurers and crafts the best 'mix' of insurers for the body corporate. Competition often plays out in the brokers crafting of the insurance offer and is less visible to clients.

33. Limited availability is exacerbated in areas such as Wellington where higher natural hazard risk makes insurers cautious. After the Kaikoura earthquake several providers pulled out of the Wellington MUB market (for example Tower, Allianz, with AIG and Chubb reducing Wellington exposure).

34. Insurers have indicated that historically Wellington has not paid the full price for the capacity it uses. Insurers have been increasing Wellington premiums over the last decade to fully reflect the price of the cover being provided. This has helped to make the market more attractive for insurers and is starting to attract additional international capacity to the market.

35. The survey asked whether people had attempted to secure insurance directly from an overseas provider. Of the 133 that responded to this question, 18 had secured insurance directly from an overseas provider. A number of respondents expanded on the reasons why they either could not or would not consider engaging insurance from overseas. These reasons included being worried about losing their existing share of the local market capacity and worries about cost and complexity when seeking redress as the overseas market is not subject to New Zealand law.

36. Limited availability and high premiums of MUB insurance may become an issue for Government if insurance issues for higher-density designs (such as apartments and multi-unit developments) act against the Government's wider housing priorities.

37. We are not proposing further work on MUB insurance data collection at this time.

Seismic strengthening does not impact insurance prices

38. Respondents indicated that:

    a. Seismic strengthening does not lower insurance prices. These findings have been backed up by comments from ICNZ who have indicated that they have been getting comments from builders that buildings built to higher specifications are not seeing differences in premiums;

    b. Insurers have suggested that seismic strengthening is unlikely to reduce insurance prices, but may affect whether insurance was offered. This is because the new building standard (%NBS) rating is a life safety risk measure, not reflecting potential damage and claims. For example, in the Kaikoura earthquake buildings that were 100% to code but on reclaimed land were damaged. Insurers support building improvements to protect life and safety, but these do not directly address insurability. Insurers indicated strengthened buildings may see a 5-10% adjustment to premium at most.

    c. The main factor that seems to impact price is the age of the building, which may be a proxy for better building standards over time. However, there were too many related variables in the data to confirm this (e.g. most of the older buildings were more expensive but they were also located in Wellington so this may have been a reflection of seismic risk rather than age).

d To secure financing to strengthen earthquake-prone buildings (EPB) to at least the minimum required by the Building Act 2004 (34% NBS[5]), there needs to be a guarantee that the building will be able to be insured, but insurers are often unwilling to provide this guarantee.

e Insurers are unwilling to take on insurance for buildings built pre-1935, even if they are strengthened. Some respondents noted the only option left to them will be to demolish upon expiry of the EPB notice and rebuild.

39. These results indicate that financing options for remediating EPBs can be limited, and even when remediated premiums can be prohibitively expensive or unavailable.

40. MBIE is the lead agency for EPB issues as both the steward and central regulator of the building regulatory system, which includes the EPB system. We have passed these results on to them.

Issues with insurance obligations for unit titled properties imposed by the Unit Titles Act.

41. Respondents raised issues with insurance obligations in the Unit Titles Act 2010 (the Act). Under the Act, bodies corporate can only take out indemnity cover if the full replacement cover is not available in the market. This means that many apartment and business unit owners that would like to reduce their high insurance premiums by moving from full replacement to indemnity cover, or reducing their sum insured, cannot do so if they have the option of getting full replacement insurance.

42. Responsibility for the Act lies with HUD, and we have passed our findings to them.

The Treasury is working with MfE on the role of insurance in adaptation

43. Climate change adaptation is a strategic priority of Treasury. While not the lead on adaptation policy, Treasury has responsibility for advising on a number of key levers that will help the Government navigate challenges and opportunities. For example:

a infrastructure and capital investment frameworks,

b stewardship of the Crown's balance sheet – including management of the Crown's risks and fiscal strategy

c economic strategy.

44. In April 2024 Cabinet agreed to progress the 'Adaptation Framework', a work programme to develop enduring adaptation policy, led by the Minister of Climate Change. We are providing input into this cross-agency work, which covers questions on infrastructure investment, pre-event and post-event cost sharing, roles and responsibilities, and information sharing.

45. We are also providing support to the Finance and Select Committee's inquiry into climate adaptation. We are co-advisers to the inquiry (along with officials from MFE) and will provide specialist expertise on fiscal and economic considerations of adaptation; investment frameworks; and insurance and banking. The inquiry is scheduled to submit a final report on 5 September, and the Minister of Climate Change is scheduled to report back to Cabinet with final policy decisions arising from the Adaptation Framework and the Inquiry in October 2024.

