

The Treasury

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The Treasury

Risk Financing

Project Indicative Business Case (IBC)

The Treasury: Risk Financing Project Indicative Business Case

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Contents

Executive Summary.....	3
The Strategic Case – the case for change	14
The need for investment	14
Strategic context.....	14
Problems.....	21
Investment objectives.....	21
Benefits.....	24
Risks	25
The Economic Case	27
Critical Success Factors.....	27
Dimensions of Choice	27
Evaluation Methodology	29
Analysis of Short-Listed Options.....	30
Option 1: Status Quo	32
Option 2: Central Capability Model (CCM)	33
Option 3: Centralised Broking Model (CBM)	34
Option 4: Enterprise Risk Management (ERM)	35
Commercial Case	42
Financial Case	46
Management Case	52
Next Steps.....	57
Glossary.....	58
Annex 1: Senior Responsible Owner letter.....	59
Annex 2: Communications and engagement plan summary	60
Annex 3: Investment Logic Map	62
Annex 4: Constraints, dependencies, and assumptions.....	63
Annex 5: International examples	64
Annex 6: Insurance Capability Curve.....	65
Annex 7: Benefits and disbenefits.....	66
Annex 8: Detailed assessment of options against evaluation methodology	67
Annex 9: Indicative CBA assumptions	70
Annex 10: Optimism bias	72
Annex 11: Indicative governance and delivery structures	74
Annex 12: Institutional assurance for portfolio management.....	75
Annex 13: Risk register summary	77
Annex 14: Reference documents.....	79

Executive Summary

Introduction

The purpose of this Risk Financing Project Indicative Business Case (IBC) is to provide decision-makers with an early indication of the preferred way forward for the investment proposal. The IBC:

- demonstrates how the proposal fits with government priorities and organisational context
- makes the case for change, and confirms the need for investment
- identifies and considers the feasibility of a wide range of potential options
- based on this analysis, recommends a preferred way forward for further development of the investment proposal, and
- supports consideration of funding to develop a Detailed Business Case (DBC) as part of Budget 2026.

The evidence provided is indicative, not detailed. The IBC provides decision-makers with an opportunity to consider the case for change and the options for further analysis (or to not proceed with the project), before the Treasury engages more broadly and work starts on the more detailed analysis in a DBC.

Strategic Case

‘Risk financing’ is how an organisation understands its exposure to uncertain losses and plans to meet those costs in the most efficient and effective way to limit the impact of volatility. This includes both operating and capital expenses, using insurance, self-insurance (setting money aside to cover future losses), or investments to reduce risk by improving asset resilience (so losses are less likely or severe).

This IBC sets out the problems and opportunities for how risk financing is currently undertaken for public assets across central and local government. It examines options for change to the institutional arrangements and policies to shift from reactive post-disaster funding to a proactive approach that safeguards our balance sheet and supports fiscal and economic resilience.¹

Improved resilience to New Zealand’s physical assets and sovereign balance sheet can support more efficient access to capital, create a stable fiscal environment for improved economic planning, and is critical to deliver the wellbeing of current and future generations. The investment objectives that have guided the development of options are:

1. Develop a **portfolio view** of public asset risk exposure to understand the Government’s financial risk exposure and increase the effectiveness of how risk information is used.
2. Develop balance sheet risk tolerances to guide and incentivise agency risk and asset management to **improve physical and financial resilience**.
3. Improve **capital and operational efficiency** of risk financing to reduce the cost over time.
4. Optimise **market access to global risk capital**, including by leveraging New Zealand’s science and fiscal strategies.

¹ IAG press release in support of release of commissioned report from Sapere: 97% of the Government’s expenditure is on responding to and recovering from natural disasters; only 3% on risk reduction and resilience [natural-hazards-public-spending-nz-final.pdf](#).

Context

New Zealand faces a number of National Risks that could happen at any time and significantly impact our people, the economy, and the Government's ability to deliver its economic growth and other objectives. At the same time, the social and fiscal challenges driven by global forces are increasing, including climate change and geostrategic instability. These conditions will continue to challenge our ability to manage balance sheet volatility.

National Risks include natural hazards, such as earthquakes, severe weather and flooding, volcanic eruptions, and tsunamis. Lloyds of London in 2018 ranked New Zealand as the second highest in the world in terms of average annual losses as a percentage of GDP (0.66%).

New Zealand's low population means there are potential intergenerational and distribution inequities if risk is not sufficiently pre-funded. The significant fiscal and economic costs of recovery cannot be easily smoothed. Maintaining low levels of debt to meet the future cost of risk can create a handbrake on planning for economic growth or creating the necessary headroom for investment to transition in response to macro-economic shifts.

There is a functioning insurance sector in New Zealand that operates relatively efficiently for residential risk. However, the New Zealand Government is not doing the basics of risk management well. It does not have sufficient information to understand the risk exposure of public sector assets to be able to proactively manage its balance sheet. There are pockets of good practice risk management by individual agencies, but at a whole-of-portfolio level there is cause for concern.

Agency risk strategies are not calibrated to any central expression of risk appetite. Large sectors of the balance sheet are uninsured while other sectors have high levels of coverage. Both strategies can be inefficient, either by paying too much for risk or not having enough protection so that volatility could undermine the Government's fiscal or economic strategies.

Analysis to support the development of the next Investment Statement estimates New Zealand's public asset exposure at approximately \$25-30 billion.² While this is exposure to a low-probability, high-impact scenario, analysis of average annual costs from risk indicate floods and coastal inundation present a greater cost to the system over time.

There is world leading science on hazards in New Zealand. However, a lack of centralised asset location, condition, or vulnerability information requires significant assumptions to be made in generating any risk analysis. There is, therefore, low confidence for which sectors are generating specific exposures.

The insurance gap is not well understood, and agencies management of uninsured risk is not centrally monitored. Aon NZ estimates that public asset managers are spending ~\$461m on insurance each year but the value of this expenditure is not understood.³ Average losses to New Zealand's critical infrastructure are estimated to be \$660m. However, as this uses a depreciated book value and not a replacement value, the true figure is likely to be under-stated by 20-40%.

The Government has developed a National Risk and Resilience Framework. A balance sheet strategy to allocate funding and financing to risk and resilience is an essential component of this framework. Improved risk capital management is a key piece of the toolkit, alongside effective policy and regulations. Insurance data on public infrastructure and well-designed funding and financing mechanisms can lift the effectiveness of a range of the Government's policy priorities.

² Uses the severe stress scenario that the Reserve Bank of New Zealand (RBNZ) developed for its General Insurance Industry Stress Test.

³ \$280m for central government and ~\$180m for local government.

Problems with the status quo

There are three main problems with public asset risk management under the status quo:

- Poor understanding of the extent of public risk exposure, means the Government is reactive to shocks, which reduces its ability to manage the balance sheet effectively.
- Under the current decentralised model, individual agencies are asked to determine their own risk approach. Instructions allocate accountability to agencies but do not: provide guidance, require regular reporting, or set expectations specifying the Government's risk appetite.
- Central government understanding of balance sheet exposure is estimated and understanding or monitoring of risk management practice is under-invested. Data on asset condition, location, and vulnerability is inconsistent or not held.
- Unplanned financial volatility caused by risk and non-forecasted contingent liabilities creates instability in fiscal and economic strategies. A lack of effective control can lead to economic disruption, lower credit ratings and higher debt servicing costs.
- A lack of a coordinated strategy for risk financing on a portfolio basis, leads to inconsistent and inefficient engagement with risk markets.
- The uncoordinated and fragmented approach to insurance creates duplication. Over 100 separate insurance broking service contracts are procured by central government agencies, with the number even higher when including state owned enterprises and local government (with 67 territorial authorities and 11 regional councils).
- This sends an inconsistent message to global risk markets and does not leverage the quality of New Zealand's world leading science and research. It leads to higher insurance costs and misses the opportunity to capture economies of scale.
- Weak policy and guidance for the treatment of risk exposure creates perverse incentives, prioritising short-term costs over long-term resilient investment.
- The assessment of how much insurance is procured, or the flow of capital to mitigate physical risk, is a value judgement. Where the alternative is passing the risk to the Crown balance sheet, there is an asymmetrical decision being made that can result in underinsurance and a higher contingent liability. Boards and leadership teams are following incentives, usually resulting in short-term cost control over long-term resilience, which would yield greater efficiency.
- Post-event funding is the default position, leaving the Crown balance sheet exposed as the backstop, unplanned insurer of last resort for central (and local) government. Without improvements to fiscal policies and capability at the centre to monitor and challenge agency decisions, there is a disincentive for proactive mitigation of risk – it is more economic for the individual institution to permit asset failure.

What are the benefits of investing?

Addressing these problems can deliver the following benefits:

- Fiscal risk exposure is better understood, which reduces uncertainty.
- Defined risk tolerances enable better decision making and improve balance sheet management and agency decision-making.
- Consolidated procurement and centralised capability to achieve capital and operational efficiencies across government.

Indicative key performance indicators for these benefits are in the Strategic Case section on page 23.

Options to deliver on investment objectives

A structured longlist to shortlist process was used to assess potential delivery models. This included consideration of three design choices to first generate a long list of options:

- Service design – the operating model of any new function.
- Service delivery – new or existing agencies to deliver the operating model.
- Scope and participation – mandated or eligible participants for any new function.

The long list was then assessed against the four investment objectives and five critical success factors.⁴ Four short listed options are summarised in Table 1 on the next page. This reflects the preferred institutional delivery options for two agencies with strategic roles in the system:⁵

The Treasury would be the policy lead for all options and would:

- Support the development of risk tolerances that align with the Government’s fiscal and economic strategies.
- Continue to advise the Government on its use of policy and regulation tools (eg, Cabinet Office circulars or Letters of Expectations).

The Natural Hazards Commission Toka Tū Ake (NHC) would be the operational lead for options that implement natural hazards modelling and market facing capability.

- A Crown Agent is an appropriate institutional form for the operational agency, allowing Ministers to provide direction on risk appetite and pricing options, with similar funding and financing structures already in place for the Natural Hazards Insurance scheme (NHI scheme).
- There is consistency with NHC’s strategic objectives to influence a greater level of societal resilience and readiness to shocks, with the potential to develop a national picture of risk across public and residential assets.
- The model is consistent with NHC’s strategic objectives although this proposal represents a significant organisational change. Indicative analysis confirmed the NHC’s ability to deliver the required capability. Organisation and governance design would be a key focus of next stage the DBC and legislative change would be required prior to implementation.
- Risks to implementation could be managed through outsourcing for highly technical aspects of the model or staging transition over a longer period of time. There can be options to stagger the implementation of insurance products, adoption of customers, or starting from a lower change model and building to higher change over time.

‘Scope and participation’ is captured as a feature of each service delivery option. We expect that central government would be the primary focus for any solution, but local government risk is also present on the Crown balance sheet, with limited levers to influence outcomes.

Detailed descriptions of the options can be found on pages 31-34 of this IBC and assessment of options against the four investment objectives is provided on page 37.

⁴ The critical success factors include strategic fit, value for money, market viability, scalability, and feasibility.

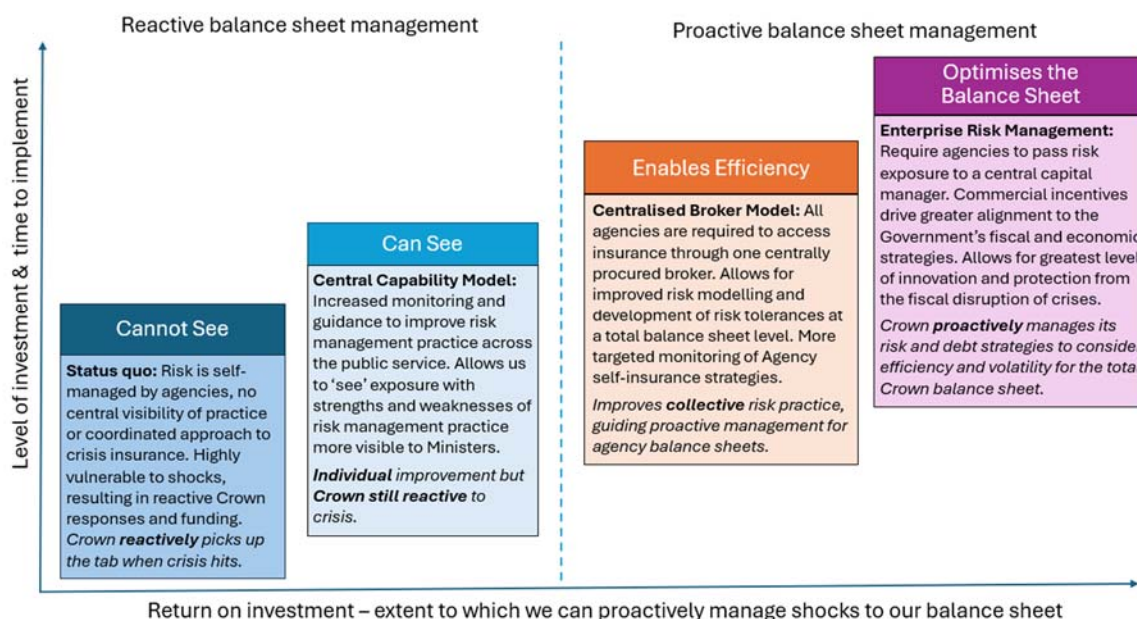
⁵ Entities considered and discounted include Department of Prime Minister and Cabinet (DPMC), Infrastructure Commission, National Infrastructure Funding and Financing Limited (NIFFCo), or a new Crown Entity. The Economic Case provides more detail on this analysis.

Table 1: Summary of short-list options

Option 1: Status Quo Minimal risk reporting • Agencies manage risk independently, no centralised visibility or coordination • Limited resilience incentives or direction on risk management • High duplication of effort (100+ broker contracts) • Crown remains exposed to being a reactive, unplanned funder of last resort when crisis hits	Change summary: • No change • Does not deliver on investment objectives
Option 2: Centralised Capability Model (CCM) Improve visibility through existing regulatory levers • Risk and insurance capability in a new Treasury team • Use existing risk advisory contracts with brokers to collate a portfolio of risk and execute analysis to determine tolerances • Use of Cabinet Office circular and Letters of Expectations to communicate minimum/maximum risk transfer • Deep dive analysis on select asset managers to understand current practice and support the development of guidance • Direct support to improve market engagement and self-insurance	Change summary: • ‘Do minimum’ option • Central government only • Sets expectations and provides partial monitoring • Relatively easy establishment – operating costs only • Operating expenses to be funded centrally with benefits in agency appropriations over time
Option 3: Centralised Broking Model (CBM) Enables efficiency through a procurement approach • Single broker procured by a Joint-Venture between Natural Hazards Commission and the Treasury • Portfolio management to enable a unified market strategy • Internal modelling and analytical capability to inform risk exposure and tolerances to drive risk strategies • Some product innovation possible, with cost allocation methodology to entities in the portfolio • Agency self-insurance strategies would be monitored • Requires legislation to extend to State Owned Enterprises (SOEs) or local government	Change summary: • Ministerial direction and appropriation to NHC • Service agreement to manage NHC mandate but option to legislate • Accountability structures require development • Modelling capability • ~\$22.5m to establish, ~\$13.5m operating costs • Benefits tracked in agency appropriations over time
Option 4: Enterprise-wide Risk Management (ERM) Optimises the balance sheet through commercial incentives • Independent function operationalised at NHC; Treasury to advise Ministers on Directions for risk appetite and pricing • Mandates central government to transfer risk to a central manager, to determine the optimal risk financing strategy • Transfer of risk creates a lever to incentivise proactive risk and asset management and prioritise capital allocation. • Analytics to drive product innovation for alternative risk products (catastrophe bonds, index-linked securities) • State owned enterprises and local government eligible • Largest scale/diversity benefits of all options, creating a national picture of asset risk to inform crisis preparedness	Change summary: • Only option that meets all investment objectives • Complex implementation – legislation and policy reform • Clear roles and responsibilities – market vs. asset management • ~\$90m to establish and ~30m operating costs • Highest financial and non-financial benefits, tracked in a single appropriation

The options are additive across a spectrum of interventions, creating increased benefits realisation but more complex implementation. This scale of complexity/effectiveness is summarised in Figure 1:⁶

Figure 1: Level of and return on investment across risk financing options



The establishment of internal modelling capability is the single most critical enabler to drive a shift from reactive to proactive balance sheet management. This allows for the Government to be a more intelligent customer when engaging with global risk markets.

Improved understanding of the underlying cost of risk allows for comparing options to Mitigate, Transfer, or Accept risks on an economic basis. Options to mitigate or accept risk require analysis on the use of debt capital to reduce risk exposure, whereas insurance creates a certain payment of risk capital to insulate the need to meet an uncertain cost of risk in the future. Modelling can allow the assessment of debt and risk capital efficiency relative to public asset exposure and vulnerability.

While the intervention options are additive, there are choices to manage the trade-offs between the time and scale of investment relative to the benefits. A recommendation and potential transition strategy is captured in the 'Preferred way forward' below.

⁶ Annex 6 highlights the growth in capability on an insurance capability curve, as a more technical interpretation of what the higher levels of investment would deliver.

