



Proactive Release

The following document has been proactively released by the Department of the Prime Minister and Cabinet (DPMC):

Oral Item: Insurance and Risk

The following documents have been included in this release:

Title of paper: Oral Item: Insurance and Risk (EWR-23-SUB-0017 refers)

Title of minute: Oral Item: Insurance and Risk (EWR-23-MIN-0017 refers)

Title of minute: Report of the Cabinet Extreme Weather Recovery Committee:
Period Ended 17 March 2023 (CAB-23-MIN-0086 refers)



Cabinet Extreme Weather Recovery Committee

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Oral Item: Insurance and Risk

Portfolios **Cyclone Recovery / Associate Finance (Hon Michael Wood)**

At its meeting on 14 March 2023, the Cabinet Extreme Weather Recovery Committee will be considering an item on Insurance and Risk. The **attached** document has been provided to support the discussion at the meeting.

Janine Harvey
Committee Secretary

Hard-copy distribution:
Cabinet Extreme Weather Recovery Committee

Proactively Released

Proposed Risk and Options identification – prepared on behalf of the Cyclone Gabrielle Recovery Taskforce

The purpose of this note is to share a possible approach to rebuilding and potential managed retreat issues arising from the January and February floods and Cyclone Gabrielle.

The Cyclone Recovery Taskforce has engaged with the Insurance sector and had some early discussions with recovery leads in Regional/Unitary Councils.

Drawing on those discussions, a process and decision tree is proposed (slides 4&5) – some rapid decisions and clarity is needed to make progress with this time critical and complex work.

We recognise that the Treasury and Ministry for the Environment have been tasked to work on this issue.

Insurance sector

Following the initial meeting on 8 March with insurance CEOs (facilitated by NZ Insurance Council) the insurance sector has nominated a subgroup to work with the Taskforce.

The subgroup will be Chaired by Amanda Whiting, and a meeting is being arranged with the Taskforce Chair for early in the week of the 13 March. The insurance subgroup have agreed to prepare and present a list of high risk properties.

We expect ongoing discussion and engagement with the insurance subgroup to across silt, progressing of claims, repair and rebuild in the context of acceptable risk and climate adaptation, what a resilience means in a contemporary environment, and reinsurance.