[5] Definition of New Building Standard: The degree to which a building or part of a building meets the requirements of the Building Code for a hypothetical new building, built on the same site, as at 1 July 2017

46. The Treasury is working closely with other responsible agencies to progress this work. Our contribution will reflect the priorities you have signalled in response to our advice [T2024/584 of 15 March and T2023/1934 of 20 March]. That is:

    a levers to avoid assets being developed in very high-risk locations where risk cannot be cost effectively managed

    b principles for Crown funding of local infrastructure for resilience

    c clearer frameworks for the split of post weather-event costs.

47. Given the focus on the role of insurance in adaptation and your feedback on our Emerging Insurance issues paper (T2023/1934), we have ceased work on contingency planning and policy development to address the risk of any near-term widespread shift to greater risk-based pricing in residential flood insurance and will focus on the role of insurance in climate change adaptation.

48. As that work was previously requested by Cabinet, was publicly consulted on, has its own bespoke webpage on the Treasury website (with links to some previous advice and other papers), and was referred to in the National Adaptation Plan ("NAP") (Action 5.4),[6] we plan to update stakeholders and the Treasury website on the status of this work and proactively release remaining previous advice that has not already been released.[7] We will work with your office on this, including developing public messaging about ending this work.

Next Steps

49. We will work with your office to develop public messaging about ceasing policy work on residential flood insurance.

50. We will continue to update you annually on the results of our insurance data collection. We plan to start regularly proactively releasing our data reports and will contact your office about this.

Recommended Action

We recommend that you:

a **note** Treasury regularly collects data on residential insurance pricing and availability to support its role in administering the NHI Act, providing policy advice on EQC, and providing advice on the functioning of insurance markets more generally

b **note** recent data collection reports show that prices have increased around 19% in the last year and that while availability is currently strong, it is starting to reduce in areas that have both high seismic and flood risk

c **note** we will provide you with updates on the results from the data collection annually, or more often if there are significant changes

[6] The specific action was: *By the end of 2022, the Government will have received advice on flood insurance options and agreed to next steps. Further implementation measures will depend on the Government's decisions on options.*

[7] Including advice from 2022 summarising the feedback received from the public consultation TR2022/1529 refers) and the recent Emerging Insurance issues advice (T2023/1934).

d **note** the main issues raised in the multi-unit building survey were:

- rapidly increasing costs of insurance
- lack of availability of multi-unit building insurance
- seismic strengthening not decreasing insurance prices
- difficulty with remediating earthquake-prone buildings, particularly securing financing
- issues with insurance obligations in the Unit Titles Act

e **note** responsibility for earthquake-prone buildings (EPBs) lies with MBIE and the Unit Titles Act lies with HUD, and we have informed these agencies of the findings

f **note** responsibility for insurance availability lies with Treasury but we are not proposing further work at this time due to resource constraints

g **note** following your feedback on the previous report on Emerging Insurance Issues (T2023/1934), we have ceased policy work on increasing risk-based pricing in residential flood insurance and are continuing our core responsibilities with a focus on the role of insurance in climate change adaptation

h **refer** to the Minister responsible for EQC and the Minister for Housing

Refer / not refer

Disee Anorpong
Manager, Financial Markets

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Appendix 1

Treasury insurance data collection: methodology

The data collection is done through collecting quotes for a static set of addresses

The data collection involves collecting online insurance premiums for a set of 3,510 profiles, designed to capture both extreme risk and have some representation for all New Zealand.

The online new business insurance quotes are sourced from seven insurance websites. The seven brands are underwritten by four insurers, which collectively make up about 88% of the private residential insurance market. Data has been collected quarterly (October, January, April, July), but this will be changing to annually due to resourcing constraints. The Treasury receives the results the month after the collection.

Limitations of data collection

The data collection is done through collecting and comparing online quotes for a consistent set of addresses that covers a range of both high and low risk seismic and flood areas. The data collection only captures pricing information where an address qualifies for an online quote from the specific set of 7 insurers monitored.

Just because a quote gets declined as part of this data collection doesn't mean that insurance is unavailable for the property. It means an online quote is not available – insurance companies may still be willing to do a more tailored quote over the phone and / or cover may also be available from insurers that do not offer cover online (e.g. insurers that only provide cover via brokers).