Financial and non-financial benefits

Table 2: Cost-Benefit Analysis of shortlisted options

Options	CCM	CBM	ERM
Implementation	FY26/27	FY27/28	FY27/28
Benefits			
Premium Savings (Adj)	366,100,000	1,368,400,000	3,616,900,000
OPEX savings	-	225,700,000	437,600,000
Total Benefits	366,100,000	1,594,100,000	4,054,500,000
PV	37,300,000	251,900,000	620,800,000
Costs			
OPEX (One-off)	1,000,000	28,500,000	101,500,000
OPEX (Ongoing)	111,800,000	646,500,000	1,417,500,000
WoL Costs	112,800,000	675,000,000	1,519,000,000
PV	28,000,000	176,600,000	405,400,000
Benefit/Cost Analysis	Period (years)	50	
Non-Monetised benefits	4,500,000	34,000,000	117,200,000
Payback Period(FY)	2056	2040	2040
BCR (8%)	1.33	1.43	1.53
NPV (8%)	\$ 9,300,000	\$ 75,300,000	\$ 215,400,000

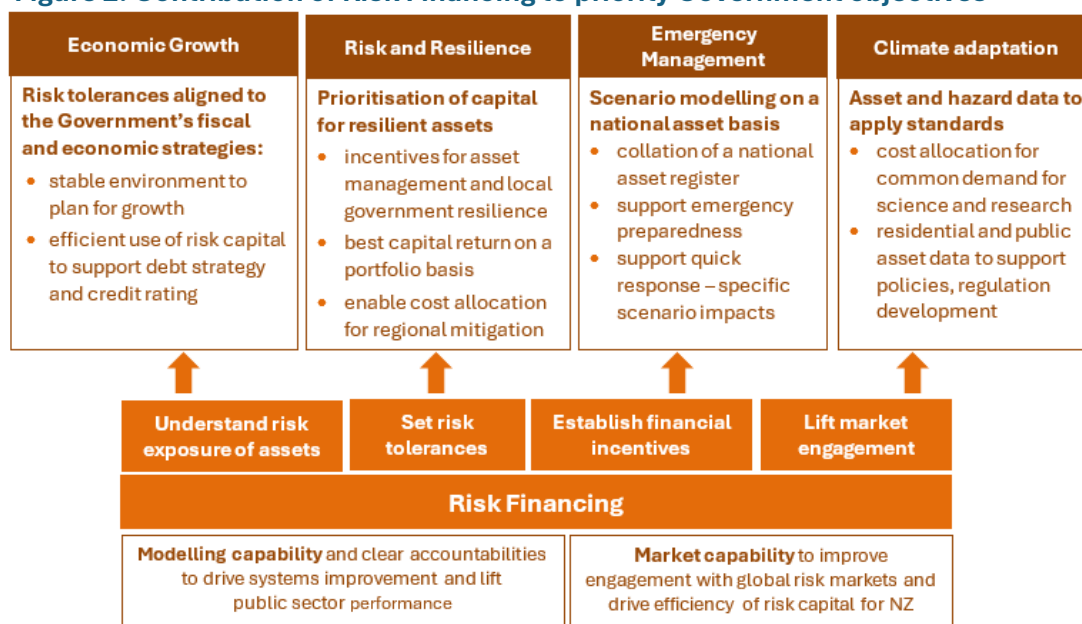
- CCM offers a positive Benefit Cost Ratio (BCR) but low absolute benefits. It would take some time to have a material impact.
- CBM benefits from relatively low implementation costs but has scope limitations due to only managing a partial portfolio. Volume is scalable with legislation but does not embed incentives for participation.
- ERM has significantly higher absolute benefits but also represents the highest absolute cost base. Requires confidence that benefits are attainable. For local government this requires policy reform to remove regulations that provide free insurance to the sector.

Non-financial benefits are a crucial component of the investment proposal. By better understanding risks to assets that provide public services, enabled by internal modelling and analytical capability, we can safeguard those services and support economic resilience.

The ERM delivers both the highest financial and non-financial benefits. This is due to its levers and incentives to drive risk and asset management improvement across all sectors of the balance sheet – generating a full national picture of risk and a national asset register (insurance data). The CBM model would provide partial benefits and could extend to local government but, without a more substantive change to policy, there may be mixed incentives to participate.

Figure 2 highlights how the risk financing proposal has the potential to create a foundation of asset and hazard data and information, for synergies to benefit other Government priorities.

Figure 2: Contribution of Risk Financing to priority Government objectives



Implementation complexity and downside risks

The CBM and ERM options are system-level changes. We have assumed a staged roll out of customers, sectors, and insurance products to manage implementation risks. While this creates a level of prudence over the financial benefits, it is appropriate. Other risks and potential mitigations are captured below:

- Due to the significant initial investment required and noting the realisation of benefits would occur over time (as the institutional shift matures), cross-party support would be beneficial.
- A critical mass of insurance volume is needed for scale and diversity benefits and to cover operating costs. Mandating central government is recommended, but SOEs and local government can be incentivised to participate through ‘rules of access’ for post-funding support, assuring the Crown can recover any post-disaster funding over time.
- A commercial approach to engaging with local government on risk would require changes to existing policies that provide ‘free’ post-disaster funding. This creates a potential political risk, but our pre-engagement highlights local authorities’ concerns with existing arrangements. This could be further assessed through engagement prior to initiating a DBC.
- A significant natural hazard event in the early stage of implementation or operation could potentially undermine confidence. This risk is already present but less visible in the status quo. A specifically designed financing structure would increase the visibility of public asset exposure and identify how costs are to be repaid. This is expected to generate a positive credit outlook.

Preferred way forward

The preferred way forward is to undertake detailed assessment of the shortlisted options, namely the staged transition option that starts with implementation of CBM then transitions to ERM over three to five years. The justification for taking the ‘staged transition option’ to detailed design is:

- The ERM performs best for financial benefits and is far and away the best option to support the Government’s information and system coordination capability. However, the ERM is complex to implement and will require political will to deliver legislation and policy reform.
- The CBM provides a viable alternative option, albeit with limitations. It is scalable, subject to legislation change for the Natural Hazards Insurance Act 2023 (NHI Act). However, incentives are limited, and the financial mechanism is less able to manage budget volatility for agencies.
- A risk mitigation strategy to first implement the CBM before expanding to the ERM preserves optionality. This approach allows for lower initial investment, quicker forward momentum, and off-ramps should benefits not be generated as expected.

This ‘transition strategy’ would need to be further developed in the DBC but can be summarised as:

- Implement CBM for central government and Material Damage and Business Interruption insurance only (note, agencies would retain their own brokers for other insured risks). Whilst embedding improved modelling capability, commence a legislative amendment to the NHI Act.
- Expand the CBM to local authority participation, to allow for a national picture of risk and alternative lines of insurance. Use local authority data to review risk-sharing regulations.
- Expand to the ERM through an investment in insurance software. Execute changes to risk-sharing regulations to enable a full commercial model with improved modelling and incentives.

The staged transition option is endorsed by the Treasury and the Risk Financing Project’s Strategic Design Advisory Committee as the preferred option, subject to further analysis in DBC stage(s).

Subject to Cabinet approving the IBC and preferred way forward, the Treasury would execute a Communications and Engagement plan prior to Budget 2026, to prepare the ground for the DBC.

Financial case

A total of \$5.95m funding is required to progress to the first stage of the preferred way forward, to develop a DBC for the CBM and allow for extension to the ERM in the future. NHC, as the operational agency, would develop the detailed and implementation business cases, supported by Treasury as the system and policy lead.

It is not standard practice to fund DBCs through the budget process. However, NHC does not have an existing appropriation it can utilise to deliver this work. Vote Finance Departmental and Non-departmental appropriations will be reviewed to identify the extent to which a partial reprioritisation can reduce new funding, but is unlikely to fund the full amount. Criteria for Budget 2026 invites will inform whether this proposal will be invited to bid for the unfunded proportion of expenses.

Table 3: Cost of each option across the investment life cycle

(est.)	Planning	Implementation	Operation	OPEX savings (p.a.)
CCM	\$0.5m	\$8.5m	\$2.3m p.a.	\$0.4m (full maturity)
CBM	\$5.95m	\$22.5m	\$19.0m p.a.	\$5.3m (full maturity)
ERM	\$11.5m	\$89.0m	\$30.0m p.a.	\$9.6m (full maturity)

A staged transition from CBM to ERM would mean that only the additional costs over and above CBM costs would be incurred when extending to ERM. This is due to the options being additive. This means that the subsequent cost to progress to ERM implementation is likely to be less than \$70m.

A future DBC would further develop the financial case, with more detail on the expected timing of the proposed transition and the funding approach to meet the residual planning and implementation costs.

Higher benefits for ERM are driven through greater scale and diversity of the portfolio and a financing structure that can house volatility on the Crown balance sheet as opposed to agency balance sheets:

- ERM costs and revenue would be held in a single appropriation, allowing for simple tracking of costs and benefits. A loan facility would be used to manage the timing risk of random hazard events and maintain scheme sustainability up to an agreed risk appetite. This allows for market volatility to be smoothed for better price stability for agencies within the annual budget process.
- The CBM option would initially require implementation and operating funding centrally. A change to the NHI Act would allow for the function to ‘clip the ticket’ on insurance volume to enable a self-funded operating cost, but agencies would retain the cost of risk and insurance. Market and risk impacts on agencies would be more transparent but volatility is still a constraint as to how much risk can be taken on, where balance sheets do not have the depth to accommodate risk.

Alternatively, the CCM option requires smaller costs to be borne centrally. Benefits would need to be tracked to continually test whether the function is delivering its intended return on investment.

Commercial case

This case validates that portfolio risk management can be implemented:

- There is no significant ICT system change expected for agencies, with the centralised risk manager accommodating the technology investment and any cost for agency improvement.
- All software is expected to be cloud-based technology widely used by commercial insurers and brokers, requiring limited configuration.
- Portfolio management options have been in operation for Australian sovereigns for 20+ years, providing confidence on implementation and a framework to learn from.

- Assurance reviews of market functionality and institutional implications provide confidence that the options can be implemented. Changes will be required to governance, organisational, and legislation for NHC to support delivery of the new risk financing unit/functions.

Table 4: Indicative resources required for shortlisted options

	Capability	Technology	Implementation	Advisory
CCM	Internal Treasury team (4–8 FTE)	Limited: open-source tools + broker data	Internal delivery with NHC/DPMC support	Multiple advisors – agency providers
CBM	Full organisation design and Joint Venture governance	Risk modelling only – build on NHC existing	Organisation change, procurement of capable broker	Global broker
ERM	Full organisation design and Risk Appetite Statement	Risk modelling and insurance systems	Organisation, system change and supplementary risk share policy design	Global broker

Management case

To date the project has been led by the Treasury, using a Strategic Design Advisory Committee as a steering group. For the DBC, a joint governance structure would be established (see Figure 3).

This reflects NHC’s status as the proposed lead delivery agency and DBC lead. The Treasury would maintain its policy and system lead role to support the development of DBC operational choices.

Figure 3: Indicative project management structure for the preferred way forward

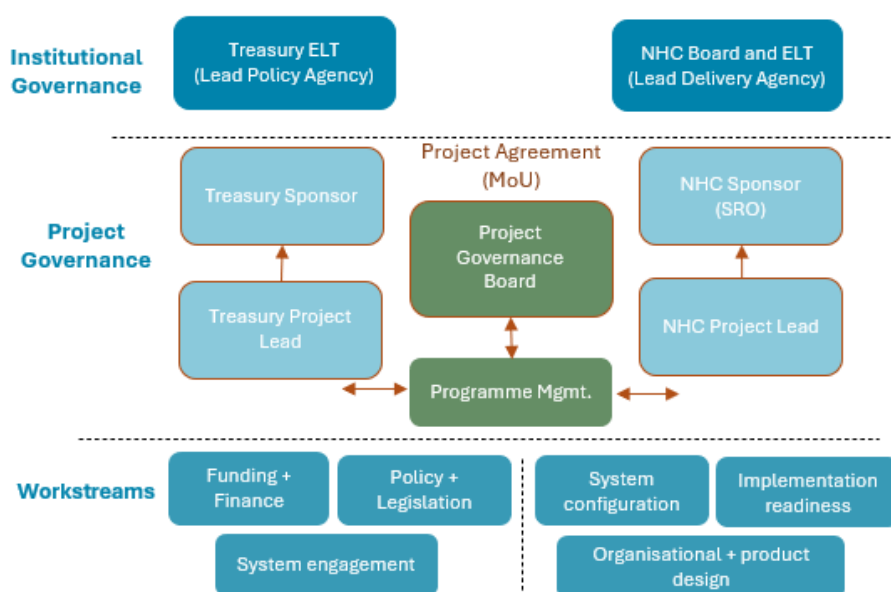


Figure 3 above sets out an indicative governance structure, which would be refined and finalised as the project progresses. In summary, the joint governance structure would involve an SRO from each agency, a project governance board, with joint representation and a programme manager to coordinate between the two agencies. Significant organisational changes for NHC would be assessed by NHC’s Board and management. This includes the option to own or outsource for services and other options to transition to the desired end state.

NHC will continue to deliver the Natural Hazards Insurance scheme to the required performance standard. Any new function conferred on NHC is likely to be implemented into a separate business unit, with shared services for back-office functions providing net efficiencies.

Table 5: Project milestones

Indicative project milestones for CBM and ERM options	Indicative timing
Cabinet consideration of the IBC	Sept 2025
Pre-DBC phase: Treasury executes stakeholder engagement plan, refines the financial case for accuracy and phasing, and drafts a Ministerial direction	Oct 2025 – Mar 2026
Subject to an invite to Budget 26 and Cabinet agreement, execute the Ministerial direction and funding for NHC to lead the development of a DBC	May 2026
DBC – detailed design of the preferred option for delegated Ministers’ approval	Dec 2026
Implementation Business Case – complete procurement for delegated Ministerial approval	Mar 2027
Initial onboarding of central government agencies	From July 2027

In terms of **next steps**, Cabinet will be asked to:

- Approve the IBC and the preferred way forward of undertaking further analysis at DBC stage(s) on the shortlisted options, namely the staged transition option of starting with the CBM and then moving to the ERM over three to five years.
- Note that the Investment Planning phase (DBC and ImBC) will require a future funding decision.
- Direct Treasury to engage agencies and local government in preparation for the DBC development.
- Direct Treasury to prepare a Ministerial direction to NHC, should the Budget 26 bid be approved.

The Strategic Case – the case for change

This section sets out the strategic context for the investment proposal and makes the case for change.

What is the risk financing project?

‘Risk financing’ is how an organisation understands its exposure to uncertain losses and plans to pay for those costs in the most efficient and effective way over time. This includes both operating and capital expenses, using insurance, self-insurance (setting money aside to cover future losses), or investments to reduce risk by improving asset resilience (so losses are less likely or severe).⁷

This IBC sets out the problems and opportunities for how risk is financed by central and local government. It examines options to enable a shift from the default situation: reactive ‘post-funding’ when a disaster occurs, to a proactive approach that supports the wellbeing of current and future generations through physical resilience of public assets, and resilience in our public finance system.

The need for investment

Good risk management is central to efficient and effective asset and financial management. The Government is not doing the basics of risk management well. The Government does not have a central view of the state of assets, their exposure to risk, and how decisions to maintain, improve or replace assets are taken. There are several external factors that are driving the need to invest:

- a. Market dynamics – insurance accessibility and affordability has reduced with extreme weather events and inflation. Insurer risk appetite has reduced, particularly to weather risk. Reinsurers are aligning to sovereign nations that are managing physical resilience for reduced losses.
- b. Inflation – insurance market inflation has been significantly above standard inflation for an extended period. This is driven by global claims experience of more frequent severe weather and the 2022 update to the National Seismic Hazard Model.⁸ Inflation also incorporates increased construction and materials costs post-Covid to drive higher asset rebuild values.
- c. Political – backlash against financial management at local authorities and rates rises, for which the rising costs of insurance have contributed to.
- d. Economic – fiscal constraints and post-Covid recession, reducing affordability for rising insurance costs and resulting in reduced risk transfer at agency level.

While these factors are current, the environment to consider risk and agency management of risk is dynamic. The nature of risk is changing and the need for effective portfolio management of public assets will require constant oversight as part of the balance sheet strategy.

When considering how we allocate money to risk, we can pre- or post-fund. Pre-funding means making choices around whether we avoid, control, transfer or accept risk. Post-funding is currently the Government’s default position, with the balance sheet as the backstop, unplanned insurer of last resort. This is inefficient, and the uncertainty of relying on debt headroom stifles economic planning.

As the Government does not understand its exposure to risk, it has no ability to reliably estimate the Crown’s balance sheet volatility. This has implications for maintaining the insurability of New Zealand at a macro-economic level. Access to risk capital is a crucial contributor to New Zealand’s continued access to debt capital.

Risk markets are progressively moving to work proactively with sovereign nations that have a focus on resilience over response and recovery. The social and fiscal challenges driven by global forces are increasing, including climate change and geostrategic instability. These conditions will continue to

⁷ The IBC scope covers risk financing for all generally insurable risks (business interruption, professional indemnity, fleet, and cyber). We focus on natural hazards as a predominant driver of risks for ease of communication and the greatest opportunity for system alignment.

⁸ National Seismic Hazard Model 2022 - GNS Science | Te Pū Ao

challenge our ability to manage balance sheet volatility. New Zealand has world-leading natural hazards research, which it seeks to make available for private use but under-utilises for public assets.

Some natural hazards (eg, earthquakes, tsunamis) are relatively low frequency but high consequence. More frequent events (such as flooding, severe weather) present higher average annual losses to critical infrastructure. Severe weather is creating a change in the structure of risk markets, with higher costs for low-level, more frequent risks. Increased claims costs (globally), construction cost inflation, and higher asset revaluations have driven significant increases in risk premiums (23% annual growth per annum).⁹

New Zealand faces a number of National Risks that could impact our people, the economy, and the Government's ability to deliver its fiscal and economic strategies. Lloyds of London in 2018 ranked New Zealand as the second highest in the world in terms of average annual losses as a percentage of GDP (0.66%). This ranking was significantly greater than its closest advanced economy peer, Japan (0.29%).

Despite our high exposure to risks from natural hazards we do not consistently incorporate consideration of risks into asset management and infrastructure planning. The current system for managing New Zealand public infrastructure is dispersed, requiring individual agencies to each manage their own risks (as set out in Treasury Instructions for the public sector, and the Local Government Act 2002 (LGA)). These guidelines allocate accountability but do not provide guidance on the Government's risk appetite or require regular reporting.

Across central and local government there is inconsistency in the amount of insurance that is procured, with under- and over-insurance a significant concern. Agencies and local government are reducing insurance or absorbing more risk in response to a fiscally constrained environment, increasing the Crown's fiscal exposure.

The Crown provides funding support for post-event response and recovery of hard to insure assets (linear infrastructure such as roads and water infrastructure). This effectively acts as free insurance to government agencies and local government, creating a disincentive for proactive risk management – it can be more economic to fail.

Over 100 separate insurance contracts are procured by central government agencies, highlighting the duplication of effort and missed opportunity for more collective action. Departments are only required to inform their Minister and the Minister of Finance for a change in risk appetite on an adhoc basis.

Strategic context

A balance sheet tool for financial risk management is central to improving the Government's data analytics, incentives, and overarching stewardship of public infrastructure. It can support the coherence of risk and asset information and efficiency of accessing risk markets. Improved risk and asset information could support a wide range of agency-specific goals in areas such as climate adaptation, emergency management, natural hazard research, and local government funding and financing.

A balance sheet strategy for risk management can align with other improvements being made across the system, particularly within the National Risk and Resilience Framework. The development of an insurance level asset register can be a foundational tool to support the development of the National Infrastructure Plan and application of modelling standards can support local and national consistency for the National Adaptation Framework.

Information on assets, their exposure to risk, and improved systems for managing risk will underpin all these government priorities. Benefits are generational but an earlier investment allows for improved economic outcomes as costs increase faster than inflation – both the underlying risk and the market's appetite for risk.