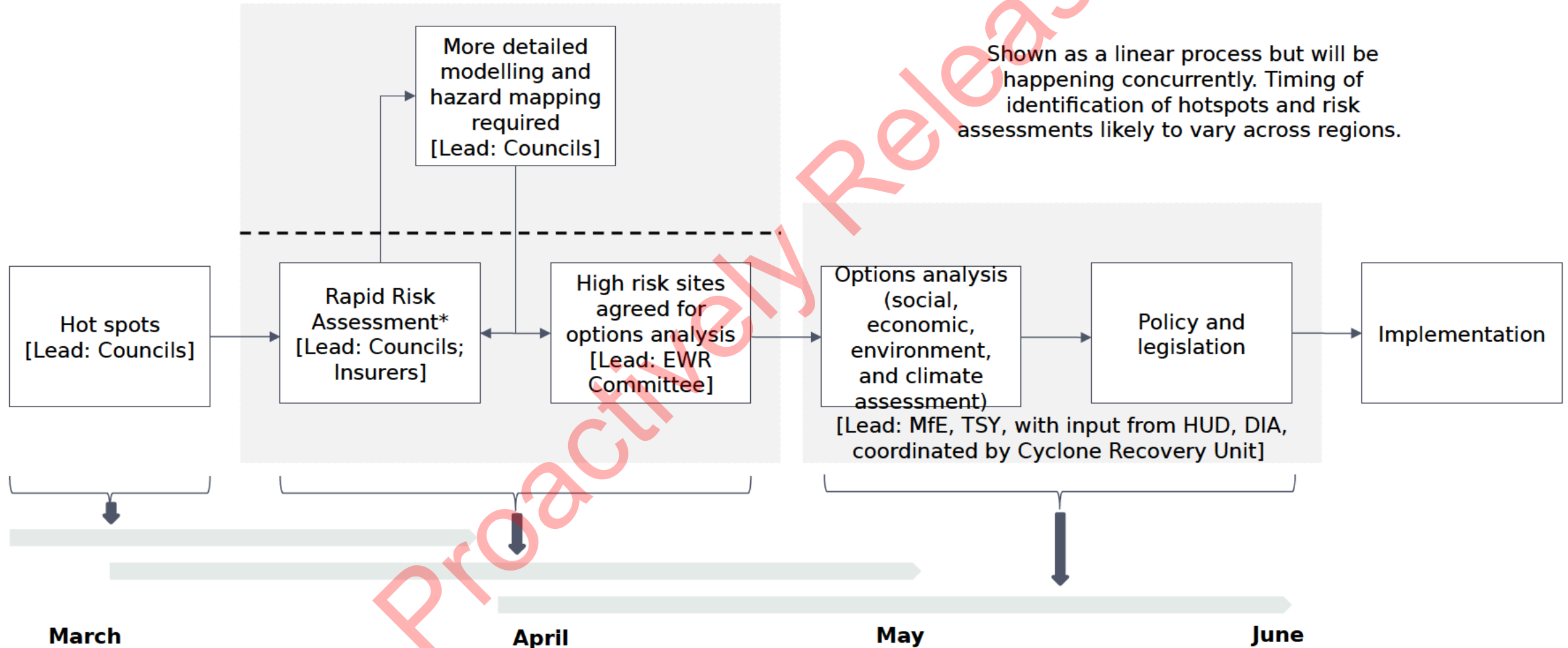
Potential next steps

Ordinarily local government has accountability for the hazard and risk assessment processes for regions and districts. However, given the scale of the floods and cyclone events, it is likely that they will need support. An option to progress the 'hot spots' and rapid risk assessment in a timely and coordinated way is via a small (3-6) expert panel of natural hazard risk assessment professionals working to support the locally-led recovery.

This could be funded by the "Extreme Weather Strategic Science Investment Funding" administered by MBIE, subject to the existing process and agreement by Minister Verrall. The panel could be hosted by MfE, DIA or EQC.

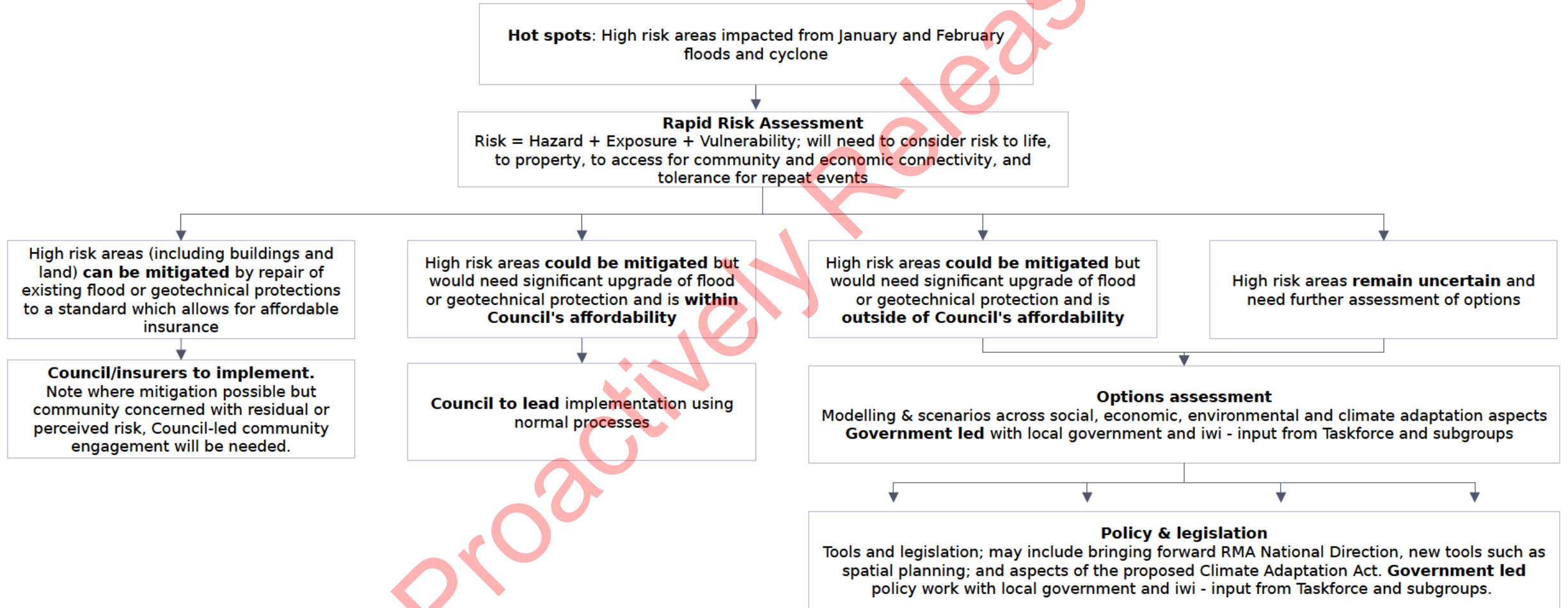
The science community is on stand-by and eager to engage. The terms for the panel would require working with local government, Iwi and insurance sector (subject to agreement via engagement with the Taskforce), with urgent deliverables (hot spot identification and rapid risk assessment), and potential longer term benefits to NZ's natural hazard risk assessment profile.

