

Is a sea change coming for house insurance?

It's estimated that 10,000 homes will lose cover in the next 10-15 years.



by Rebecca Styles

You pay your house insurance premium on time and expect the insurer to be there if your house is flooded. But given the increase in extreme weather events brought on by climate change, that may not always be the case.

Belinda Storey, an expert in climate risk and how it relates to insurance, has estimated that 10,000 houses will begin to lose insurance in the next 10-15 years, and "along the coast, that figure could easily be as high as 40,000".

Houses on flood plains, alongside rivers, will also be affected by insurance retreat as stormy weather increases. This is what climate change scientists predict, although it's likely to take longer than the projected 10-15 years for those on the coast, she said.

To protect our homes and bank balances from these risks, we buy insurance. By doing so, we're transferring the risk of something happening to our home on to an insurer, which will bail us out if the worst happens. Yet Storey's research suggests this could change in the near future.

Assessing the risks

The Ministry for the Environment (MfE) estimates that one in seven people in Aotearoa

(675,000) live in areas prone to flooding, which amounts to \$100 billion worth of residential homes. And 72,065 others live in areas projected to be affected by extreme sea level rise.

"The number of people exposed to the hazards will increase as the climate changes," MfE has reported.

Insurers manage and assess risk. But if the risk of flooding from sea level rise and extreme weather events increases, insurers could increase premiums until it becomes unaffordable. Or they could refuse to renew insurance cover for an existing policy, Storey said.

Insurers use a range of data to make risk assessments, said Tim Grafton, chief executive of the Insurance Council of New Zealand (ICNZ).

Data is likely to include seismic and flood models, council information on past flooding and any infrastructure put in place to prevent flooding. It can also include information and modelling purchased from reputable science organisations, such as Niwa (the National Institute of Water and Atmospheric Research) and GNS Science (the Institute of Geological and Nuclear Sciences).

"While we are experiencing more frequent and impactful extreme weather events

around the country, it's still an incremental impact," Grafton said.

There would need to be several events in a short time frame before an insurer would increase premiums or excesses, he said.

Deep South Challenge is hosted by Niwa and is charged with anticipating and managing risks from climate change. Its research shows that insurers overseas typically carry the risk of a one-in-100-year event but if that increases fivefold, they stop offering cover.

Currently, there is high insurance cover in New Zealand, according to ICNZ data. While we have heard from Consumer members concerned about the effects of climate change on their homes, we haven't been able to get independent data on the number of people uninsured.

Given house insurance is renewed annually, the levels of insurance cover could drop over the coming years. Belinda Storey believes the worst-case scenario is that you could be left with a mortgage on an uninsurable and unsaleable property because the hazard profile of your home can change over time.

"People assume that if they pay their premiums on time ... the insurer will at least continue to provide cover while you own a particular asset, but that is not the case," she said. "Every year, insurers make a decision about whether they want to continue to insure you."

Storey believes insurance could be offered for longer periods, such as the duration of the mortgage, rather than on a year-by-year basis.

Yet Grafton from the Insurance Council believes this would lead to higher premiums because long-term risk is harder to assess. And being locked into insurance for a long time isn't consumer-friendly because it means people can't shop around for a cheaper premium or better service, he said.

New flood risk ratings at Tower

Tower Insurance has changed the way it assesses flood risk. Rather than assess risks in a city or region, individual homes are assessed.

The rating, brought in last November, will ensure people know how exposed their home is to flooding, whether from a river bursting its banks (fluvial) or from heavy rain (pluvial), the insurer says.

Homes receive a high, medium or low rating which reflects the potential for flood and the estimated cost of replacing and repairing damage.

While 90% of Tower's customers got a cheaper flood portion of their premium, for the rest it added about \$50 and about 1% of customers had their premium increase by \$300.

While Tower has received a handful of complaints, other customers are on board with the changes, says Ron Mudaliar, Tower's chief underwriting officer.

Those unhappy with the risk assessment have been able to get cover with another provider.