⁹ Treasury data collection from 6 asset managing agencies in 2024: Te Whatu Ora, Education, Kainga Ora, New Zealand Transport Agency (NZTA), Corrections and Department of Internal Affairs (DIA).

System stakeholders – organisations with an interest in the proposal

The strategic context provides the operating context for the project. It outlines the agencies involved/interested and summarises how the proposal will contribute to the delivery of Government objectives as articulated in relevant strategies and plans.

Table 6: Overview of key stakeholders and their interest in the investment proposal

Organisation	Role and interest
The Treasury Te Tai Ōhanga (Lead agency)	The Government's lead economic and financial adviser. It leads on the Infrastructure for Growth pillar of the of the Government's Going for Growth strategy. The Treasury has led this IBC as risk is a key pillar of the Balance Sheet Strategy work programme.
The Department of Prime Minister and Cabinet (DPMC)	Supports the Prime Minister and Cabinet in leading an effective, accountable government by providing trusted advice, strategic coordination, and system stewardship. Leads on the National Risk and Resilience Framework (NRRF) to improve New Zealand's physical and economic resilience to its most significant risks.
Te Waihanga The Infrastructure Commission (InfraCom)	Independent adviser to the Government, leads the development of the National Infrastructure Plan (NIP) and jointly leads the Improving Asset Management programme with the Treasury. Asset and risk management are linked, requiring effective incentives to proactively manage slow and quick emerging risks. Risk financing could operationalise the collection of asset data for a national asset register.
Ministry for the Environment (MfE)	Advises government on environmental stewardship and policy. Leads the development of the National Adaptation Framework. Opportunities for risk financing and the Adaptation Framework are clearly defined roles and responsibilities and the development and application of national and regional modelling standards.
National Emergency Management Agency (NEMA)	Lead agency for managing the country's emergency management system, working to reduce risk, improve resilience, and prepare for large-scale disasters. Improved national data, modelling, and scenario analysis can inform EM planning.
Department of Internal Affairs (DIA)	The system steward for local government. It is responsible for ensuring the capability, resilience, and sustainability of local authorities. Existing policies to support response and recovery bring local risk onto the Crown balance sheet. Risk financing can enable visibility, incentives, and manage the volatility of risk financing.
Ministry of Business, Innovation and Employment (MBIE)	Responsible for supporting a strong, innovative, and resilient economy. It leads the Going for Growth work programme (discussed above) and Science System Reform. MBIE also houses New Zealand Government Procurement which offers a central contract for broking and advisory services. Risk financing can support cost allocation for science and research and processes to regularly refresh national science models.
Natural Hazards Commission Toka Tū Ake (NHC)	It administers the Natural Hazard Fund for residential risk. Its strategy focuses on the 4R's of risk management: Reduction, Readiness, Response, and Recovery. However, it has weak levers to influence local and national authorities to improve reduction and readiness or to direct choices for a more resilient recovery. As a potential host agency public risk financing can leverage its actuarial and risk financing capability.

Annex 2 lists the organisations with an interest in the proposal, with further detail set out in the Stakeholder Communications and Engagement Plan. These organisations have been engaged via 1:1 meetings, and workshops throughout the development of the IBC. Several of these organisations are represented on the project's Strategic Design Advisory Committee, which includes the Treasury, DPMC, DIA, NHC and technical leaders with private market expertise in risk financing.

Direct engagement has also occurred with a public sector insurance community of practice.¹⁰ Additional meetings have been held with agencies who may be impacted by the proposal, including New Zealand Government Procurement, a range of public insurance mutuals, KiwiRail, and Auckland Council.

¹⁰ Ministries for Education, Corrections, Internal Affairs and Crown Entities delivering Health, Roadway and Housing portfolios.

Contribution to existing strategies

The risk financing proposal contributes directly to two Government priorities:

1. **Economic Growth:** aligned with *Going for Growth – Unlocking New Zealand’s Potential* strategy, particularly the *Going for Infrastructure Growth* pillar. This includes initiatives to improve Crown balance sheet management (led by Treasury), enhance investment and asset management practices (led by Treasury and InfraCom) and the development of the National Infrastructure Plan (InfraCom).
2. **National Risk and Resilience:** by supporting the objectives of the *National Risk and Resilience Framework* and the *National Adaptation Framework*, advancing the Government’s goal to reduce New Zealand’s exposure to harm and cost from shocks and crises.

Table 7: Summary of strategies and programmes relevant to the proposal

Strategy / Programme	Relevance to proposal
Economic Growth	
Balance Sheet Strategy	• <i>Going for Growth</i> Infrastructure pillar highlighted Treasury’s role in managing the Crown’s balance sheet to ensure assets are effectively utilised to deliver essential services and maximise long-term value. • The Balance Sheet Strategy identifies the need for a shift in relation to risk and liability management to set the foundations for better risk management.
National Infrastructure Plan	• The NIP aims to lift public sector capability in investment management. It includes developing a picture of infrastructure asset condition, performance, and risk, and embedding best practice across the investment lifecycle. • The guidance note ‘Invest or Insure’ highlights the importance of robust long-term modelling and commercial assumptions to develop individual cases for investment. This is likely to require consistency across public asset managers to support effective capital prioritisation across the portfolio over time.
Improving Asset Management	• Capital allocation – improved identification and prioritisation of investment in risk reduction initiatives across the Crown’s portfolio, and financial incentives for investment in the highest-risk areas. • Capital performance – ensure financial incentives support the long-term efficiency of assets even in the face of short-term fiscal constraints. Incentives can support investment into the quality of asset data and reporting, to the level required by Government standards.
Risk and Resilience	
National Risk and Resilience Framework	• Oversight of the key policy programmes which contribute to reducing New Zealand’s exposure to the harm and cost of crises. • Risk financing creates the foundational tool to understand what agencies are exposed to and how they are managing vulnerabilities. It can apply investment mechanisms weighted towards proactive risk reduction.
National Adaptation Framework	• Aims to encourage a market-driven approach to risk management and proposes to establish core principles in legislation across 4 pillars agreed by Cabinet. • Risk financing could support the development and implementation of nationally consistent risk data and information (pillar 1) and more effective roles and responsibilities through incentives for public infrastructure managers (pillar 3).
Emergency Management System Improvement (EMSIP)	• EMSIP Roadmap focuses on strategies and funding options to address critical gaps in the EM system, enabling sufficient large-scale disaster readiness • NEMA has historically been unable to cost the scale of a disaster as it happens, slowing down the allocation of funding to the right source. • Centralised asset and hazard information can deliver scenario analysis for more effective planning and live decision making for response and recovery. • Incentives can support more resilient infrastructure and disaster preparedness.

Science System Reform	• Opportunity to allocate funding and centralise commissioning of common science and research priorities. • Operational processes can require planned and regular refresh of natural hazard platforms, providing better visibility and planning for the science system.
Local Government	• Govt expectations for risk management have been strengthened in the Local Government Act. • However, existing transport civil defence regulations provide free insurance via post-event Government support, which works counter to this expectation. • Water company reform via Local Water Done Well means existing risk mutuals will need to be reformed, providing an opportune timing for alternative regulatory or commercial mechanisms.

Why is managing balance sheet volatility important?

The Crown balance sheet is a tool to support effective financial stewardship and higher living standards for all New Zealanders. This includes smoothing risks that can generate inter-generational wealth transfers and distribution impacts in New Zealand's economic base. The balance sheet is recognised within the Treasury's stewardship documents as both a source of and solution to challenges.

The Treasury's Long-term Fiscal Statement Te Ara Mokopuna re-emphasised the challenge identified in previous statements, that the balance sheet net worth and net debt are expected to deteriorate significantly over the next 40 years. It also highlights a focus on weak incentives to effectively manage risk to our existing physical infrastructure.

Improved proactive risk financing is intended to improve the performance of capital on the balance sheet and reduce the need for fiscal policy interventions in response to balance sheet or economic volatility. The Secretary of the Treasury, in his foreword to the 2025 Long-term Insights Briefing notes,

"We need to better understand our exposure to risk. Withstanding shocks of great magnitude and greater frequency requires us to be attentive to both our strengths and our vulnerabilities. To keep growing the New Zealand economy, we need to keep building on our strengths, including capable institutions, systems and processes that provide resilience when events interrupt our charted course."

The Treasury's advice on a Balance Sheet strategy identifies risk management as one of four dimensions of best practice in public capital management, as summarised in Table 8.¹¹

Table 8: Best practice balance sheet management

Dimension	Key Concept	Best Practice
Capital Allocation and Recycling	<i>Own the right assets</i>	• Clear ownership purpose for assets, subject to regular review • Policy settings prioritise capital flowing to its best use • Funding and financing models allow for efficient partnering with the private sector
Capital Performance	<i>Manage your assets well</i>	• Clear performance expectations (financial and non-financial) • Policy settings incentivise a focus on asset management • Efficient use of commercial and user-pays revenue models
Risk Management	<i>Understand and control your risks</i>	• Understanding how the balance sheet will respond to shocks • Investment in capability allows for quantification and control of risk across the balance sheet, including on a portfolio basis
Operational Excellence	<i>Do the basics well</i>	• Clear policy settings for the use of Crown capital • 'Best in class' financial and non-financial reporting • 'Whole-of-Crown' approaches are used to generate efficiency gains and applies financial discipline

¹¹ Treasury Report – Balance Sheet Strategy, Initial Advice to the Minister of Finance, March 2024

The Crown's balance sheet is a consolidated record of the Crown's 'capital'. This includes what the Crown owns (its assets) and what it owes (its liabilities). There is limited identification, measurement or stress testing of the Crown's contingent liabilities.¹² Work on the Crown balance sheet strategy has identified the need for a key shift in relation to risk and liability management. The options in this IBC deliver on this shift (to varying degrees) to:

- Enable a better understanding of natural hazard risk on the Crown balance sheet.
- Develop risk tolerances that are aligned to the Government's fiscal and economic strategies.
- Execute risk financing to avoid, control, transfer or accept risks on the balance sheet.

Key evidence: there is limited information to understand current residual exposure

Best practice framework

The International Monetary Fund (IMF) established the Fiscal Risk Management Framework (see Table 8). This highlights the basis for the strategy to improve understanding, develop risk tolerances within the context of the broader fiscal and debt strategies, and then execute effectively to those tolerances.

Greater stability of fiscal strategy will lead to a higher credit rating and more efficient debt servicing costs. Insurance is a financing tool that can deliver greater balance sheet stability but comes at a net cost of accessing that capital. No guidance is provided to agencies on the relative value of debt or risk capital when making judgements for transferring, mitigating or accepting risk.

Table 9: IMF Fiscal Risk Management Framework

Step 1: Identify and quantify risks	• Identify sources of risk • Calculate fiscal exposure • Estimate likelihood of realisation
Step 2: Decide whether to mitigate risks	• Direct controls and limits on exposure • Regulation, incentives and other indirect measures • Transfer and risk sharing mechanisms
Step 3: Decide whether to provision for risks	• Expense fiscal costs in the budget • Budget contingencies • Set aside financial assets in buffer funds
Step 4: Decide whether to accommodate residual risks	• Take into account residual risks in setting debt objectives

Pre- or post funding for disasters

There is limited provision for risk pre-event. In New Zealand debt has absorbed the fiscal and economic impacts of disasters. Sapere's 2025 study¹³ highlights that 90%+ of funding for disasters in New Zealand is post-funded. Three significant events over the last 15 years have presented volatility from natural disasters:

- 2010-2011 Canterbury earthquakes at an est. cost of \$40bn (large impact on residential and local assets)
- 2016 Kaikōura earthquake at an est. economic loss of \$3bn (particularly from critical roading impacts)
- 2023 North Island severe weather events with an estimated loss of \$14bn.

Reinsurance and levy revenue has enabled the Crown to meet its obligations for the Natural Hazards Insurance scheme. However, additional funding for response and recovery protection for local infrastructure and under-protected national infrastructure can act as a handbrake to economic growth strategies.

Volatility is not isolated to natural hazards. Pandemic, financial system, and biosecurity risks all represent balance sheet volatility. However, there are few liquid markets for insurable products in these sectors. Debt strategy flexibility is the primary tool to enable a response to catastrophic risk.

¹² Contingent liabilities are financial obligations that the Crown will have to face if an uncertain event occurs. The Crown has explicit contingent liabilities but there is also the potential for implicit liabilities to occur via Government fiscal policy following a risk event, should the pre-emptive settings not sufficiently incentivise good risk financing.

¹³ IAG New Zealand / Sapere Research Group (2025), *Natural hazards-related public spending in New Zealand* [natural-hazards-public-spending-nz-final.pdf](#)

Poor asset data limits the development of fiscal or economic risk strategies

Earthquake remains the predominant risk for complex balance sheet management. However, analysis in Table 10 indicates that average losses for infrastructure are greater for high frequency/low impact events, such as floods, relative to low frequency/high impact events.

Table 10: Estimated Average Annual Loss (AAL) for each hazard-sector combination in NZD\$m¹⁴

	Earthquake	Coastal Flooding	Flood	Tsunami	Volcano	Total
Water	14.02	54.72	68.42	1.71	0.31	139.18
Electricity	8.80	40.26	90.1	2.63	0.43	142.22
Telecommunications	0.19	0.68	1.15	0.55	0.19	2.76
Central Government Roads	9.49	19.84	25.29	0.08	3.91	58.61
Local Government Roads	7.02	34.11	46.85	0.24	1.44	89.66
Rail	22.47	2.95	14.6	0.03	0.37	40.42
Vertical	Government	52.33	9.49	17.37	3.36	83.00
	Hospitals	7.04	0.52	3.62	0.001	11.261
	Education	47.19	3.00	13.71	0.30	64.57
Total	168.55	165.58	281.11	8.90	7.54	631.70

Central government is highly exposed to local authority roading and water assets, via regulations that provide post-disaster funding: 75% exposure for central government on local roads through enhanced Funding Assistance Rates in the Transport sector and 60% exposure to local water assets through civil defence emergency management regulations. These contributions are not measured or pre-funded in any budget.

Flood is a category where risks can potentially be controlled. However, policies that provide post-disaster funding at no cost create an active disincentive for proactive investment in physical resilience. Failure is potentially more economic than investment.

Exposure to earthquake, tsunami and volcano is less controllable or predictable, but these risks require fiscal resilience to support recovery. This includes pre-funding for the cost of risk over time, rather than relying on post-event Government support. The Crown does not monitor how asset managers are budgeting or saving for risk and the Public Finance Act limits the holding of cash by Departments.

Analysis for the Treasury's planned 2025 Investment Statement has used the Reserve Bank of New Zealand's 2024 General Insurance Industry Stress Test¹⁵ to interpolate a balance sheet exposure:



There are limitations to the data in both the GNS and Investment Statement analyses. The key weakness is not understanding asset location, condition, and the actual replacement cost of the asset (as opposed to the depreciated replacement cost of assets). This requires broad assumptions.

Replacement cost is crucial as it can be very site specific depending on the type of asset (eg, coastal roads being a significantly more expensive undertaking to replace when undermined). **Replacement value could add more than 40% of additional cost to GNS' assumption of average annual losses.**

Government policies to support post-disaster set out a recovery of asset condition but not betterment. This creates a position of negotiation between asset owners and the Government on what the right investment is from an economic and long-term efficiency perspective. Without understanding existing asset condition, exposure, and vulnerability to future events, response and recovery policies can prioritise short-term affordability over long-term economic efficiency.

¹⁴ Horspool NZ, Syed YI, Hayes JL, Paulik R, Hosse L, Anand G, Sadashiva VK, Beale T. 2025. Estimating national-scale losses to infrastructure from natural hazards. Lower Hutt (NZ): GNS Science. Consultancy Report 2025/10.

¹⁵ The scenario represented is a very severe earthquake on the east coast of the North Island, representing a 1-in 1,200-year probability. [2024 General Insurance Industry Stress Test \(GIIST\) - Reserve Bank of New Zealand - Te Pūtea Matua](#)

How much are we spending at the moment?

Aon NZ reports the current premium pool for public sector assets is approximately \$460m per year. We have validated this analysis through the NZ Government Procurement's All of Government broker contract.

Table 11: Premium pool for public sector assets

Sector	Property and Casualty	Other lines	Total
Central Government	265m	13m	278m
Local Government	174m	9m	183m
Total	438m	22m	461m

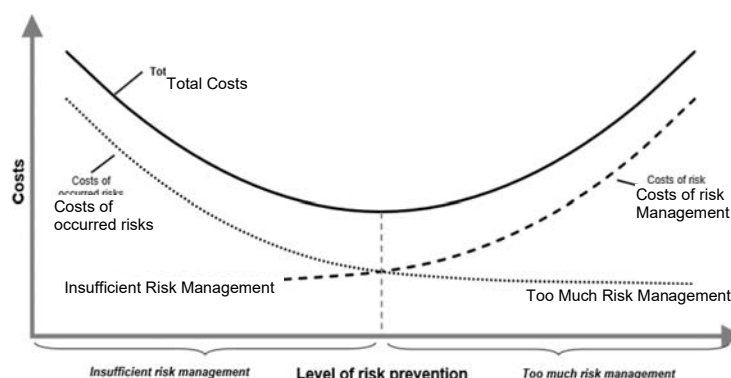
Higher risk assets (eg, roads and water) are frequently not insured or under-insured. To a degree, this reflects market risk appetite, which will price technical assets (horizontal or underground) conservatively. On an individual value for money basis, this may be the appropriate decision but does not factor in the Government's preferred risk tolerance. Premiums in the table also include profit margins of 10-20% and broker fees of ~2%.

Therefore, the insurance gap for public assets is unknown and can only be estimated.¹⁶

- Using average annual losses of ~\$500-550m exposure to central and local government, uplifted by 40% for replacement value = ~\$700-750m average annual exposure (conservative estimate)
- Using insurance uptake for property and casualty, reduced by 15% to remove margins = \$370m
- **Therefore, approximately half of physical asset exposure in New Zealand is insured.**
- The Government's exposure to local infrastructure risk is not modelled and is entirely uninsured.

While the above notes the net position of insurance coverage, we are aware of a range of different risk appetites in the portfolio. For example, the New Zealand Transport Agency insures its projects in construction but does not insure its existing assets, whereas Health NZ has historically transferred risk to a 1-in-1,000-year average loss. This inconsistency highlights the different value judgements for what insurance provides, without a central view of how much cost should be incurred to control potential volatility.

Both under-insurance and over-insurance can be fiscally and/or economically inefficient:



The Crown, as a balance sheet manager does not have the ability to plot which Agencies are spending too little or too much on risk and resilience.