Risk and Options Identification



*See next slide for detailed risk assessment decision tree

Risk Assessment




Future of severely affected locations: Next steps

Update to EWR

Hon Michael Wood, Associate Minister of Finance

14 March 2023

Purpose

- Last week we agreed that the Cyclone Recovery Taskforce, with support from central government agencies, would:
 - quickly consult with local government and insurers to develop a plan for undertaking timely risk and options assessments for the highest risk locations, aligned with wider local recovery planning;
 - coordinate the assessment and design work described above with related longer-term work led by the Minister of Climate Change on options to prevent further development in hazard prone areas;
 - This process will be essential to understanding where the locations are and where decisions may need to be made about future land use, and the scale of this issue.
 - While this process is getting underway, we can progress work on considering our options for how we could respond.
 - We also need to consider what we wish to signal publicly about the Government's intentions.
- 
- The purpose of this discussion is to consider the potential pathways forward, what further work we want to commission, and what we say publicly now.

Key messages

State of play

- Our goal in considering whether central government should support people to move is to avoid situations of material hardship, or where people are stuck with no options to enable them to move on with their lives. We want to provide individuals and communities with as much certainty about their future options as we can, as quickly as we can.
- In many cases, repairs or rebuilds will be possible and desirable. Community level measures may also be able to reduce future risk to a level where land can continue to be used.
- We do not yet know how many properties or localities could be in the situation where none of these options make sense and decisions need to be made on future land use or supporting people to move. This group could be large or could be quite small once other options have been worked through.
- Work is beginning to gather the information that is needed to support decision making, but it will take time before the Government will be in a position to make decisions regarding specific properties or localities. Red Zone decisions in Christchurch took ~4 months post-event, and similar decisions following the 2022 floods in Australia took ~6-8 months.
- Where possible, we should try to quickly triage out (or in) areas that clearly do or do not require decisions.
- This is a pragmatic approach, but there may be individual situations which are not captured by this process, with risks that process is perceived as unfair.