Many factors influence the price and availability of home insurance. This makes it difficult to entirely attribute changes to any one factor. These factors include inflation in building and repair costs, and increases in insurers' cost structures, including those relating to other perils (such as floods), competitive pressures, reinsurance costs, and marketing decisions.

While this method of data collection does not provide a complete picture of availability and pricing, it is a cost-effective way to obtain a lot of useful information.

Methodology of Multi-Unit Building Survey

The survey asked questions about pricing over the last five years and questions about what the policies include and if inclusions have changed. It was distributed by Inner City Wellington (ICW) (a group representing Wellington apartment owners) and the Body Corp Chairs Group (BCCG) (a group that represents Body Corp Chairs). The survey was sent out nationally. The survey was a one-off exercise run internally by the Treasury and there are no plans to repeat it at this stage.

Survey limitations

Limitations to the survey include a relatively small sample size, with many of the answers being from Wellington and Auckland. Numbers from other regions are too small for comparison purposes. The opt-in methodology of the survey means that people who have issues are more likely to respond than people who don't, meaning answers may be skewed towards multi-unit buildings that had high price increases or other issues.

Appendix 2

Uptake data is limited and levels of uptake vary depending on the data source

There are three main places we have sourced uptake data from:

1) *A quarterly survey by the Insurance Council of New Zealand:* Recent data indicates insurance uptake at 95%. This survey has a relatively small sample size (1,000) so it would likely miss some uninsured homes, especially where there are pockets of noninsurance.

2) *Data from the EQC levy:* This data shows uptake at around 87%. This rate is found by dividing total EQC levy revenue data by the maximum EQC levy per home. However, this is not entirely accurate as:

   - homes insured for less than $300,000 + GST would pay less than the maximum EQC levy, and

   - timing of payments make it difficult to attribute.

3) *Data from the Household Economic Survey (HES):* Data from the HES shows current uptake levels to be around 83.7%. This figure is based on responses from owner-occupiers only (i.e. not renters), and relates only to main dwellings and not to any rental/investment properties owned by the owner-occupier. Investment properties are likely to have a higher rate, increasing the proportion for the total market and the exclusion of these properties could be one reason why the HES data shows lower rates of uptake.

The data from the HES also shows that uptake rates have been declining over time:

Year	**Main dwelling insurance uptake**
2017	89.2%
2018	89.4%
2019	86.4%
2020	85.9%
2021	85.6%
2022	83.5%
2023	83.7%

Appendix 3

International comparison data

New Zealand
New Zealand's residential insurance market is currently characterised by the widespread offering of comprehensive 'all perils' policies. Generally, New Zealand house insurance policies cover all major risk events, such as fires, thefts, storms and floods, earthquakes, and volcanic activity. New Zealand insurers' all perils policies can be contrasted with other markets that have similar exposures to natural hazards as New Zealand.

Australia
In Australia, coverage of flood risks in residential policies was historically uncommon. Inclusion of flood cover gradually increased from around 6% of policies in 2006 to around 93% of policies by 2020, following government and industry efforts to improve coverage following large flood events in Eastern Australia in 2010 and 2011. Owners of high-risk properties continue to opt out of flood cover, given the very high premiums they would need to pay to obtain it. In the absence of flood cover, owners are reliant on their own savings and potential government assistance, which may not fully compensate for their losses.

USA
In response to large flood losses in the 1950s and 60s, residential insurance policies offered by private insurers in the US now typically exclude catastrophic risks, including earthquake and flood. This has led to initiatives such as the California Earthquake Authority (CEA, established 1996) and the Federal National Insurance Program (NFIP, est 1968).

Only around 13% of Californian households opt to add earthquake cover to their standard residential policies. The low uptake appears to be the result of high deductibles, a perception that premiums are expensive, and the expectation of federal government assistance after a disaster. There has not been a recent major loss event to test what would happen in terms of financial assistance post event.

Japan
Earthquake cover is only available as an optional attachment to fire cover and is provided on more of a parametric basis rather than an indemnity basis. About 50% of fire policies include earthquake cover. As a result, about 35% insure against earthquake damage.

Some of the reasons for Japan's low uptake of earthquake cover, despite their high seismic risk are:

- homeowners perceive the cover as too expensive

- frequent demolition and replacement of residential buildings is common in Japan. The average life of a Japanese wooden residential building is just 20 years. If homeowners routinely place and save for rebuilds they are better placed financially to deal with unexpected earthquake losses.