Even if the amount of expenditure is known, there is limited ability to understand that expenditure on a performance basis.

Individual agencies also lack specific insurance market capability to develop complex fiscal strategies and, in the case of non-capital-intensive agencies,

limitations on operational funding flexibility will embed conservatism for how much risk is transferred to maintain budget compliance in a single year.

We are aware of lower insurance uptake in response to a fiscally constrained environment (the Crown's hidden contingent liability for risk is growing), and of multiple organisations setting up their own captive insurance arrangements or considering the possibility of doing so. This is inefficient at a portfolio level.

There is no innovation of alternative risk transfer products outside of NHC. This is due to limitations of scale and a lack of capability and risk appetite at individual Agencies. This is a missed opportunity to diversify New Zealand's engagement with global risk markets. However, products such as catastrophe bonds or parametric insurance¹⁷ are best used at a portfolio rather than individual level to diversify risks more effectively.

¹⁶ This was noted by Aon NZ in the development of a report to support this business case - to inform actual risk exposure, you need to invest in the type of proposals this business case is considering to be able to execute this analysis with any confidence.

¹⁷ These products work similarly to traditional insurance, by paying out when a liability is met, or when certain thresholds of risk are met. They require strong modelling capability to price the risk and assure the products offer value relative to traditional or self-insurance.

Problems

Workshops involving the Advisory Committee and other key stakeholders were held in late 2024 and early 2025 to develop the case for change, gain a common understanding of business needs, set out the agreed problems, identify the likely benefits of investment, and agree project investment objectives.

The problems, benefits, and investment objectives were refreshed using an Accredited ILM Facilitator and undertaken with key stakeholders to improve their alignment with ILM methodology. In relation to identification of problems, this has included utilising the ‘5-question approach’, with an emphasis on clear identification of the cause, problem, and consequence. The ILM is provided in Annex 3.

- Problem 1:** We have a poor understanding of the extent of public risk exposure, which means the government is reactive to shocks and can’t manage the balance sheet effectively.
- Problem 2:** A fragmented approach across Government and when engaging with global risk markets, results in higher insurance costs.
- Problem 3:** Weak policy and guidance for the treatment of risk exposure creates perverse incentives, prioritising short-term costs over long-term resilient investment.

Investment objectives, existing arrangements, and business needs

The investment objectives as developed with key stakeholders are:

1. Develop a **portfolio view** of public asset physical exposure to understand the Government’s financial risk exposure and increase the effectiveness of how risk information is used
2. Develop balance sheet risk tolerances to guide and incentivise agency risk and asset management to improve **physical and financial resilience**
3. Improve **capital and operational efficiency** of risk financing
4. Optimise **market access to global risk capital**, including by leveraging New Zealand’s science and fiscal strategies

Table 12: Summary of the case for change for each investment objective

Table 12 explains the case for change as it relates to each investment objective.

Investment Objective 1	Develop a Portfolio view of public asset physical exposure to understand the Government’s financial risk exposure and increase the effectiveness of how risk information is used
Existing Arrangements	• Individual agencies manage their respective risks in accordance with Treasury instructions or the Local Government Act. Data on asset condition, location, and vulnerability is patchy, and risk modelling is rarely shared across agencies or centrally. • The lack of a portfolio view means the Government can’t fully understand its risk exposure. This issue is noted by both the Secretary of the Treasury (referenced above), and the Parliamentary Commissioner for the Environment: “How can the Crown lead development of a strategy when it doesn’t understand its own direct and indirect liabilities?”¹⁸
Business Needs	• Improve the effectiveness of how we collect, use, and refresh asset and hazard data. Enable the sharing of portfolio analysis to inform wider policy, regulation and public investment objectives. • Improve modelling standards and comparability for equitable cost allocation to sectors of the balance sheet. Give effect to the application of standards for nationally consistent hazard data and risk/asset management.

¹⁸ Note from the Parliamentary Commissioner for the Environment to the Minister of Finance, 1 August 2024.

Investment Objective 2	Resilience: Develop balance sheet risk tolerances to guide and incentivise agency risk and asset management to improve physical and financial resilience
Existing Arrangements	• Risk share frameworks offer weak incentives, particularly in the current fiscally constrained environment. No visibility of the residual liability as agencies reduce insurance coverage. • The explicit risk share of Civil Defence and Emergency Management regulations and higher Financial Assistance Rates for local roads post-disaster creates a precedent in the minds of local government. This funding protection is provided at no cost to local authorities. • Individual agencies each assess the value of risk capital and determine how much to pass to markets or retain on the Crown balance sheet. No central guidance is provided. • The balance sheet is therefore exposed in the aftermath of major crises where central government often acts as an ‘insurer of last resort’, establishing costly bespoke funds.
Business Needs	• Improve price signals to better account for long-term capital performance in investment and maintenance decisions, including asset resilience. • Address weaknesses in existing frameworks that generate contingent liabilities on the Crown balance sheet and passive risk acceptance by asset owners. • Financial mechanisms are resilient to meet the cost of time without undermining budget planning for agencies and/or the Government.
Investment Objective 3	Efficiency: Improve capital and operational efficiency of risk financing to reduce the cost over time
Existing Arrangements	• The cost of risk has increased dramatically for New Zealand, including the Crown. Insurance premiums for asset-intensive govt agencies increased by 23% per year over the 3 years to 2023, despite lower uptake of insurance coverage.¹⁹ • Both operating expenditure and contingent liabilities on the Crown balance sheet are increasing, and individual agencies do not have the scale or levers to arrest this change. • Some agencies have reduced or removed insurance protection in response to the Government’s expenditure review. Other agencies are considering their position.
Business Needs	• Enable risk analytics for a national portfolio of public infrastructure assets, to inform long-term financial management and stewardship for critical and long-lived assets. • Use economies of scale and diversification benefits to improve capital allocation and capital efficiency of risk transfer, risk acceptance or, where economic, risk reduction. • Reduce the duplication of effort for modelling risk and procuring insurance.
Investment Objective 4	Access to global risk capital: Optimise market access to global risk capital, including by leveraging New Zealand’s science and fiscal strategies
Existing arrangements	• National resilience planning and research is not coordinated with optimising New Zealand’s access to global risk markets. • Whilst NHC is the flagship for engagement with risk markets for private assets, the Government misses the opportunity to tell New Zealand’s story for its public infrastructure in a cohesive way (unlike how we engage with global debt markets).
Business needs	• Position New Zealand as an intelligent customer to improve our market access and attract a diversified placement of risk capital from global markets. • Support coordination, investment, and utilisation of New Zealand’s understanding of natural hazards to build strong market relationships. • Develop New Zealand’s access to, and use of, alternative risk markets (such as catastrophe bonds or insurance linked securities), as an alternative to traditional insurance or reinsurance.

¹⁹ Analysis of insurance premia for Education, Health, Housing, Roading, Prisons, and Internal Affairs portfolios.

Benefits

The benefits of the proposal relate to the Living Standards Framework, Level 3: The Wealth of Aotearoa New Zealand. This captures how wealthy we are as a country and includes financial and physical capital (as well as human capability, social cohesion, and the natural environment). This level considers productivity, sustainability, distribution, and resilience:

- Resilience – supports improved physical and financial resilience of the balance sheet and its assets
- Distribution – better identification of contingent liabilities allows for improved cost allocation to sectors of the balance sheet and lower risk of undue subsidisation by taxpayers
- Productivity and sustainability – are enhanced through improved fiscal management of risks, enabling fiscal policy to be targeted towards productive use.

Benefits of the proposal and Key Performance Indicators (KPIs) were identified with stakeholders through the ILM workshop. The benefits of the investment and indicative KPIs and measures are in Table 13.

Table 13: Analysis of potential benefits

Benefits	Description	Indicative KPIs	Indicative Measures
Fiscal risk exposure is better understood	Information on assets and their exposure to risk is known and understood, reducing uncertainty and improving confidence.	Improved data to inform fiscal forecast for natural hazard risk for public assets	• Portfolio Average Annual Loss (AAL) and a range of scenarios regularly refreshed (Q)
		Risk and resilience policy supports improved trust and confidence	• Coherence of risk and resilience policy (NHC) (I) • Market engagement to test re-insurers appetite to invest in New Zealand (I)
Defined risk tolerance enables better decision making	The Government outlines its risk appetite to enable better agency decision-making and Crown balance sheet management	Guidance on risk tolerance improves agency consideration of risk (Avoid, Control, Transfer, or Accept)	• Guidance exists and is refreshed regularly (I) • Agency Asset Management Plans specify how they meet government risk tolerances (I)
		Balance sheet volatility is managed more proactively and effectively	• Fiscal forecast includes data on contingent liabilities (I) • Fiscal strategy includes specified approach to pre-funding within annual budgets (I)
More efficient and effective strategic risk financing	Capital and operating efficiencies are achieved through consolidated procurement and smarter placement resulting in more efficient spend.	Improved capital and operating efficiency and effectiveness	• Reduction in total insurance premiums paid for the same stated risk tolerances (M) • Annual OPEX savings across participating agencies (M) • Net FTE savings aggregated across the system (M)
	Improved portfolio-level risk management lowers expected future claims on the Crown, faster financial response and reduce downstream economic and social impacts.	Physical and financial resilience of assets on the balance sheet is improved	• Reduction in Portfolio AAL, driven by improved asset condition, location, or design standards (Q) • Increased investment in resilient infrastructure (improved condition relative to target compliance). (Q) • Lower cost of claims post-event and reduced economic and fiscal cost of disruption events (I)

*Q = quantified; M = monetised; I = identified

Further information on how each measure features in the Cost-Benefit Analysis has been discussed in the Economic Case. More detailed information including data source and benefit type is provided in Annex 7. The Investment Logic Map (ILM) that generated the KPIs is provided in Annex 3.

Disbenefits were also considered but no significant fiscal disbenefits were identified. The proposal could create behavioural disincentives for agencies to participate. This could arise from an agency's perceived loss of control of their budget and/or resistance to increased short-term costs where agencies currently under or don't insure (although the benefit is that the cost is smoothed over time).

For local government, there is a potential cap to increases in risk costs paid from rates and utilisation revenue. Participation can be incentivised for this sector through rules of access to a public scheme, benefits to smooth budget volatility, and updates to regulations that dis-incentivise pre-funding.

To manage disbenefits, benchmarking of the effectiveness of improved centralised risk financing is crucial. This can be achieved by allowing agencies further from government to be eligible rather than mandated. This allows for regular market testing and monitoring agencies that do not participate for good or poor practice. Consideration of the perceived disbenefits associated with participation will need further consideration at the DBC stage and be informed by a communication and engagement strategy.

Constraints, dependencies, and assumptions for the proposal are detailed in Annex 4, covering funding, legislation, delivery capabilities, and engagement. A key assumption that has guided option generation is that the proposal should be financially beneficial or cost-neutral, including that the cost of implementation and operating are recovered over time by premiums paid by participants.

The DBC stage will also need to build on the points noted in Table 6 that summarises the relevant government strategies relevant to the proposal. Design of a detailed solution should be aligned to other risk and resilience programmes as much as practical to maximise information and coordination benefits.

Risks

A risk is an uncertain event or circumstance that, if it occurs, has a negative effect on at least one project investment objective. The most significant risks that might prevent, degrade or delay the achievement of the investment objectives are identified and analysed below.

Table 14: Initial risk analysis

	Main Risks	Risk Management Strategies (Mitigations)
1	<i>If no decisions are made to change the status quo, then the Government will have limited risk modelling on which to base its fiscal management strategy on. There is no visibility or controls on risk management practice or value for money of public expenditure on risk.</i>	- The Treasury could review its Instructions to Departments, to provide greater clarity on risk management expectations. - Consider updates to the Cabinet Office Circular on asset management to include clearer expectations on risk management. - Access specialist capability on an 'as needed' basis to support this work (depending on priority).
2	<i>If the proposal is not strategically aligned to Government priorities, particularly within the National Risk and Resilience Framework and Balance Sheet Strategy, then sponsors or key stakeholders may lose confidence; and/or other projects may duplicate activities, which will reduce project or system benefits.</i>	- A stakeholder engagement plan has been developed, for execution should Cabinet agree to this proposal. - Work closely with DPMC as the system lead for risk and resilience, as well as other key policy and customer agencies identified in this strategic case. - Simplified communication collateral.
3	<i>If the timing of the planning and development phase is too long, then:</i> - Potential customers could lose faith in the solution and generate individual responses - Synergies with other national risk and resilience projects could be lost, creating potential duplicate expenditure	- Execution of the stakeholder engagement plan to support improved data and policy clarity prior to developing the DBC - Raising visibility of the 9-month gap between IBC and DBC to Ministers and coordinating through the National Risk and Resilience Framework allows decision makers to consider alternative funding choices.

4	<i>If sponsorship is not sufficiently broad to enable the long-term benefits to repay the implementation costs, then the following opportunities are missed, reducing benefits.</i> • Levers not created to compel or incentivise a critical mass of insurance volume • House time for legislative change is not aligned with the implementation schedule • Policies that provide free insurance to local government are not amended	• Cross-party support would be beneficial for what is a generational shift to the machinery of government • The benefits assumptions include sensitivities to confirm the Return on Investment and payback period are robust even under stress • Enabling legislation could allow for implementation under Ministerial Directions, with full legislation to follow later.
5	<i>If the scope of the project is unclear or resources are not available to deliver sufficient quality, then:</i> • Focus moves from generally insurable risks to non-insurable but strategic risks, impacting scheme funding certainty • Agency appropriations are not adjusted to reflect the Government's risk appetite • Planning and implementation costs are too low/high to deliver the intended solution and benefits	• Robust costing of the business case (currently assume a +/-15% range of cost estimates) • Service agreements can reflect the scope of responsibility and required revenue to deliver • A process to reflect change in agency appropriations can reflect i) market impacts (uncontrollable) and ii) underlying risk management to improve accountability • Specialist product development can be added to the organisation scope once maturity is reached for its core service offering (funding dependent).

A Risks and Issues Register, has been developed and will be regularly monitored/managed and progressively updated as the project progresses (see Annex 13). Annex 10 sets out the sensitivity tests including treatment of optimism bias within this IBC.

The Economic Case

The purpose of the economic case is to identify the investment option that optimises value for government and New Zealand. Having determined the strategic context for the investment proposal and established a robust case for change, this part of the IBC:

- identifies critical success factors
- generates a wide range of long-list options
- undertakes an initial options assessment to identify a limited number of short-listed options, and
- provides a qualitative and quantitative analysis of those options relative to the investment objectives.

Critical Success Factors

The Critical Success Factors (CSFs) are the essential attributes that must be met for the proposal to be successfully delivered. The CSFs for this project are drawn from the five standard factors recommended by the Better Business Case (BBC) methodology and have been tailored to reflect the specific nature of public asset risk financing. One adaptation has been made — *supplier capacity and capability* has been included under ‘Deliverability and Feasibility’. This reflects the early stage of the project, where detailed market engagement has not yet occurred, and service requirements vary by option.

The CSFs were discussed with the Advisory Committee, further developed by the Project team and then agreed by the Advisory Committee on 16 April 2025.

Table 15: Critical Success Factors

Critical Success Factors	Proposal-specific Critical Success Factors
Strategic fit	Alignment and fit with government priorities, strategies, programmes and projects. The ability to support fiscal resilience, infrastructure sustainability, and asset management, while aligning with policies such as climate change and emergency management.
Value for money	The long-term cost efficiency of the proposal and whether the option would reduce the total cost of risk financing, demonstrate a positive return on investment, and ensure that benefits outweigh costs over a 50-year period.
Market viability	Whether the option maintains market functionality and minimises disruption to the market. Continued access to risk markets, competitive conditions for reinsurance providers, and avoid negative impacts on private insurers or the financial system.
Scalability and adaptability	Participation rates and expansion potential. An option must be capable of attracting high participation rates across central and local government while allowing for phased expansion to additional risk categories and asset types over time.
Deliverability and feasibility	Implementation complexity (operations, systems and legislation). An option must be operationally feasible, achievable within a defined timeframe, and should consider legislative or regulatory change as a contributor to delays and/or high transition costs.

Dimensions of Choice

The purpose of this section is to identify and assess a wide range of possible options that achieve the investment objectives, service requirements, scope parameters, and critical success factors.

Options were workshopped with the Advisory Committee. To structure the options analysis and development of a long list, the key design choices were grouped into three ‘dimensions of choice’ that represent variables for how the proposal could be designed, delivered, and who would be included:

- **Service solution** – *how* could the services be provided?
- **Service delivery** – *who* could deliver the services? This focused on which organisation(s) could feasibly deliver the service solution.
- **Scope and participation** – in relation to the proposal, *what* levels of coverage are possible?

Service solution options

The service solution options have been thought through on a progressive scale of change, or spectrum of potential interventions. These range from improving monitoring capability, to regulatory, procurement and commercially focused approaches. Five potential options were assessed:

- Centrally Managed Fund (CMF)
- Centralised Capability Model (CCM)
- Centralised Direction Model (CDM)
- Centralised Broking Model (CBM)
- Enterprise-wide Risk Management (ERM)

Service delivery options

A range of delivery options were identified to correspond with the various solution options. These ranged from a central agency (system leadership responsibility, and directly advises Ministers), to a Crown entity model (business units to deliver commercial and operational functionality).

Even for more commercial delivery options, there is a need to maintain system and policy leadership. For example, to inform on risk tolerances or to inform how risk management can be operationalised. This means there must be the ability to direct a risk financing function. Annex 8 assesses applicable delivery options that could apply to each service solution option.

Scope and participation options

This dimension considered the sub-sectors of government that could be included within a scheme; and whether their participation would be eligible or mandatory. The options considered included:

- Departments only (as defined in the [Public Finance Act 1989](#))
- Public service (includes departments and Crown agents)
- All central government (includes other Crown entities and State-Owned Enterprises); and
- All public sector, including local government.

Sub-options reflected variants to require participation ('mandatory') or enable it ('eligible').

At a simple level, having greater coverage across the public sector (including local government) would increase the ability of the Crown to gain a portfolio view of all public assets and understand its potential exposure/contingent liabilities. This also has advantages in terms of maximising economies of scale. However, mandatory participation could cut across existing legislation's setting of roles, responsibilities, and accountability.

The indicative split across the asset base is illustrated by Figure 4.²⁰



As noted earlier, there are potential disbenefits related to which agencies are included in a scheme. Some public sector agencies with highly complex risk profiles, technical or industry-specific in-house expertise, well-managed risk profiles and/or advanced risk management practices might struggle to see the benefits of joining. This will be considered further in the DBC stage and informed by engagement.