What we do and say now

- Our goal should be to provide clarity on process, such as outlining the matters the Government is considering and the principles that will be applied.
- We could signal publicly that:
 - Our highest priority right now is the immediate wellbeing of those affected by the flood events
 - We will consider central government support where it is needed to enable people to rebuild or move, but we expect to work through all of the risk management options alongside local communities before making any decisions.
 - This process will take time, but it is important that we get it right. We need to make sure these are locally led processes and that we get the right solutions for the right locations.
 - We have asked the Taskforce to proceed with rapid risk assessments to help decision-making, and will confirm the timeframe for the assessment process as soon as we can.
- We may need to be careful not to overpromise how quickly individuals will get answers on their own situation. In Canterbury it took four months for properties to start getting answers.
- We have not yet taken decisions on specific measures. Until we better understand the scale of the issue, and the likely timing of decisions, public announcements of potential interventions create a significant risk they will end up mismatched to need.
- However, given the likely complexity of the issues we should also proceed with work now on options and design. While we gain better information on the scale of the issue, officials are working on developing options for how and whether central government could:
 - Support community level risk reduction measures to enable rebuilding where this can be viably done - noting there is a relevant initiative for a fund to support local authorities in the Budget process.
 - Support individual property owners to repair, rebuild, or move.

Context

- There are several interrelated recovery work streams underway

Broader recovery

- Councils are in the early stages of recovery planning, supported by Ministerial leads
- Central government support includes tax relief for insurance or rebuild (Inland Revenue), Māori Response Package (TPK), roading support package (Waka Kotahi). The Crown will also be addressing damage to its own assets such as state highways or schools.
- Central government has standing mechanisms to support local government with recovery under the Civil Defence and Emergency Management Plan 2015, including contributions for up to 60% of the costs of repair of essential infrastructure, repair of local roads, and discretionary support for 'build back better' measures.
- The Cyclone Recovery Taskforce has commenced work to pull together and align the economic and infrastructure recovery efforts, reporting to this Cabinet Committee and supported by the DPMC Unit.
- The Minister of Climate Change is leading the development of a paper on advancing adaptation issues not directly covered by the Taskforce including options to prevent further development in risky areas.

Risk and options assessments for highest risk locations

- Following our discussion last week, the DPMC Unit has started mapping out a process to identify the highest risk locations and the risk management options available in each.
- This could open up a number of options for the best form of central government support in different locations including further support for community level actions (e.g. stop banks, drainage, nature-based solutions) or potentially property-level supports (e.g. drainage, flood proofing, raising floor heights, partial or full buy-outs).

Lessons learned from past examples

- Getting the right decisions for the right place is complex, and takes time to work through with care.
- Previous examples from New Zealand and abroad can provide an indication of how long a process might be to make decisions on properties. Note however there are limitations to how analogous previous situations will be, as local circumstances and the specifics of the event will affect the choices available to affected people.
 - Following the Christchurch earthquakes in 2011, zoning of land and a high level announcement of financial assistance took **4 months**. This process was subject to several legal challenges. An All-of-Government lessons learned study found that certainty of process was critical to ensuring successful implementation.
 - Major floods struck New South Wales and Queensland in February 2022. By November 2022 – **approximately 8 months** later – Joint state and federal schemes were launched to support worst affected households with either retrofit, raising or buy-backs.
 - In Queensland in 2011, decisions were taken early to purchase land to enable land swaps in the town of Grantham (population 492 at the time). These decisions were taken before the 8-week initial clean-up effort was done, and prior to determining the details of a scheme. A rapid community engagement process led to **a land swap ballot being announced 3 months after the flood event, with the first ballot being held 3 months later**. Many residents moved within 12 months of the event. However there were a number of households who were unable to afford to take up the offer.
 - Key lessons learned from other post-event 'retreats' (eg in Matatā, Twin Streams) include that any process must be transparent, robust, and fair, and seen as such. Community input into decision-making is critical for success; and independent mechanisms are required to resolve disputes. These experiences suggest that while certainty is important, community engagement and taking care to get it 'right' will take time.
- These examples tend to suggest that **4 - 6 months** might be required before the Government will be in a position to make decisions regarding specific properties or localities. Though as we design the process, we might find it is quicker.
- Critical to this will be resource available for meaningful community engagement, from central and local government, to ensure decisions have local buy-in. Early engagement could prioritise areas with more red-stickered homes who are most affected (noting this may not be a good proxy for highest risk homes).