The risks of coastal flooding aren't included in Tower's new premiums – it'll take another nine to 12 months for that work to be done, and it's too early to tell whether it will result in price rises, he said.

We asked the other major house insurance providers whether they would be changing the way they assess risk.

AA Insurance said it uses community-based pricing, so the risk is spread across many and insurance is available for everyone.

"There is a balance to be struck between pricing for each individual risk and sharing this risk across the wider community," said AA Insurance's head of pricing and underwriting, Chris Taylor.

IAG, whose brands include State, AMI and Lantern, said it has no plans to change the way it prices flood risk.

Will EQC bail you out?

When you buy private house insurance (which includes fire insurance), you automatically have EQCover from Toka Tū Ake EQC. This provides natural disaster insurance for residential homes and land. However, for flood and storm damage, it will cover only your land and not your house.

The maximum EQC will pay out for residential homes is \$150,000 for each natural disaster event. While the cap is increasing to \$300k on 1 October, for existing policies the new cap will only apply when you renew your policy. Any cover needed above the cap will be covered by your private insurer, according to policy limits.

But what happens if a private insurer won't cover you at all? Will EQC come to the party? >

Storey has reservations about EQC stepping in because it could encourage people to stay in high-risk areas and it will get increasingly expensive.

“With the nature of sea level rise [and the increasing risk], EQC may have to pay out on houses every other year, and that’s just not sustainable.”

Grafton isn’t a fan of it, either. He noted the EQC levy is based on community pricing which means wherever you live, you’re paying the same as everyone else.

“So, a millionaire with a \$5m property by the sea will pay the same for the EQC levy as somebody with a \$500,000 property on a hill that will never get flooded.”

Professor Ilan Noy is the Chair in Economics of Disasters and Climate Change at Victoria University of Wellington. He researched EQC claims data for weather-related events and found that most claims came from locations with higher median incomes.

While the reasons for this were unclear, it could be because of better access to the system, where people lived, or from having more expensive homes.

Yet Prof Noy said an extended EQC that covered those who couldn’t get insurance could work, as long as there are criteria around payouts.

He would prefer a mandate that stipulated that if EQC pays out, “it doesn’t allow you to rebuild in the same risky area”.

No access to private or Government-backed insurance would leave a lot of consumers vulnerable, he said.

“I do think we need to make sure that everyone has access to insurance.”

However, by implementing a new EQC system, “we don’t want to end up taxing the poor to give to the rich,” he said.

In the MfE’s draft National Adaptation Plan, one option for the Government is to support a flood insurance scheme for residential homes.

Treasury, along with other public agencies, have been working alongside MfE on the adaptation plan, and



specifically on the potential of a Government-backed flood insurance.

Now, if a homeowner can’t get private insurance, they can apply to EQC for Direct EQCover against natural disaster damage. It provides the same benefits as the EQC portion of private insurance. All applications are considered on a case-by-case basis.

However, given that EQC only provides land cover for storm or flood damage, this has limited benefits for homeowners with increased risk of flood damage due to climate change.

Rather than thinking our homes and finances are in a precarious position because of the forces of climate change, Prof Noy is optimistic.

“I don’t think this is a doom and gloom issue at all. New Zealand is a wealthy country, we have a lot of land area ... NZ can afford to deal with it. We just need to do it smartly.”

To keep insurance in place and affordable over the long term we need

to adapt and build resilience, said Grafton from the Insurance Council.

“We have time to do this but must start now. Communities need to work together with local and central government to identify, fund and deliver practical and affordable adaptive measures that work best for them over time.”

Will a sea wall defend your home?

Storey said one sure way to reduce your risk of being affected from sea level rise, or flooding, is to get out of harm’s way.

Other temporary ways include building a defence, such as a stopbank or sea wall, to keep the water out.

But these defences can come with unintended consequences.

“Sea walls destroy beaches,” Storey said, as well as “limit public access and undermine local habitat”.

While there may be a tussle over who will pay for it (homeowners or local or central government), another issue is that sea walls can give residents a false confidence.