²⁰ Data is drawn from the Crown's Half Year Economic and Fiscal Update (HYEFU), 17 Dec 2024 and LGNZ 2024 asset information.

Additional dimensions of choice were considered as part of the option development but not used to generate the long list options. These additional dimensions included:

- insurance product lines: ranging from Material Damage-Business Interruption (MDBI) only to all generally insurable risks. After consideration, the team determined this was appropriate at DBC stage, with the assumption that MDBI should be the focus initially (80%+ of total insurance cost)
- implementation timing: will depend on solution readiness and institutional settings
- funding arrangements: will be shaped by the preferred model and its alignment with the Government's fiscal strategy.

Table 16: Possible options classified by the following dimensions of choice

Dimension	Description	Minimum	+	++	Maximum
Service solution	How could services be provided?	Managed Capital Fund (MCF)	Centralised Capability Model (CCM)	Centralised Broker Model (CBM); and Centralised Direction Model (CDM)	Enterprise Risk Management (ERM)
Service delivery	Who could deliver the services?	Treasury	Treasury, DPMC, NIFFCo, InfraCom	Existing Crown Entity: NIFFCo, InfraCom, NHC Joint venture arrangement	New Crown Entity
Scope and participation	In relation to the proposal, what levels of coverage are possible?	Departments mandatory	Departments + Crown agents mandatory; others + local govt eligible	All public sector mandatory excl. local govt who would be eligible	All public sector incl. local govt mandatory

Evaluation Methodology

We evaluated the possible solutions and discounted two options as poor service solutions:

- Managed Capital Fund – enables agency self-insurance but does not deliver sufficiently on investment objectives
- Central Direction Model – creates a poor fit with maintaining individual agency accountability to manage their capital assets.

For the three service solution options taken forward (CCM, CBM, and ERM) we executed a structured long-listing and scoring process, assessing each permutation against the project's investment objectives and critical success factors. This process ensured that all potential delivery mechanisms were explored, providing a robust foundation for decision-making.

- A **7-point scale** was applied, ranging from **+3** to **-3** (strong positive/negative alignment).
- Options were scored based on their alignment to Investment Objectives (IOs) and CSFs, reflecting their capacity to deliver strategic benefits and manage risk effectively.
- The scores were then totalled, providing a clear performance measure for each option.
- Options that did not meet the minimum thresholds for IO and CSF alignment were filtered out.

Configurations that were carried forward into the long list of options have been listed below, with the highest-ranked option for CCM, CBM, and ERM highlighted in green.

Table 17: Summary results of long list assessment

Option (Title)	Full Description	Reason for Shortlist or Exclusion
ERM at NHC: mandatory public service; other Crown and local govt eligible	This option mandates participation for all of the public service (departments and Crown Agents), with other Crown companies and local govt eligible to join. Managed through the NHC.	Shortlisted as the strongest-performing ERM model, offering the most comprehensive scope while maintaining inherent system accountabilities.
ERM at NHC: mandatory for all central govt with local govt eligible	Expands mandatory participation to all central govt agencies, with local govt as optional participants. Managed through NHC.	Excluded — inconsistent with the State-Owned Enterprises Act and Crown Companies and Autonomous Crown Entities cannot be compelled.
ERM Model at NHC: mandatory for all public sector incl local govt	This option mandates all central government and local government entities to participate, managed centrally under NHC.	Excluded — too administratively complex and politically challenging to implement due to mandatory local govt involvement.
ERM Model at NHC: mandatory for public service; other Crown eligible (no local govt)	Includes all core Crown and Crown agents with local govt explicitly excluded. Managed by NHC.	Excluded — lack of local govt participation reduces overall risk pooling benefits and leaves critical local infrastructure underinsured.
ERM at a central agency: mandatory public service; other Crown and local govt eligible	This option mandates participation for the public service, with Crown entities and local govt eligible to join. Managed through the Treasury or DPMC.	Excluded – the Core Crown cannot insure itself, meaning commercial arrangements are invalid unless delivered by a Crown Entity.
CBM Joint Venture (Tsy and NHC) – mandatory public service; other Crown eligible (no local govt)	This centralised broker option would be managed by a Joint Venture between Treasury and NHC. It mandates participation for the public service, with other Crown eligible. It excludes local govt for the time being.	Shortlisted as the strongest performing CBM option. Low complexity to implement. Enables the option to incorporate local govt at a later stage but would require legislative change to enable revenue collection.
CBM Joint Venture (Tsy and NHC) – mandatory public service; other Crown and local govt eligible	This centralised broker option would be managed by a Joint Venture between Treasury and NHC. It mandates participation for the public service; with other Crown and local govt eligible.	Excluded – inclusion of local government adds implementation complexity but no ability to compel local government participation or risk management improvement.
CBM Joint Venture (NHC only) – mandatory public service; other Crown and local govt eligible	This centralised broker option would be delivered by NHC. It mandates participation for the public service; with other Crown and local govt eligible	Excluded – a lack of system leadership when using regulatory tools and direct engagement with sufficient commercial mandate.
CCM at the Treasury: mandatory public service; other Crown and local govt eligible	A CCM model based at Treasury, covering core government agencies with optional local govt. Guidance, data collection, and shared risk insights.	Shortlisted as the optimal CCM option — provides a balanced mix of oversight and voluntary participation, while leveraging Treasury's fiscal expertise.
CCM at DPMC: mandatory public service; other Crown and local govt eligible	Similar to the Treasury CCM but operated out of DPMC. Includes public service, with local govt eligible.	Excluded — no significant advantages over the Treasury-led CCM option. Better alignment to the balance sheet strategy and deep financial expertise.
Status Quo	Continuation of current fragmented insurance and self-insurance arrangements, with agencies operating independently.	Shortlisted (by requirement) — necessary as a baseline for comparison under Better Business Case (BBC) methodology.

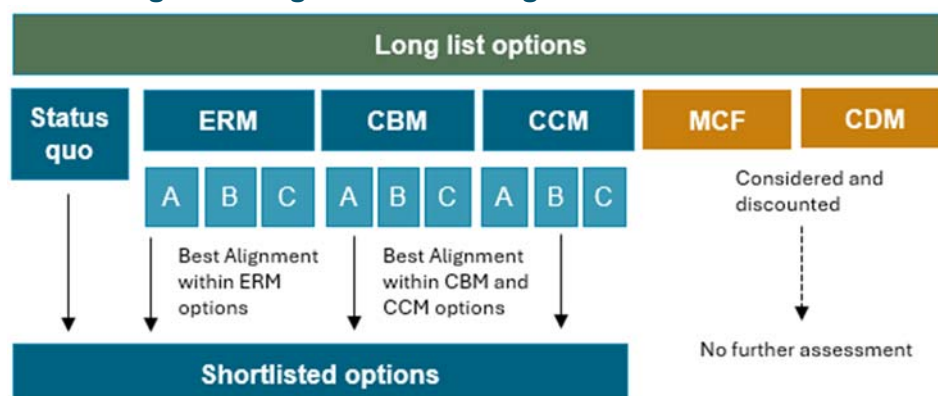
The full analysis of options against the evaluation methodology (including IOs and CSFs) is attached as Annex 8.

Analysis of Short-Listed Options

Based on the above analysis, four options have been progressed to short-listing and detailed analysis:

1. **Status Quo:** carried over as default
2. **CCM:** delivered by the Treasury, with participation limited to central government only
3. **CBM:** delivered by a Joint Venture (JV) between the Treasury and NHC, with participation limited to central government for the purposes of analysis
4. **ERM:** delivered by NHC, with participation enabled for central and local government for the purposes of analysis.

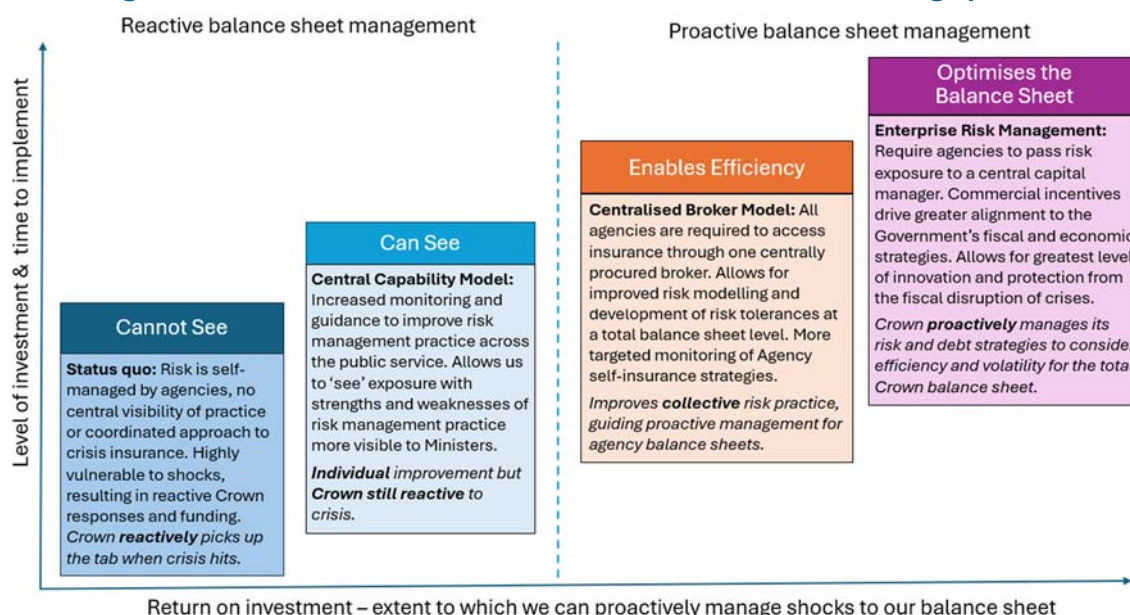
Figure 5: Progression from long list to short list



At a summary level, the options represent a scaled investment choice with each option additive to the previous in terms of service offering. Each option will deliver on the investment objectives to a differing degree. For example, the CBM allows for the improved monitoring approach of the CCM but investment into modelling capability adds the ability to execute risk transfer on a portfolio basis; the ERM option delivers all benefits of CCM and CBM but requires an additional investment into insurance software as well as policy reform.

Financial and non-financial benefits for each option are expected to be progressively higher according to the scale of change. However, there is a trade-off to consider between benefits, implementation complexity/time, and the political will that may be required to accommodate change. This trade-off is shown stylistically in Figure 6, followed by a description of each option.

Figure 6: Level of and return on investment across risk financing options



Detailed Option Descriptions

Option 1: Status Quo – Decentralised, reactive approach to public sector risk

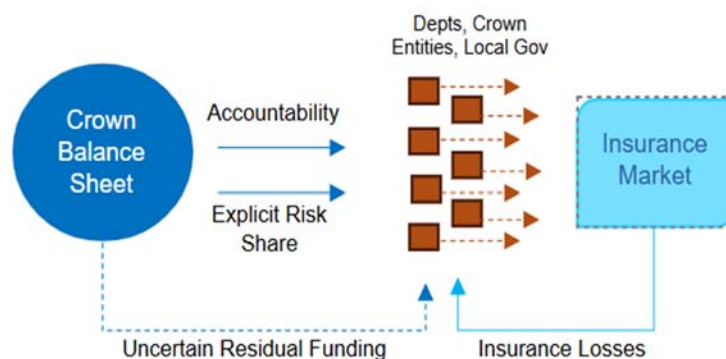
Agencies independently determine strategies to avoid, control, transfer, or accept risk. This allocation of responsibility is made via Treasury Instructions, giving effect to the Public Finance Act, and the Local Government Act.

There is minimal system coordination and the only requirement for departments to report on risk

management is for a significant shift in risk appetite. This is ad hoc, de-linked from budget processes, and is inconsistently complied with.

The illustration of this model highlights the Crown balance sheet exposure to an uncertain and unfunded liability. Incentives for proactive risk management to reduce this exposure are weak and, in some cases, act as a disincentive for action. The result is no quantification of the Crown's potential contingent liability for physical asset recovery, no guidance on risk tolerances provided to executive and governance teams managing assets, and uncoordinated market engagement leading to inefficiency and inconsistency of data on New Zealand risk.

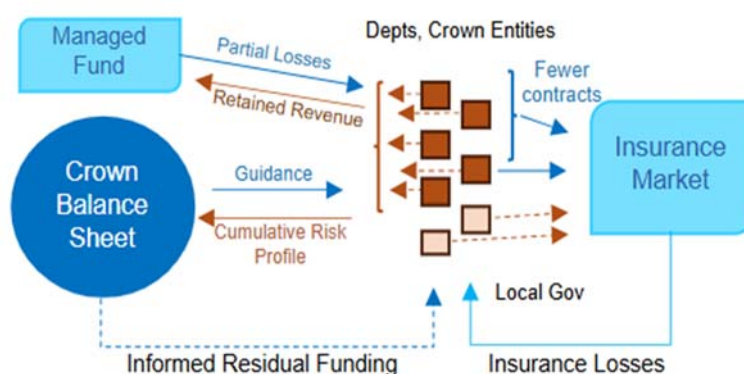
Analysis of the option relative to investment objectives and critical success factors would consider this option to be non-viable. As consistent with BBC guidance, it has been retained to provide a baseline for comparing alternative options.



Option 2: Central Capability Model (CCM) – Regulatory approach to influence risk practice

The Central Capability Model (CCM) proposes a Treasury-led function that strengthens how government manages risk, without directly holding or placing insurance.

Its key intervention is improved oversight by contracting with existing insurance brokers to access agency risk information and using that information to inform a portfolio view of risk management.



The CCM represents a minimum viable product to improve balance sheet risk oversight across central government. It is relatively straight forward to implement and can enable a growth in understanding to inform a future direction for investment. Key features:

- Uses a model employed with success in the UK (see Annex 5).²¹
- Deliver through a dedicated team at the Treasury, staffed with appropriate risk and insurance market capability, to improve system-level visibility through a three-stage work programme:
 - Understand current risk practices** – conduct deep dives on risk strategies across central government agencies and collate a portfolio view of risk transfer/retention via existing financing mechanisms, including via insurance brokers.
 - Develop risk tolerances and advice** – use insights from data and modelling to develop a government-wide risk tolerance and associated guidance. Advise Ministers on the use of regulatory tools such as Cabinet circulars and letters of expectation.
 - Coordinate and support good practice** – direct engagement with Agencies to improve the value of insurance placements, including by creating a ‘match making’ service where there are complementary risk profiles. Improve the resilience of self-insurance through a centrally managed fund to ring-fence Agency capital.
- Initiate with a team of four and scale up to eight FTEs as data access improves.
- Reliance on external modelling and advisory capability, particularly in early years, but opportunity to develop limited modelling and analysis via open-source tools.
- Establish a managed fund to support agency self-insurance arrangements and, where practical, loans to cover the timing of risk that can be met within existing appropriations.
- Develop a Crown risk appetite and advise Ministers on the use of policy tools to communicate expectations (eg, Cabinet Office circulars, Letters of Expectations).

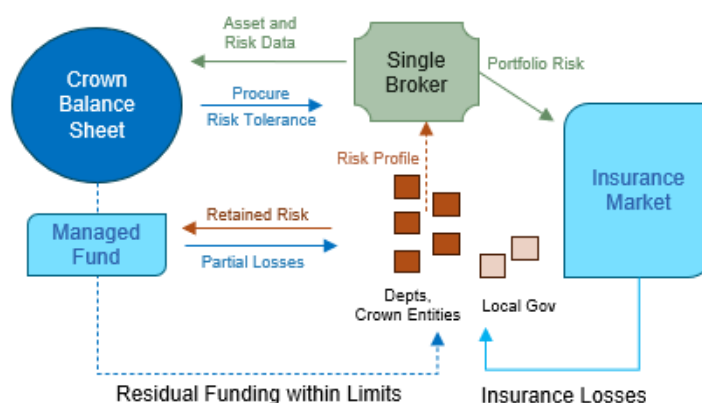
Key risks to implementation/benefits	Risk mitigation strategy
• Implementation is relatively straight forward but the payback period is long due to working with a small number of agencies on a 1:1 basis • Scope of coverage is limited, with no direct levers to impact local government risk	• Utilise questionnaires and broker advice to inform engagement priorities • Use of forums and quick development of guidance, particularly for agencies with high self-insurance profiles

²¹ The UK’s focus on balance sheet contingent liabilities focuses on its underwriting of commercial and contract risks. It is less exposed to natural hazards, so sets the expectation that Departments should not insure due to the poor value of risk capital relative to debt capital. It monitors the balance sheet exposure to Department risk of shocks alongside a suite of commercially focused contingent liabilities.

Option 3: Centralised Broking Model (CBM) – Procurement efficiencies to access portfolio benefits for agencies that seek to transfer risk

The Centralised Broking Model (CBM) would seek to update the existing procurement approach employed by New Zealand Government Procurement. The current contract allows choice of pre-approved broking and advisory providers.

CBM would see a single broker procured by a dedicated agency, with all public sector risk managers either required or eligible to use the broker, enabling collation of a portfolio of risk for information and market engagement benefits. Key features:



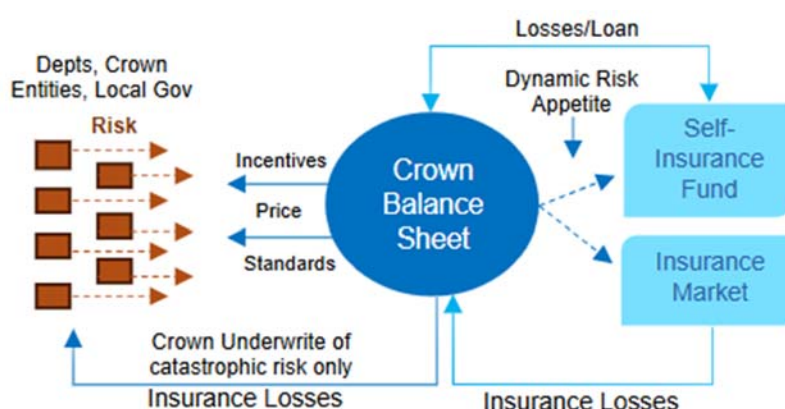
- Operationalised via a Joint Venture (JV) between Treasury and NHC. Provides a central broking and advisory service for agencies and management to align to a Government portfolio of risk:
 - **Treasury's role:** System leadership and delivery of activities envisaged by the CCM. This includes Ministerial advisory, guidance on risk tolerance, leadership of deep-dive studies, and management of a self-insurance fund.
 - **NHC's role:** Provides technical capability to support the Treasury's responsibility as system lead. In addition, NHC would: undertake procurement and relationship management of the broker; employ actuarial, and modelling capability; develop the risk financing strategy and explore the use of alternative products; execute risk transfer and allocate costs; and back-office functions.
 - **Role of the Broker:** Agency servicing including surveying assets/auditing data, advisory for individual agencies with respect to Crown risk tolerances, underwriting capability, advisory for the JV on the portfolio risk financing strategy, and other out-sourced services where economic.
- Individual agencies remain accountable for individual risk and asset management strategies, while the JV would be accountable for the efficiency and effectiveness of the portfolio of risk management.
- Any agency that self-insures must seek endorsement from the JV at least every three years, or for a significant change in risk appetite (to assure financing sufficiency).
- Can incorporate all generally insurable risks (should the focus extend beyond MDBI) but requires legislative change to achieve.
- Local government has not been included for analysis. This is possible but would require legislation and a fee for service to enable NHC to contribute to services for local government participants.
- Should local government risk be included, central government would have the information capability to consider risk transfer or pre-funded self-insurance for its explicit post-disaster funding obligations.