What we know about scale

State of play

For these events:

- At present, we do not know how many properties could be in a situation where it does not make sense to rebuild or repair on the same site, because future risk and the costs of mitigating this risk are too high.
- The "sticker" process being undertaken currently indicates approximately 4-5,000 properties that have been red or yellow stickered to date. This is an assessment of immediate safety risk on the site.
- 84,000 insurance claims have been received (the Kaikoura Earthquake attracted approximately 40,000 claims).
- These sources do not tell us where properties could be safely and cost effectively repaired or rebuilt, once community level risk reduction measures to reduce risk are considered. There may be community level or lower level property level interventions that could be adequate in many situations- meaning the number of cases where retreat is required could be minimised.

It is possible that smaller scale events of a similar nature could occur relatively frequently in future, with larger scale events periodically.

Implications for how we proceed

- We want to provide certainty as quickly as possible, but we do not currently have a good information base to support this.
- There is a significant risk that any measures developed now could:
 - be a poor match for actual needs
 - be over or undersized
 - prove not to be the most cost-effective solutions once the best options for each location are worked through.
- To get the right balance of certainty and good process that will stand up over time, we may want to focus on providing clarity of process rather than certainty about outcomes at this point.
- The approach taken here is likely to set the precedent for government support in future severe weather events.

Principles for the policy response

Objectives

- Avoid individuals experiencing significant hardship- not to avoid any financial loss for those affected
- Provide people with as much certainty as possible about their situation, so that they can move forward with their lives.
- To the extent practicable, get the "right" solution in the right place.

Principles

Ideally, given the wider context, our policy response would do this in a way that is as consistent as possible with underlying principles for how these risks and costs should be shared in future. These include:

- The costs and risks of natural hazards are shared across private asset owners, local government, insurers and central government.
- Asset owners are responsible for their own investment decisions, insurance cover or property-level preventative works. Local government is responsible for local or regional level control works (e.g. stop banks) and local planning rules on land use and its effects. Central government provides emergency relief, contributes to reconstruction of local infrastructure, and manages risks to its own infrastructure.
 - Central government has an important additional role to provide further support following overwhelming disasters and issues of national scale, typically to ensure equity and avoid undue hardship (e.g. support for red zone households after the Christchurch earthquake).
- The Crown's obligations as a Treaty partner must be central to decisions on its role.
- The hardship effects of natural disasters will not be uniform; central government support should prioritise those worst affected and with the least means to recover.
- It is important that all groups continue to have strong incentives to identify and manage the risks they face, as this will minimise long term costs to society overall.
- Risk cannot be eliminated, rather the aim should be to manage risk down to tolerable levels.

Potential pathway forward

- The Taskforce has begun planning how to identify the highest risk locations and the risk management options available in each.
- The potential response to different locations will differ, ranging from community level repairs and improved flood protection (e.g. stop banks, drainage, nature-based solutions) to potentially property-level supports (e.g. drainage, flood proofing, raising floor heights, partial or full buy-outs).
- While this information is being gathered, officials should commence working on developing options for how central government would support these initiatives. This would include options for whether and how central government should:
 - support community level risk reduction measures to enable rebuilding where this can be viably done.
 - Note that there is a relevant initiative currently in the Budget process, for a fund to support Local authorities with resilience measures.
 - support individual property owners to repair, rebuild, or move.
- Any additional support by central government will need to target those who need it most, be sized proportional to actual and genuine needs, and maintain incentives for local government (and others) to proactively manage risk.
- It is appropriate that risk reduction is primarily the responsibility of local government consistent with the government's view that locally-led processes need to decide on the future of affected areas.
- Any options for property-level support will need to consider how any interventions impact on incentives on homeowners to proactively manage risk and the unknown fiscal risk that could be created by establishing a precedent for future flooding events.
- Where it makes sense long term, we do want to enable people to stay where they are, given their standing investment in homes, communities and physical capital.