“When you build those walls, people feel more secure and they actually build more assets behind those walls.”

Other options are elevating houses, the cost of which falls on the homeowner but it has very few consequences on other people.

However, it can change the community if the raised homes limit access for people with less physical mobility.

Do your homework before buying a new home

If you are thinking of buying a home in a potentially high-risk area, Storey said don’t just rely on the information on the LIM report – you also need to research past flooding events.

“If a house has been flooded in the past, chances are, it will get flooded in the future – and much more frequently.”

More information will become available over the coming years. A research project, hosted by Niwa, is developing national flood maps for Aotearoa. Extreme weather events are also being researched as part of the Whakahura Extreme Events and the Emergence of Climate Change project, hosted by Victoria University of Wellington.

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LOCAL COUNCILS ARE ON THE FRONT LINE OF CLIMATE HAZARDS

In 2012, the Kāpiti Coast District Council put hazard lines on its district plan to indicate parts of the coast exposed to hazards, such as flooding and erosion.

Those lines had big implications for property owners along the 40km stretch of coast.

Essentially, it meant the seaward side of the line was a no-build area. The hazard information could also be put on LIM reports, which could affect property prices and insurance cover.

The community felt this new information was dropped like a bombshell, and it pushed back. The North Ōtaki Beach Residents Group (NOBRG) and Coastal Ratepayers United (CRU) groups were created. While NOBRG reached agreement with the council, CRU challenged both the science and the legality of the council to put hazard information on LIM reports.

While hearings in the Environment Court and the High Court confirmed councils need to include coastal hazard information on LIMs, the court said the council should have consulted with affected ratepayers over LIM wording. The hazard lines were withdrawn from the district plan and LIMs because of questions about the science the hazard lines were based on.

Belinda Storey said the court action taken by the CRU had a “chilling effect across all councils across the country”.

It resulted in smaller councils with fewer resources being “very reticent” about providing risk information – “and that’s purely against society’s interest”.

Local councils and authorities have a responsibility to help communities prepare and adapt to the physical effects of climate change.

They do this through management of infrastructure (everything from public transport to playgrounds), as well as planning and regulating where people can build.

Because risks vary from region to region and local government bodies know their communities and environmental risks, it’s best for them to work with communities, iwi and hapū to plan for climate change, a spokesperson for MfE said.

ICNZ agrees.

Yet, Kāpiti Coast District Council wants more help from central government. Support includes reforming the Resource Management Act to enable councils to change rules around land use in a cost-effective and timely way. One way of doing this would be to prevent development in at-risk areas. The Government could also introduce legislation to support managed retreat and reduce the risk of legal challenge.

“Without legislative reform to ensure that councils have the right tools and supports available, it will remain incredibly difficult to take the type of bold action required to help our communities adapt to our changing climate,” the council said in its submission on the MfE’s draft National Adaptation Plan in June.

Professor Ilan Noy agrees that local councils need more support from central government.

“There seems to be a lot of reliance on local government, more than I think advisable, because [local government] is too small, it’s not wealthy enough, and it doesn’t have the human resources to deal with these complicated issues.”

MfE acknowledges that local government has asked for more support from central government and that a number of planned legislative reforms will help to provide this.

“Without legislative reform to ensure that councils have the right tools and supports available, it will remain incredibly difficult to take the type of bold action required to help our communities adapt to our changing climate.”

After reviewing submissions on the draft plan, the Government will publish the first National Adaptation Plan in August this year.

The Kāpiti Coast District Council is trying to engage the community on adapting to the effects of climate change.

It’s worked with community groups, iwi and regional council alongside technical experts on its Takutai Kāpiti coastal adaptation project.

In February, the council released a vulnerability assessment of the coast, which will be followed up with more technical assessments over the coming year. Its Coastal Advisory Panel, led by former Prime Minister Jim Bolger, has started to engage with the community and iwi to gauge what they think about the council’s plans.

Whether the council can stem the tide of community unease remains to be seen.

If local and central government don’t address climate concerns, insurers may be the first to define high-risk areas and decline cover.