Key risks to implementation/benefits	Risk mitigation strategy
• Initial design is restricted by Natural Hazards Insurance legislation: ○ Scope: public sector and MDBI insurance only ○ Revenue: cost of the JV borne centrally, and net savings tracked through agency appropriations • Governance of the JV is non-standard for Government, NHC operating model changes • Partial portfolio volumes only with guidance only, no change to incentive structures	• Initiate legislation change to enable full service provision and revenue collection • Detailed service agreement to set out roles and responsibilities for Treasury and NHC, with escalation pathways accommodated • Continuous engagement, simplified collateral, performance reporting to influence participation • Engagement with local government allows risk tolerances to be communicated to influence the management of Crown contingent liabilities

Option 4: Enterprise Risk Management (ERM) – Commercial approach to fully cost risk into budgets and incentivise agency risk practice

Enterprise Risk Management (ERM) is corporate best practice. It requires all Departmental risk to be transferred to a single entity that is best able to manage the financial volatility – a form of captive insurance.²²

The cost of risk is charged to each agency, creating a lever to incentivise improvements in proactive risk and asset management. The central risk manager determines how much of the portfolio to transfer to markets, aligned with the Government's fiscal and economic strategies.



The ERM approach creates a central manager of capital, similar to the role of New Zealand Debt Management. Risk capital is non-uniform and more complex, however, requiring modelling and portfolio analytic capability for a variety of physical or ICT assets on an asset location and condition basis.

- Uses a model employed with success in Australia at both a state and federal level. Annex 5 highlights the states have slightly different operating models, allowing for detailed design to review what would work best for the New Zealand context re: risk limits and central/individual risk appetite.
- Roles and responsibilities are clear: the risk capital manager manages market access and volatility; more stability for pricing incentivises asset managers to mitigate the underlying risk, where economic.
- Enterprise management would require all self-insured agencies to contribute asset data to a combined portfolio of risk and forces budget pre-funding for that risk. This creates the most scalable and diverse portfolio of all options for optimised market engagement and innovation.
- Provides for a national picture of risk for non-financial, information benefits. The collation of asset registers is a natural outcome, and pricing incentives can support system leads to driver performance improvements for physical or ICT asset management.
- Local government eligibility is enabled via a commercial transaction. This can strengthen accountability for managing a contingent liability on the Crown balance sheet where no other lever exists. It also allows for changes to existing policies which effectively provide insurance at no cost.
- A risk appetite statement prepared by the Treasury, for Ministers' approval and direction, would enable the operational function to give effect to risk tolerances. Revenue and costs are managed in one appropriation to ease benefit tracking.

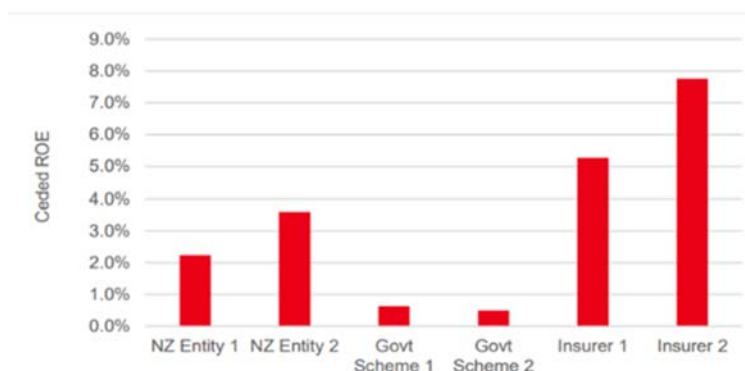
Key risks to implementation/benefits	Risk mitigation strategy
• Requires legislation to enable the operating model • Requires a significant up-front financial investment • Dependency on policy change to support the incentive-led model, particularly for local government • Requires Initial design is restricted by Natural Hazards Insurance legislation:	• The additive nature of options allows for building from one of the other low change options if the risk profile for this change is too high (see Annex 6 – insurance capability curve) • Potential to outsource more technical aspects of the model while capability is built • Engagement with sectors to align a resourcing plan and timeline for policy/ operating changes

²² A captive insurer is a company wholly owned and controlled by the organisation it insures. It allows for an overarching self-insurance approach while maintaining a feedback loop of pricing signals for those closest to the risk to control it. The captive insurer can also seek to transfer risk where volatility is not manageable or desirable within its capital structure.

Additional context: The importance of portfolio management of risk (under options 3 and 4)

The targeted benefits of risk financing under options 3 and 4 are a better understanding of risk, greater clarity on balance sheet risk tolerances, and more effective use of risk transfer and investment capital.

Figure 7: Indicative cost of capital for Australian State insurance schemes

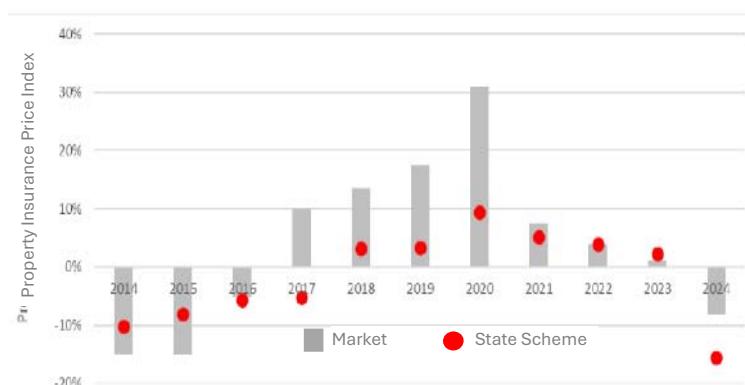


Scale and diversity of a national portfolio of risk can access risk capital at beneficial rates. This is achieved through moving coverage to less expensive layers of risk (lower probability) and greater bargaining power.

CBM enables a portfolio approach but has less scale and diversity than ERM, meaning benefits are attainable but to a lower level.

Source: Aon NZ Market Assurance Report to NZ Treasury (March 2025)

Figure 8: Volatility of Australian State Managed Funds - insurance market premia relative to the market

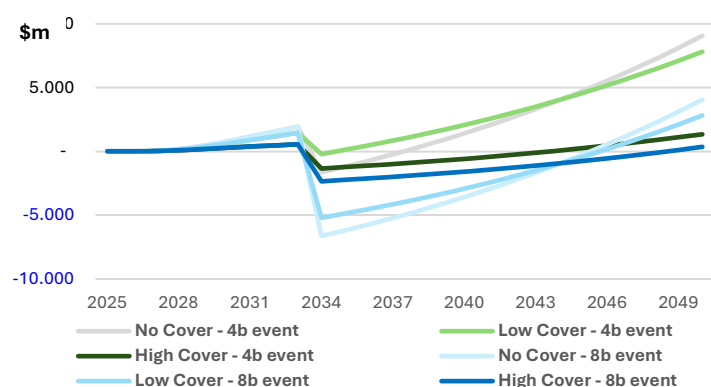


Greater balance sheet depth and diversified revenue sources means Australian States can better wear insurance market volatility. Individual agencies are less able to increase/decrease insurance uptake in soft/hard markets.

CBM does not significantly change balance sheet depth to address market pressures. Individual balance sheets have less ability to provide a dynamic risk appetite.

Source: Aon NZ Market Assurance Report to NZ Treasury (March 2025)

Figure 9: Indicative risk tolerance to manage efficiency/volatility



Hazards can be modelled to support the development of a Crown risk appetite.

Insurance is a net cost, with the return on equity charged by insurers and reinsurers between 10-20%. Taking low or no insurance protection is a choice that would need to acknowledge the potential for volatility within budget periods.

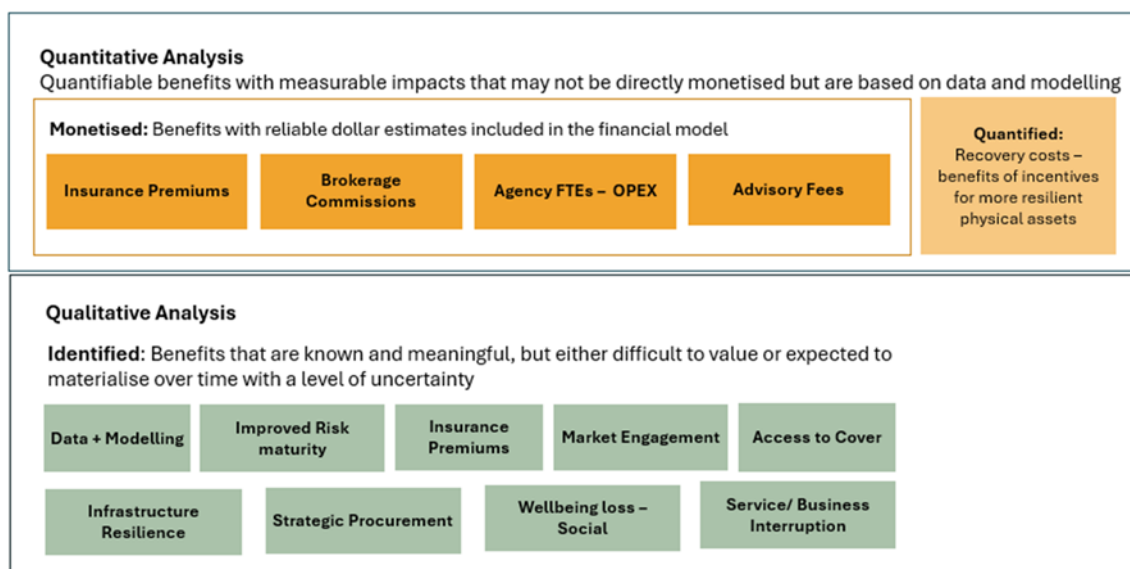
The example modelled is indicative only to illustrate the impact of a \$4bn or \$8bn risk event. Actual risk experience will be different.

Portfolio management is a step change in capability that can unlock insights and efficiencies (Annex 7). Application of standards will allow for comparability, enabling capital prioritisation, and the use of artificial intelligence to support better identification of system weaknesses. Greater balance sheet flexibility and a total portfolio view of assets and hazards allows for appropriate financing mechanisms and the greatest scale and diversity to put downward pressure on prices and smooth market volatility.

Indicative Cost-Benefit Analysis

The previous section described the short-listed options in detail, including assessment of how the options deliver against the investment objectives and critical success factors (supplemented by Annex 7). Figure 10 below highlights the **Identify–Quantify–Monetise (IQM) framework**, which illustrates that the full value of public policy proposals cannot be expressed solely in dollar terms.

Figure 10: Quantitative and Qualitative benefits



To complete the Cost-Benefit Analysis (CBA), the assessment focused on the three targeted benefits of the proposal. Better understanding of balance sheet risk and better decision making in accordance with fiscal and economic risk tolerances are delivered through qualitative analysis (**Identified benefits**).

We use a quantitative CBA for the third targeted benefit, more efficient and effective risk financing. This includes ‘**quantified benefits**’ for how each option incentivises increased investment activity to mitigate natural hazard risks and improve economic resilience. We have chosen not to monetise these expected benefits to avoid double counting the benefits, which would be assessed by a future business case when a capital investment is undertaken.

Monetised benefits arise through two measures of greater efficiency of insurance placement and greater flexibility to use self-insurance than any single agency would be able to. The values are necessarily indicative as there is no current ability to optimise the portfolio of risk transfer. We assume that benefits are relative to a ‘to be determined’ expression of Crown risk tolerance, as opposed to the status quo.

This approach is to enable comparability, given a credible outcome could be an increase in the level of risk expenditure in the near term. However, any increase in risk cost, such as higher uptake of insurance, would be to reduce the exposure to higher budget volatility in the future.

We consider a prudent approach to the analysis to be appropriate given reasonable uncertainty of information through which the analysis is undertaken. This is achieved by capping savings at 10% against only the existing insurance placement. In reality, we expect that:

- the volume of savings could be higher, as this could be the current insurance placement plus a proportion of the insurance gap
- insurer return on equity is greater than 10%.²³

²³ Discussion with AIG noted that Return on Equity is ~14% risk margin while 15-20% is often quoted in academic analysis.

Table 18: Qualitative Analysis – Identified Benefits

	Indicative KPI	CCM	CBM	ERM
Fiscal risk exposure is better understood	Improved data to inform forward-looking fiscal forecast	Moderate – relies on broker data; lacks dedicated modelling capability	Good – insured data applied to a central model. Self-insured data consulted. Extending to local govt is complex	Strong – all insured and self-insured data applied to a central model, enables total balance sheet exposure
	Risk and resilience policy supports improved trust and confidence	Limited – supports guidance but incomplete coverage for reporting to Parliament	Moderate – does not enable changes to policies but greater visibility of risk allows for better reporting to Ministers and Parliament	Strong – provides infrastructure to support more effective policy, regulations and investment to system weaknesses
Defined risk tolerances enables better decision making	Guidance on risk tolerance improves agency consideration of risk (ACTA)	Moderate – guidance relies on agency uptake but no incentives to enforce compliance	Good – coverage allows for confidence on the central gov risk exposure. No lever to influence local govt on resilience for which the balance sheet is exposed	Strong – enables dynamic risk-based pricing to give effect to risk tolerances and strengthen agency accountability, including local govt
	Balance sheet volatility is managed more proactively and effectively	Limited – partial data means limited confidence on the portfolio efficiency of guidance. No specific mechanism to drive pre-funding strategies	Good – procurement tool allows for improvement in risk transfer and improved feedback loop on risk mitigation. Extending to local govt would also allow the Crown’s residual risk exposure to be factored in budget planning	Strong – Can transform existing policies to a long-term outlook on central and local government risk share. Pricing levers can direct improved capital efficiency on a portfolio basis.
More efficient and effective strategic risk financing	Capital and operating efficiencies	Limited – capability provides consultation support but no specific execution responsibility	Good – a partial portfolio allows access to scale and benefits for participants, including product innovation. Dependent on agency balance sheets for self-insurance capacity	Strong – accesses the Crown’s deeper balance sheet for self-insurance and has the largest portfolio to enable product development and market engagement
	Physical and financial resilience of assets is improved	Limited – exert influence on the approach to mitigate risk but limited scope to effect investment business cases	Moderate – exert influence through a central broker. Central modelling can support long-term climate standards for more effective decision making	Strong – transfer pricing creates the feedback loop to drive the economic case for business casing. Government can incentivise action noting its exposure to economic resilience has value.
Summary comment		- The three change options are additive to each other. Therefore, it is no surprise that ERM performs better than both CBM and CCM on intended benefits. - The scale of benefits being attained through each change option would need to be considered relative to implementation complexity and cost to implement and run the options.		

Methodology for the Quantitative Cost-Benefit Analysis

Costs and benefits are assessed over a 50-year period using an 8% discount rate, with benefits phased in following expected organisational maturity. Further detail on the cost estimating methodology and assumptions can be found in Annex 9.

The estimated costs and benefits of each of the short-listed options are shown in the table below (including whole of life costs).

- Benefit Cost Ratio (BCR) is the total present value of benefits from the options under consideration divided by their costs
- Net Present Value (NPV) reflects the present value of benefits for each of the options less the present value of costs.
- The payback period relates to the return on an economic basis, the cashflow returns on options is dependent on the Government risk appetite (higher self-insurance allows for faster payback of implementation costs – but exposes the balance sheet to higher volatility)

Table 19: Indicative estimated costs and benefits of short-list options

Options	CCM	CBM	ERM
<i>Implementation</i>	<i>FY26/27</i>	<i>FY27/28</i>	<i>FY27/28</i>
Benefits			
Premium Savings (Adj)	366,100,000	1,368,400,000	3,616,900,000
OPEX savings	-	225,700,000	437,600,000
<i>Total Benefits</i>	<i>366,100,000</i>	<i>1,594,100,000</i>	<i>4,054,500,000</i>
PV	37,300,000	251,900,000	620,800,000
Costs			
OPEX (One-off)	1,000,000	28,500,000	101,500,000
OPEX (Ongoing)	111,800,000	646,500,000	1,417,500,000
<i>WoL Costs</i>	<i>112,800,000</i>	<i>675,000,000</i>	<i>1,519,000,000</i>
PV	28,000,000	176,600,000	405,400,000
Benefit/Cost Analysis	Period (years)	50	
Non-Monetised benefits	4,500,000	34,000,000	117,200,000
Payback Period(FY)	<i>2056</i>	<i>2040</i>	<i>2040</i>
BCR (8%)	1.33	1.43	1.53
NPV (8%)	\$ 9,300,000	\$ 75,300,000	\$ 215,400,000

- **ERM** delivers the highest monetised and is by far the best option to improve Government information capability for non-monetised benefits. Its total quantified benefits of over \$4.05 billion are an order of magnitude larger than the next best option, albeit on a higher cost base. This option requires a significant upfront investment and more complex implementation. As the highest-change option, it is less readily scalable but offers an enduring system transformation once established.
- **CBM** offers the second-highest BCR (1.43), NPV (\$75.8 million), with estimated benefits of \$1.6 billion across premium savings and OPEX. CBM is designed for central government only but shows high sensitivity to scale—adding local government participation could materially improve the return. It is more readily implementable and scalable than ERM, offering reasonable value and potential as either a standalone reform or transition pathway.
- **CCM** remains the lowest-cost and lowest-benefit option, with limited coverage and no operating expenditure savings. Despite this, and due to its small scale, it also generates a positive BCR (1.33). This highlights that a modest investment could still deliver improvement relative to the status quo. However, its small scale limits its long-term contribution, and its later payback profile reflects the slow accumulation of system benefits.

Optimism Bias: Sensitivity Analysis

We have noted the generally prudent approach to assessing benefits. However, we have also applied a wide-ranging sensitivity analysis to capture potential variances on major input variables. Full detail of the sensitivity analysis is presented in Annex 10.