Potential pathway forward (cont.)

Relationship between possible future support and insurance

- As noted above, it will be difficult to provide clear messaging in the short term about likely outcomes for individual situations.
- This may create uncertainty for the insured and insurers about whether to act now or wait for government decisions on relocation.
- We cannot stop insurers from providing settlements, nor homeowners from taking a pay out, and that decision will be subject to individuals' assessment of risk and their risk tolerance. The insurance sector has expressed some openness to work with the government on timing but their willingness to do so is not unlimited.
- There is a trade-off between securing short-term wellbeing and enabling longer-term outcomes.
 - Taking a wellbeing-first approach, it may be the most appropriate short-term decision for affected people to rebuild or repair homes now so they have safe, warm and dry homes as soon as possible.
 - That may increase long-term cost if homes are rebuilt but then people relocate in the future, and limits the ability to make use of insurance payments as part of any potential 'buy out'. However, this cost may be less than the cost of a rushed process which sets a poor precedent for future events.
 - This may also result in rebuilding in high-risk areas, at a time where people might be more willing to relocate
- Addressing this question should become easier once the timeframe for decisions becomes clearer.
- In the interim, if this is raised, I would recommend messaging that the Government's highest priority in the short term is the wellbeing of worst affected communities, and that homeowners should work with their insurer on emergency repairs if needed to do that.

Principles for communication

In terms of how we communicate our intentions, we should seek to:

- Communicate early and often.
- Certainty and transparency: where we can provide certainty we should, with greater certainty over time. Where we cannot, we should be transparent about the reasons why and clear about timeframes and process for providing clearer answers.
- Keep the wider audience in mind: Any public messages from central government will get the attention not just of worst affected asset owners but also local government, insurers, banks, iwi and those considering investment decisions. We should have a mind to the signals we are sending to the full range of actors.
- Support for locally-led solutions: we can emphasise central government places value in supporting the right solution in the right place, and supporting people to stay where they are, where that is possible, given their standing investment in homes, communities and physical capital. Local councils are already starting to undertake risk assessments and local decisions, so any central government messaging should be coordinated with local communications.

Proactively Released

What we can say

We can signal publicly that:

- Our highest priority right now is the immediate wellbeing of those affected by the flood events.
- We will consider central government support where it is needed to enable people to rebuild or move, but we expect to work through all of the risk management options alongside local communities before making any decisions.
- This process will take time, but it is important that we get it right. We need to make sure these are locally led processes and that we get the right solutions for the right locations.
- We have asked the Taskforce to proceed with rapid risk assessments to help decision-making, and will be working with local agencies.
- We will confirm the timeframe for the assessment process as soon as we can.

Proactively Released

Next steps

I recommend that the Committee:

note:

- that we do not currently know the number of properties where decisions about future land use may be required: this group could be quite large or relatively small once options to reduce future risk are considered.
- the rapid assessment process being developed by the Taskforce will provide this information, but is likely to take some time.
- there are limits on how much certainty we can provide to individuals while these assessments take place.
- that public messaging about the timing of risk assessments should be coordinated with local councils.

note that while these processes are underway, we can signal publicly that:

- our highest priority right now is the immediate wellbeing of those affected by the flood events.
- we will consider central government support where it is needed to enable people to rebuild or move, but we expect to work through all of the risk management options alongside local communities before making any decisions.
- this process will take time, but it is important that we get it right. We need to make sure these are locally led processes and that we get the right solutions for the right locations.
- we have asked the Taskforce to proceed with rapid risk assessments to help decision-making, and will be working with local agencies.
- we will confirm the timeframe for the assessment process as soon as we can.

(further steps overleaf)

Next steps (cont.)

direct officials to develop further advice, in parallel with the Taskforce's process, on design options for how central government could:

- support community level risk reduction measures to enable rebuilding where this can be viably done
- support individual property owners to repair, rebuild, or move.

invite the Associate Minister of Finance to report back to EWR on progress on design options by 4 April 2023.

Proactively Released

Appendix 1: Data on scale of impacted areas

Stickers: The following numbers on red / yellow / white stickered properties are drawn from the 12 March NEMA SitRep. These are primarily concerned with risk to life and may not be a direct proxy of future flood risk.

Region	Red/Severe	Yellow/Moderate	White/Minor
Hawke's Bay	106	1,087	379*
Tairāwhiti	11	170	0*
Northland	42*	57*	62*
Auckland	666	2,300	4,211
Waikato	20	49	47
Tararua	6	9	9
Total	809	3,615	4,267
Queensland (2022)	1,811	2,548	3,500

* Where figures were not presented in the 12 March NEMA SitRep, figures from the 5 March SitRep have been used. Queensland numbers are drawn from the Queensland Reconstruction Authority [Presentation](#) on the Queensland Experience. Note the Queensland data is based on different metrics: severe or totally destroyed; moderately damaged; or minor levels of damage.

Number of insurance claims: ICNZ report a total of 84,000 claims have been received as at Thursday 9 March (approximately 48,000 for the first event and 36,000 for the second event). The Kaikoura Earthquake caused approximately 40,000 claims.

Economic and fiscal impacts: The Treasury is currently working with other agencies to provide updated figures on total economic cost of the event. In the March 7 slides we noted that the then best guess actuarial assessment of the ultimate cost of insurance claims excluding EQC was \$1.3 to \$1.8 billion, compared to \$22.9 billion for the Canterbury earthquakes and \$2.3 billion for the Kaikōura earthquake (these are initial estimates only and not for public release). Approximately 7,600 properties were zoned red following the Canterbury earthquakes.



Cabinet Extreme Weather Recovery Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Oral Item: Insurance and Risk

Portfolios Cyclone Recovery / Associate Finance (Hon Michael Wood)

On 14 March 2023, the Cabinet Extreme Weather Recovery Committee (EWR), exercising its Power to Act in accordance with its terms of reference:

- 1 **noted** the updates provided by the Chair of the Cyclone Gabrielle Recovery Taskforce (the Taskforce) and the Associate Minister of Finance (Hon Michael Wood) on insurance and risk matters;
- 2 **directed** Treasury and the Ministry for the Environment, in consultation with the Taskforce and other agencies as appropriate, to prepare advice for EWR on 4 April 2023 on a principles-based framework, including proposed timings, sequencing and cost-sharing arrangements, for the decisions that need to be made to support communities and individual property owners to repair, rebuild or move;
- 3 **invited** the Chair of the Taskforce and the Associate Minister of Finance (Hon Michael Wood) to report back to EWR with further updates on these matters, including an engagement plan and messaging.

Janine Harvey
Committee Secretary

Present:

Rt Hon Chris Hipkins
Hon Carmel Sepuloni
Hon Kelvin Davis
Hon Grant Robertson (Chair)
Hon Dr Megan Woods
Hon Michael Wood
Hon Kiri Allan
Hon Stuart Nash
Hon Damien O'Connor
Hon David Parker
Hon Nanaia Mahuta
Hon Kieran McAnulty
Hon Barbara Edmonds
Hon Meka Whaitiri
Hon James Shaw

Officials present from:

Office of the Prime Minister
Officials Committee for EWR
Chair of the Taskforce



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Cabinet Extreme Weather Recovery Committee: Period Ended 17 March 2023

On 20 March 2023, Cabinet made the following decisions on the work of the Cabinet Extreme Weather Recovery Committee for the period ended 17 March 2023:

EWR-23-MIN-0017 **Oral Item: Insurance and Risk** CONFIRMED
Portfolios: Cyclone Recovery / Associate Finance

(Hon Michael Wood)

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]