Key sensitivities include:

- **Insurance premium inflation:**²⁴ Ranges from **0.6% to 5.3% per annum**, with a midpoint of **2.9%**.
- **Benefits success: +/-15% range** to reflect potential over- or under-performance.
- **Volume: +/-10% change** in coverage volume, (eg, number of agencies or asset base in scope).
- **Terminal Value:** recognising the uncertainty in end-of-period valuations (**capped at 50 years**).

Summary of results

- ERM maintains the strongest performance across all scenarios, with BCRs ranging from 1.10 to 2.32, demonstrating resilience to changes in cost, inflation, and volume.
- CBM also remains above break-even in all cases (BCRs from 1.06 to 2.12), offering reliable value while being moderately sensitive to lower benefit realisation or inflation shocks. This option is particularly sensitive to the volume parameter, noting its relatively low implementation cost and potential to access local government volumes should legislation allow for this.
- CCM is the most volatile (BCRs between 0.78 and 2.44), reflecting its smaller scope and higher sensitivity to input changes.
- All three models remain generally robust across inflation, volume, and pace adjustment tests, with positive returns under both conservative and optimistic scenarios.

²⁴ Labelled as 'Pace Adjustment' for modelling purposes. This refers to the inflation-adjusted growth in insurance premiums relative to general inflation expectations. This is due to two factors i) higher return expectations on risk capital and ii) expected increase in risks due to climate change. Sensitivity testing explores reasonable fluctuations in both variables, recognising uncertainty in market pricing and inflation trends.

Recommended preferred way forward

The recommended preferred way forward is to take the shortlisted options, namely the staged transition approach of first implementing the CBM then extending to the ERM (over three to five years) through to further analysis at DBC stage. The justification for this approach is set out below:

- The indicative preference when considering both financial and non-financial benefits is the ERM. In particular, the information and system-coordination benefits of this option are far greater than alternatives. It provides the levers to drive more active balance sheet management at a total system level and supports a New Zealand sovereign presence when engaging with global risk markets. This aligns to the way insurance and reinsurance markets are moving, with capital allocation to jurisdictions that have effective risk modelling and a focus on resilience over recovery.²⁵
- However, the ERM is complex to implement, and will require political will to deliver legislative and policy reform. The CBM provides a viable alternative option, with a substantial positive return on investment. The CBM is also scalable, with implementation by Ministerial direction and expansion of eligible participants and insurance products subject to legislative change to the NHI Act.
- A risk mitigation strategy to first implement the CBM before expanding to the ERM preserves optionality. This approach allows for lower initial investment, quicker forward momentum and access to benefits, and off-ramps should benefits not be generated as expected. A high-level description of this 'transition strategy', which would need to be fully developed in the DBC is:
 - implement the CBM for improved modelling capability and partial portfolio benefits. Instruct for a legislative amendment to the NHI Act
 - expand the CBM to local government for a national picture of risk, and to alternative lines of insurance. Use local government data to support a policy review of risk-sharing regulations
 - expand to the ERM through an investment in insurance software, aligned with changes to risk-sharing regulations to enable a full commercial model with improved modelling and incentives.

The staged transition option is endorsed by the Treasury's Senior Responsible Officer and the Risk Financing Project's Advisory Committee as the preferred option, subject to further analysis at DBC stage.

Funding to enable NHC to develop the DBC will need to be considered. Treasury would continue to support the development of the DBC as the system and policy lead.

Should Cabinet approve the IBC, the Treasury would execute a Communications and Engagement plan, to inform Cabinet's future funding decision and to prepare the ground for the DBC (A summary of this plan is provided in Annex 2).

Senior Responsible Owner Letter

The Senior Responsible Owner has signified their agreement to the indicative cost and benefit estimates of the proposal (Annex 1).

²⁵ Per discussion with IAG and the theme of the most recent Insurance Development Conference was 'Invest in Resilience'. Other references to the importance of resilience to climate adaptation for access to risk capital are captured in Annex 14.

Commercial Case

Outlining the Commercial Case

The Commercial Case outlines the likely commercial viability of the proposal (demonstrating that it is feasible) and an overview of the procurement strategy, with arrangements for all change options considered. The case provides an assessment of all options as stand-alone proposals and does not separately reflect the staged transition option, per the 'Preferred Way Forward'.

Key points within this case:

- There is no significant ICT system change expected for asset managers, with information collection mechanisms to be designed to accommodate a range of formats – to be confirmed in the DBC informed by engagement with agencies/customers.
- All software is expected to be cloud-based technology broadly used by commercial insurers and brokers, requiring limited configuration. However, costs have been allowed to support expansion of modules to higher service expectations.
- Higher change options have been in operation for Australian sovereigns, providing confidence that there is a range of counterparts to inform implementation choices and learn from.
- Assurance reviews of market implications and institutional implications provide confidence that the preferred option can be implemented. The governance, organisational, and legislative models for NHC will require significant change, which will be considered as part of detailed design.
- As well as the detailed design of the preferred option, the DBC will set out the transition steps to move from CBM to ERM. This will include staging the roll out of new ICT, insurance product focus, and/or customer roll out to manage implementation risk (and potential implications for benefits).

Indicative procurement approach

The following table sets out the core services that are required to deliver each of the change options, with an overview of the proposed procurement approach. Formal market soundings have not been held during this IBC stage but existing contracts and similar services for previous projects have informed expectations on the cost, availability of capability, and relative complexity of any procurement.

The most important procurement consideration at this stage is access to staff and specialist capability that can support the detailed design of the risk financing proposal. This includes direct procurement with delivery partners for which NHC has existing systems. An open, competitive procurement is required for organisational design and risk advisory firms to support the development of the proposals.

Table 20: Summary of service streams and proposed procurement approach for ERM / CCM

Service	ERM (preferred option)	CBM (preferred option)	CCM (alternative option)
Specialist Capability	• NHC to complete full organisation design at DBC, incl. governance and delivery functions. • Phased onboarding of new staff to support transition with implementation partners • Treasury's existing balance sheet function to deliver funding and financing model but system lead role to be considered at DBC.	• NHC to complete full organisation design at DBC, incl. governance and delivery functions. • Treasury to establish a core internal team (5 FTE) but relies on NHC for operational functionality. Higher dependency on external broker – NHC intended to manage procurement, for which it has existing capability.	• Treasury to establish a core internal team (4–8 FTE) with relevant expertise. • Recruitment through specialist channels to select the delivery lead, with full team recruitment to follow.

Technology	• Leverages existing NHC insurance systems with modular expansion for asset risk modelling and pricing. • System changes for customer agencies are expected to be minimal. • Additional development for underwriting, finance, and analytical tools.	• Broker responsibility to collect and conform agency data. • A low complexity database for holding asset and claims data. • Modelling and underwriting tools to build from existing capabilities.	• Dependency on existing broker contracts – no significant technology investment at first. • Consider open-source modelling tools. To inform a future business case but not a dependency for current benefit assumptions.
Implementation Partner	• Existing partners used for data and insurance platform • Open, competitive procurement for organisation design, governance, and programme planning.	• Existing partners used for data and modelling systems • Open, competitive procurement for org design, governance, and programme planning.	• N/A
Risk Advisory	• Open, competitive procurement for risk advisory, actuarial, claims management, and modelling services in the implementation phase. • The NHI scheme already has an existing broker contract - the merits of a single or multiple broker/risk advisory model across two schemes will be considered within the DBC.	• Procurement of the central broker on behalf of public asset managers. This would be an open, competitive tender. • Role for the broker and NHC re: modelling and actuarial to be determined in the DBC. • Claims manager procurement to be determined in the DBC.	• Direct contract with existing brokers that already provide services to public asset managers. • Market sounding on costs to be undertaken if this option is preferred.

The procurement for a risk advisory partner to support detailed design is to be contained so as not to preclude participation in a future tender for implementation or ongoing services.

Assuring operational delivery

Table 21 highlights three key assurance approaches undertaken to validate that the preferred options can be delivered without the risk of creating significant implications.

Table 21: Assurance and alignment activities to test commercial viability of change options

Actions	Consideration/Outcome
Market Assurance	• Centralisation of a portfolio of public asset risk must be able to be placed in the market without significant changes to market structure. For a higher level of self-insurance, this should not cause shifts in capacity or pricing in the New Zealand insurance market. • To resolve this question, a targeted commission was tendered to three global risk advisors with a strong presence in New Zealand. Aon NZ won this tender and provided a detailed market assurance report to satisfy that risks are negligible (detail below this table). • The targeted procurement enabled engagement with other leading risk advisory providers to highlight the nature of services offered to existing public asset managers by each. Marsh McLennan is the predominant provider of broking services to central government while Aon NZ is the predominant provider to local government.

System Alignment	- Engaged with key policy agencies to assure strategic alignment with government priorities and planning frameworks. Detail of this work has informed the strategic opportunity in this business case, particularly for the collation of asset information. - Engaged with a representative customer group of public infrastructure managers, including summary discussions with select local government managers. An information request to central government managers supported validation of public insurance utilisation, to inform the strategic and economic cases of this IBC. - Engaged with New Zealand Government Procurement which negotiates the standard broker contract for public asset managers to utilise (detail below this table).
Institution Assurance	- Reviewed the appropriate Crown Entity model to support the dimensions of choice for the development of short-listed options, identifying NHC as a preferred delivery partner for strategic benefits. - Executed an organisational capability review, including self-scoring by NHC to validate organisational feasibility. This work is summarised in Annex 12. - Engaged with Australian state insurers and attended the annual Managed Insurance Fund Forum to gain practical insights on implementation and operations. - Executed a legislation review, confirming that changes would be required to the Natural Hazards Insurance Act 2023 should there be agreement to implement the ERM or to enable revenue collection and local government participation in the CBM. - Legislative change to the State-Owned Enterprises Act and Local Government Act is optional but not recommended. This is to maintain accountability structures while centralised insurance is expected to be compelling on a commercial and economic basis.

Market assurance – domestic and global implications

Aon NZ was commissioned to assess the commercial feasibility of centralising public asset risk financing under the ERM and CBM models. Its report confirmed the approach is viable and does not pose significant risks to the domestic insurance market. This report is available upon request. Key findings:

- There is very low risk of negatively impacting local insurance capacity. Public sector insurance represents just 2.09% of total premiums, and the market is growing at greater than 8% per annum.
- Centralised portfolio risk management delivers material benefits in terms of optimised pricing, risk retention, and market access, confirming the strategic objectives of this proposal.
- A central agency presence supports global reinsurer confidence, enabling more stable post-disaster capital inflows.
- There are benefits to market functionality with a large sovereign presence. This is due to having scale to enter and exit markets as prices fluctuate across soft and hard cycles, reducing market volatility to some degree by freeing up/absorbing spare capacity.

Other key considerations for risk financing decision makers:

Local government transitions and water infrastructure: ongoing reforms in the water sector will significantly reshape risk transfer arrangements for local government. Existing insurance structures are not transferable to the new entities due to ownership and asset allocation changes.

System-wide efficiency through clearer direction: Centralising risk financing can improve decision-making across the system by embedding consistent data, valuation, and modelling standards. Enhanced certainty in risk information enables smarter financial and physical mitigation strategies and improved capital allocation across government.

Optimising New Zealand's existing endowments: New Zealand has a strong base of scientific and engineering expertise to support superior hazard understanding. By aligning this with improved asset data and valuation practices, the Crown could lead globally in natural hazard risk comprehension. This positioning generates a more sustainable relationship for New Zealand's public and private sectors with global markets.

Engagement with New Zealand Government Procurement

New Zealand Government Procurement (NZGP) is a division of MBIE that provides pre-negotiated contracts to access insurance brokers. This contract has supported the development of this business case by providing information and supporting visibility of current insurance premia paid by participating agencies. However, NZGP collects very little other data.

Broker costs are ~2% of the total cost of risk and NZGP is supportive of a more active approach to improve the efficiency of the 98% underlying cost of risk associated with the physical assets on the balance sheet. Any transition to CBM or ERM would require a significant change to the All of Government contract for insurance and broking. This would be considered in more detail during the DBC stage.

Should the CCM be preferred, the design would seek to optimise the existing arrangements. This includes separate contracts with providers of services to the All of Government contract, to provide collation of risk exposure to a portfolio level. This would require minor adjustments only.

Commercial Case considerations for the DBC, to manage implementation risk

The options developed within this IBC already assume some management of transition risk. However, the DBC will need to consider the following factors in much greater detail:

- **In-sourcing versus out-sourcing:** External providers will have modelling and pricing capabilities that would be more expensive over the long term but can allow for capability to be built for delivery of either the CBM or ERM options. Implementation strategies will allow for consideration of speed and risk of implementation relative to long-term efficiency.
- **Customer engagement and onboarding:** Agencies will be renewing insurance contracts while the detailed design of options takes place. The IBC already assumes that there would be a staggered approach to onboarding of customers, but greater engagement in detailed design will support the coordination of this approach.
- **Stakeholder engagement and market signalling:** The Communications and Engagement Plan Summary (Annex 2) sets out the key activities for the next phase of business case development, including crucial engagement with local government and market stakeholders. Clear messaging on the preferred way forward, including options to influence the design, are intended to support stakeholder buy-in and the market's understanding on the timing and approach to intended changes.
- **Organisational reform:** Either the CBM or ERM option would represent a significant change to NHC's governance and operating model. The ERM option would require the new mandate to be set out in legislation while legal risk to implement the CBM model would also benefit from the same. Enabling legislation could be undertaken concurrently with the DBC, being enacted by an Order in Council should the DBC be approved.
- **Product offering:** We have already signalled the potential to extend options from MDBI to all generally insurable risks, including large spend categories such as cyber risk, professional indemnity, and fleet. The incentive structure for resilience to physical asset risk carries over to ICT risk management, in particular. Insurance is of limited value relative to the economic impacts of cyber risk but the direct pricing to reflect good practice management could have out-sized impacts. System leads for physical and ICT asset management would need to support the design and implementation of the risk financing proposal given NHC's capability is focused on risk financing and risk market engagement.

Financial Case

Introduction

This section outlines the indicative funding requirements, cost structures, and fiscal implications for the short-listed options. For clarity, the financial case presents CBM and ERM as standalone options. The transition pathway (CBM first, and transitioning to ERM) is the recommended preferred way forward, however a full financial summary of that staged option will be provided at DBC. CCM is included for comparison of a lower cost, lower value option even though it is not recommended.

On balance, the Treasury considers the financial assumptions to be more prudent than optimistic. However, we have estimated accuracy to be within a +/-15% range. Cost estimates are informed by other schemes, including the NHI scheme for reinsurance costs and Australian state property schemes for operating expenses (Annex 5).

The financial case considers the lifecycle of investment:

- **Investment Planning (DBC and Implementation Business Case):** Estimates for the planning phase (Table 22) indicate combined costs of \$11.5m to develop the business case for the ERM, split between NHC and Treasury. This has been broken up to first deliver the CBM as the initial operating model under the preferred way forward. The balancing costs for ERM (estimated to be \$5m above CBM costs at the planning stage) are expected to be incurred at a later stage (provisionally in year 3), assuming the balance of risks and opportunities to extend to ERM continue to be compelling.
- **Investment Delivery (Implement/Operate):** costs for ERM, CBM, and CCM as stand-alone options are presented. All implementation costs are considered to be operating expenses, with the only capital consideration being an equity investment into the ERM option to support fiscal neutrality. Similar to the investment planning approach, we consider that the implementation cost of ERM to be net of costs incurred to implement CBM, with the more substantive change being additive to the functionality established under the CBM approach.

While not set out in detail, the preferred way forward would push the higher costs for ERM out in time and could also allow for benefits to partially fund this expense. On balance, we consider the risks and opportunities of higher/lower planning and implementation costs for the ERM stand-alone or staged-transition options to be equal.

There is a possibility that planning and implementation costs for the staged-transition model could be i) higher – through having to re-employ project teams and execute new contracts could result in higher costs than a single project, or ii) lower – by establishing the CBM prior to ERM there will be significant lessons learned that could allow for savings in the way the second phase of the project is delivered.

General considerations

Three overarching considerations guide the financial case:

- **Funding flows:** ERM costs and revenues are managed in one appropriation, making it easier to track net recoveries and effectiveness of self-insurance. The CBM and CCM require centrally funded operating expenditure in the first instance. Benefits will accrue within agency appropriations, requiring additional reporting to track benefits.
- **Relative scale and complexity:** CCM is low-cost and low complexity. CBM requires moderate investment. ERM involves the most substantial investment to implement.
- **Sustainability:** The CBM and ERM options are intended to collect revenues to cover operating expenses and deliver additional efficiency benefits. The CCM would require an enduring appropriation.
- **Cashflow forecasts are indicative:** As there is no stated Government risk appetite, we have made broad assumptions on revenue, risk retention, and cost of reinsurance.

Specific considerations:

- The timing and magnitude of risk events is uncertain. We have assumed no realised risk in the forecast period due to low probability of occurring. Any claims not covered by reinsurance would deteriorate the cashflow projections presented in this case.
- Reinsurance costs are uncertain (applicable to the ERM model only) and have not been market tested. However, reinsurance costs would be recovered through revenue plus a risk premium.
- No investment returns are assumed on self-insurance, for prudence and also to recognise that no debt financing costs are included if there is a net deficit position from time to time.
- Estimated savings for participating agencies (eg, reduced advisory spend, lower brokerage fees) are noted but are not allocated at this stage.

Investment Planning phase: Indicative cost breakdown

The estimated planning costs total \$11.5 million—comprising \$10.0 million for NHC and \$1.5 million for the Treasury and is inclusive of ~10% contingency. The breakdown of planning expenses is set out below:

- **DBC Stage:** Business architecture for the preferred option – project team, organisation design, and formal market testing for ICT system investments.
- **ImBC:** Finalise the delivery plan (confirming proposed implementation costs are consistent with the DBC) and seek approval to implement.

Table 22: Breakdown of indicative Investment Planning costs by stage and cost category

Cost Component (\$m)	CBM	ERM				
	DBC	IMBC	Total	DBC	IMBC	Total
Oversight and governance: SRO, Project management, Coordination, Management Accounting & Assurance.	0.8	0.2	1.0	1.9	0.4	2.3
Core operational capabilities: Insurance, Portfolio Analysis, Risk Financing Model design.	2.0	0.25	2.25	2.8	0.7	3.5
Enterprise capabilities: Technology, Back-office, Comms and Engagement, Procurement.	0.8	0.2	1.0	1.7	0.9	2.6
Other costs: Policy design, Overheads, Travel, Contingency.	0.4	0.3	0.7	1.3	0.3	1.6
Treasury Costs (Total): System engagement, policy leadership, funding and finance design	0.9	0.1	1.0	1.3	0.2	1.5
Total Costs	4.9	1.05	5.95	9.0	1.1	11.5

Costs in Table 22 are indicative and can be further refined for accuracy should this proposal be invited into a future budget. As NHC cannot cross-subsidise this proposal from the Natural Hazards Fund, it has incorporated leadership, governance, and overhead costs that might otherwise be absorbed into any other organisation's business as usual costs.

For the preferred way forward, it is expected that only the CBM costs would be committed to. However, there is an expectation to extend to ERM in the future, which would require the \$5.55m difference in planning costs to be incurred at a later date (provisionally, year 3 of operations), with funding sources to be approved by Ministers at that time.

Treasury planning costs are estimated at \$1.0m for CBM and \$1.5m for ERM, covering project management, stakeholder engagement, and policy leadership. Funding sources are discussed later in the Financial Case. A contingency of \$1.0m has been included but can be held for approval by Ministers in accordance with remaining cost to complete the ImBC. Under the preferred way forward, ERM

represents the balancing stage of investment following CBM, with its costs and benefits to be fully tested at DBC.

Enterprise Risk Management

The ERM model establishes a centrally coordinated, self-funding insurance scheme for public assets, administered by the NHC with Treasury oversight. It pools risk across agencies and funds operations through levies, supported by repayable Crown funding, subject to approval of an ImBC.

Table 23: Forecasted cash flow – ERM

\$millions	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Operating	0.0	11.5	72.4	48.0	34.5	33.5	200.1
Risk Cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reinsurance	0.0	0.0	10.4	118.5	177.8	186.7	493.3
Total	0.0	11.5	82.8	166.5	212.3	220.2	693.3
Funded by:							
Existing Revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Existing Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Extra Revenue	0	11.5*	22.0	251.4	377.2	396.0	1,058.2
Extra Capital	0	0.0	88.5*	0.0	0.0	0.0	90.0
Total	0.0	11.5	112.0	251.4	377.2	396.0	1,148.2

*Extra Total revenue in 2026/27 reflects the proposed \$11.5m appropriation for the planning phase, including \$1.5m for the Treasury's resources. This is subsequently paid back in 2026/27 when a proposed \$100m equity injection is provided (via redeemable preference shares). The 'additional' revenue is limited to \$88.5m to reflect repayment of planning costs.

ERM planning and implementation costs

Total planning and implementation costs are **\$101.5 million** (OPEX only):

- **NHC:** \$10.0m (planning), \$90.0m (implementation)
- **Treasury:** \$1.5m (planning only) – consideration of Treasury's ongoing system lead role would be part of the DBC, with assumed service delivery from the balance sheet team for the purposes of this case.

Should Cabinet approve an ImBC in due course, an equity injection can support the implementation costs to be fiscally neutral. We have assumed a \$100m equity injection using redeemable preference shares to allow this capital to be recovered.

ERM reinsurance and risk costs

Reinsurance costs total an estimated **\$493.3m** in the forecast period. We used high level assumptions to value \$4 billion coverage above a \$2 billion threshold, based on costs for the NHI scheme. However, all costs are to be recovered through insurance premia at a cost + margin approach.

We have not included any forecast for claims (risk) costs as events are considered to be low probability. Figure 8 on page 37 highlights the potential changes in the value of a self-insurance fund for two different events. Actual costs and revenues are dependent on risk appetite and actual risk experience.

ERM system operating costs and savings

The forecasted whole of life cost of the ERM option is \$1,519.0m over the 50 years of the expected lifetime of the project. Steady-state operating costs reach **\$30.0m per annum (in real terms)**, funded via insurance premia charged to participating agencies based on individual risk profiles.

Table 24: Anticipated system operating savings – Consequential changes due to ERM

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Advisory Services	0.0	0.0	0.0	0.3	1.0	1.4	2.7
Broker Fees	0.0	0.0	0.0	1.0	2.8	4.1	7.9
FTE Reductions	0.0	0.0	0.0	1.0	3.0	4.3	8.3
Total	0.0	0.0	0.0	2.4	6.8	9.7	18.9

*Broker fees for the ERM solution are included in reinsurance costs. All costs are saved from participating Agencies for cashflow purposes, but the economic benefits only assume 20% saving of total expenditure.

ERM is expected to deliver operating savings through reduced advisory spend, broker fees, and FTE productivity. These benefits are not in ERM cashflows but are included within the economic benefit.

Centralised Broker Model

The CBM establishes a centralised procurement and analytics function. Its costs are centrally funded via a new appropriation. Benefits accrue within agency baselines and must be separately tracked.

Table 25: Forecasted cash flow - CBM

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating	0.5	17.5	24.2	14.3	14.6	14.9	85.6
Funded by:							
Extra Revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Extra Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CBM planning and implementation costs

Total indicative cost: **\$28.45 million** (all operating):

- **NHC:** \$4.95m (planning), \$20.5m (implementation spread across two years)
- **Treasury:** \$1.0m (planning), \$2.0m (implementation spread across two years)

The forecasted whole of life cost of the CBM option is \$675.0m over the 50 years. As insurance costs are managed on behalf of agencies, there is no other cost and revenue line under the appropriation for the CBM other than operating expenses. Net benefits across the system will need to be tracked in other appropriations to inform on the performance of the model.

Should legislation allow for the function to collect revenue, it could ‘clip the ticket’ on insurance volume to repay meet operating costs over time. The commission would be calculated to enable the business to operate as a going concern, provide investment into systems, but not generate any margin.

CBM operating costs and savings

Steady-state operating cost is **\$13.5 million per annum (in real terms)**. As with the ERM model, we assume some system savings for reduced agency utilisation of broker and advisory services and marginal FTE reductions for tasks reallocated from agency Finance teams. These savings are of a lower scale due to a less comprehensive solution being in place.

Table 26: Anticipated system operating savings – Consequential changes due to CBM

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Advisory Services	0.0	0.0	0.0	0.3	0.7	0.8	1.9
Broker Fees	0.0	0.0	0.0	0.9	1.9	2.1	4.8

FTE Reductions	0.0	0.0	0.0	0.9	1.9	2.2	5.1
Total	0.0	0.0	0.0	2.1	4.5	5.1	11.7

Central Capability Model

The CCM option builds a Treasury-led function to provide policy advice, guidance, and light-touch oversight of agency insurance practices. It does not centralise insurance procurement or funding but aims to improve coordination and visibility through regulatory or guidance mechanisms. It is not recommended as part of the preferred way forward but is included for comparison.

Table 27: Forecasted cash flow - CCM

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Operating	0.5	1.7	1.8	2.3	2.7	3.0	12.0
Funded by:							
Extra Revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Extra Capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	0.5	1.7	1.8	2.3	2.7	3.0	12.0

CCM planning and implementation costs

Total indicative cost: \$0.5m (Treasury-led, from reprioritisation) for **Investment Planning phase** only.

Implementation: All costs are operating expenditure. There is no significant implementation cost in the traditional sense — setup activities are embedded within the first year of operation and primarily involve recruiting a lead for the function, who would then recruit core staff, develop initial guidance, and engage with agencies. These activities are expected to be completed within one year. As such, all operating expenses are considered part of a going concern. No capital or repayable funding is required.

CCM operating costs and savings

The forecasted whole of life cost of the CCM option is \$112.8m over the 50 years of the expected lifetime of the project. Steady-state operating costs reach **\$2.3m per annum (in real terms)**, based on FTEs, advisory services and internal risk modelling capability. Additional one-off costs for risk modelling transition. No system savings are forecasted.

Funding sources for preferred way forward

The Treasury proposes that additional funding is sought to progress to DBC and Implementation Business Case (in a staged manner). It is not standard practice to fund Detailed Business Cases through the budget process. However, NHC does not have an existing appropriation it can utilise to deliver this work. Vote Finance Departmental and Non-Departmental appropriations will be reviewed to identify the extent to which a partial reprioritisation can reduce new funding but is unlikely to fund the full amount.

Criteria for Budget 2026 invites will inform whether this proposal will be invited to bid for the unfunded proportion of expenses, which are a maximum of:

1. \$4.95m is required by the Natural Hazards Commission for the Investment Planning phase. At this stage, this is proposed to be sourced from a new parliamentary appropriation specifically for this purpose, with \$4m enabled to deliver the Detailed Business Case and \$0.95m held in a tagged contingency to complete the Implementation Business Case.
2. \$1.0m is required by the Treasury for the Investment Planning phase to provide continued policy leadership, broad stakeholder engagement, and design of funding and financing frameworks. \$0.9m would be enabled to deliver the Detailed Business Case and \$0.1m would be held in a tagged contingency to complete the Implementation Business Case.

It is not standard practice to fund Detailed Business Cases through the budget process. However, NHC does not have an existing appropriation it can utilise to deliver this work. Vote Finance Departmental and Non-departmental appropriations will be reviewed to identify the extent to which a partial reprioritisation can reduce new funding, but is unlikely to fund the full amount. Criteria for budget 2026 invites will inform whether this proposal will be invited to bid for the unfunded proportion of expenses.

Overall affordability

The Senior Responsible Owner (SRO) has signified their agreement to the level of funding required for the Investment Planning phase (DBC and ImBC).

The SRO's letter is attached as Annex 1.

Management Case

Outlining the Management Case

The purpose of the management case is to describe the arrangements that will be put in place for the successful delivery of the project and to manage project risk. The management case also provides an indicative view of the governance arrangements that will apply once the project is implemented and becomes operational.

Current project management arrangements

To date the project has been led by Treasury, with delivery overseen by a dedicated Project Lead and coordinated by a Senior Project Coordinator. The Project Lead is supported by a cross –functional team. The delivery approach follows Agile principles, allowing for iterative development, regular stakeholder engagement, and the flexibility to adapt as needed throughout the project lifecycle.

The Senior Responsible Officer for the development of this IBC is Leilani Frew, Deputy Secretary of Financial and Commercial. Struan Little, Acting Deputy Secretary of Budget and Fiscal Strategy took on SRO responsibilities from 1 August 2025.

The project team has also been able to access an Advisory Committee for support and insight. The Advisory Committee has acted as a steering committee for the project, providing expert input from senior representatives across relevant public sector agencies (including NHC) and the insurance industry.

Future project management arrangements

The preferred way forward is to mitigate implementation risk by implementing CBM as a first step on the pathway to ERM. This transition option is commented on where relevant but will be fully developed as part of the DBC.

A summary of the Management Case is below:

- The ERM and CBM options would involve joint project management by NHC and the Treasury during the Investment Planning phase, supported by a Memorandum of Understanding.
- The ERM option requires amendments to primary legislation (the NHI Act), meaning a decision for inclusion in the Government’s legislative programme is required.
- The CBM holds lower implementation complexity, supported by a contract with an external broker function. However, the proposed joint venture model will require a novel model for working across two agencies in government. CBM would require a Ministerial direction to implement, although optimising the purpose and scope of the new function would benefit from being defined in statute.
- The CCM option (not recommended in the preferred way forward) is simpler to implement. It requires recruitment of staff and contracts with insurance brokers that provide services to agencies.

Summary of current and future arrangements

The Treasury has led the development of the IBC out of the balance sheet team. The Project Lead is supported by a small team with business case, project coordination, and economic modelling expertise.

The table below summaries the project management and subsequent delivery arrangements for the different options. These are discussed in more detail below, with supporting graphics in Annex 11.

Table 28: Summary of project management to date and for each proposed option

Option	Roles and responsibilities	Design and implementation considerations
ERM option	NHC to lead development of DBC, working with Treasury as the system and policy lead. • If approved, NHC would deliver the ERM. • Treasury would support Ministers’ directions on risk appetite to drive the	• NHC and Treasury would enter into an MOU providing for joint direction and governance of the DBC phase. • NHC’s delivery of the NHI scheme must continue to meet expected performance.

Option	Roles and responsibilities	Design and implementation considerations
	funding and financing strategy for NHC to deliver.	Legislation strategy – whether to establish under one or two phases of legislation (enabling/full powers)
CBM option	NHC to lead the DBC, working with Treasury as the system and policy lead. - If approved, procurement of a broker would deliver outsourced functions - Treasury to provide system engagement and Ministerial advisory functions - NHC would provide modelling and market facing functions as well as back-office support.	- Governance of a joint venture will require oversight from two functions and a nominated Senior Responsible Officer - NHC's delivery of the NHI scheme must continue to meet expected performance. - Legislation strategy would fit to the intended scope of the proposal. Change would be required to extend to local government or other insurance lines.
CCM option	Funding to be sought in Budget 2026 to operationalise the model at the Treasury.	Placement of the function within the Treasury, likely to require close engagement with the Balance Sheet, Budget, and Macro-fiscal policy teams.

Legislation Strategy

Treasury has assessed the legal and regulatory implications of the three options. This analysis is set out in more detail in Annex 12. Should Cabinet agree to consider the CBM or ERM options, it will be necessary to consider a legislative strategy alongside policy development. In summary:

- The NHC is subject to the Crown Entities Act 2004 (CEA) and the specific provisions of the Natural Hazards Insurance Act 2023 (NHI Act). Jointly, these require a focus on responses to natural hazards and the operation of the Natural Hazards Fund.
- Directions to confer a new function on NHC are enabled but limited. Restrictions are to provide services only consistent the core purpose of the NHI Act, being natural hazards, with a scope of central government risk only, and inability to collect third party funding. This limits insurance products, scope of participation, and operating flexibility unless legislation is updated.

This would be more fully developed during the DBC phase, but some dimensions of the strategy and the questions that would need to be answered are below:

Table 29: Overview of the legislative requirements

Questions	Requirements
How can NHC be funded and authorised to work on the DBC?	- The Minister will need to issue a direction and provide funding via a Parliamentary appropriation - underpinned by a service agreement - This can be done under current legislation, with a limited amount of risk. This risk, that the proposal is inconsistent with the core purpose of the NHI Act, has been reviewed and considered low probability. - This judgement is supported by i) engagement with NHC's Board and ii) the new function being appropriated with no cross-subsidisation from the NHI scheme.
How can the CBM or ERM option be stood up within NHC?	- The ERM would require legislation change to operate. - The CBM could be implemented via a Ministerial direction for a narrowly scoped service of business interruption insurance for central government. - Legislation change would be required to extend the CBM to local government, offer additional product lines, and enable third party revenue.

The CCM option is not subject to legislative constraints. Accordingly, it would be possible to implement the CCM option using instruments such as Cabinet Office circulars.

Project structure – ERM and CBM options

If Cabinet wishes to progress to a DBC for the transition option, NHC would be the lead delivery agency while Treasury would be the lead policy agency. NHC would lead the development of the DBC, with roles and responsibilities for the two agencies drafted into a memorandum of understanding. Project oversight and decisions would be undertaken by a Project Governance Board.

Graphics of the proposed project management structure are included in Annex 11.

It is anticipated that the Project Governance Board would draw on representatives of each of agency, together with individuals providing additional technical or system expertise as required to support the development of the business case. The Project Governance Board would have escalation pathways to the SRO and Treasury project sponsor for dispute resolution.

At a management level, each agency would appoint a project lead, with a programme manager to coordinate and track progress. These project leads and the project manager would have dotted line accountability to the Project Governance Board.

If either the ERM or CBM option is developed and becomes operational, NHC will be the lead delivery agency. It is anticipated that either option would form a standalone business unit within NHC. The existing NHI scheme would share middle and back-office functions, with costs allocated by a to-be-defined methodology, with an expectation this would be regularly audited.

Development and ongoing delivery of CCM option

If Cabinet decides to pursue development of the CCM option, the project governance structure would reflect that Treasury would be both the lead policy agency and lead delivery agency. From a project management perspective, this would mean that Treasury would undertake the necessary work to develop and implement the CCM option, through the current Project Lead and Treasury's internal reporting structure.

Treasury would develop a DBC in parallel with the bidding process for Budget 2026, and its Project Board for this DBC would reflect Treasury's internal reporting structure. This budget bid would be contingent on progress, with Cabinet being asked to review the business case by March 2026.

Outline of project plan

Table 30 sets out key project milestones for the preferred way forward, with potential key milestones also shown for the alternative CCM option.

Table 30: Key project milestones

Indicative project milestones for the Transition option (CBM to ERM)	Indicative timing
Cabinet consideration of the IBC	Sept 2025
Pre-DBC phase: Treasury executes stakeholder engagement plan, refines the financial case for accuracy and phasing, and drafts a Ministerial direction	Oct 2025 – Mar 2026
Subject to an invite to Budget 26 and Cabinet agreement, execute the Ministerial direction and funding for NHC to lead the development of a DBC	Early May 2026
DBC – detailed design of the preferred option for delegated Ministers' approval	Dec 2026
Implementation Business Case – complete procurement for delegated Ministerial approval	Mar 2027
Initial onboarding of central government agencies	From July 2027

Indicative project milestones for CCM option (not recommended)	Indicative timing
Treasury commences preparing DBC for CCM option if preferred Cabinet choice	Sep 2025
Treasury submits DBC for Cabinet	Mar 2026
Funding appropriated in Budget 2026	Jul 2026
Establishment of the Centralised Capability Unit within Treasury	Oct 2026
Full CCM operationalisation	By mid 2027

Project risk management

A comprehensive project Risk Management Strategy and Framework are in place. Risks are identified, captured, assessed for likelihood and impact, and reviewed regularly by the project team.

Responsibility for risk management sits with the Project Manager, supported by the project team. Strategic risks are reviewed in collaboration with the Advisory Committee and escalated if required. Risks will be progressively updated as more detailed analysis is undertaken.

Project and business assurance arrangements

The project has been assessed as ‘high-risk, high-value’ using the Treasury’s Risk Profile Assessment tool and moderation process.

On the basis of this risk assessment, the project has maintained consistency with Treasury Investment Management System and Better Business Case guidance.

An Independent Quality Assurance Review was undertaken on this IBC. This has been provided to the Gateway Review Panel, with the overall assessment shown to the right.

Eight of ten recommendations have been responded to in the IBC, with one partially responded to due to data constraints. One recommendation related to pre-DBC activities (ie, establishing Joint Terms of Reference) and will be completed subject to Cabinet approval of the IBC.

Summary Ratings Dashboard

A summary of ratings for each key scope area is presented below.

Scope area	Rating
Strategic Case	 Minor gap: meets most needs effectively. Small refinements would strengthen this area.
Economic Case	 Minor gap: meets most needs effectively. Small refinements would strengthen this area.
Commercial Case	 No gap: fully meets all needs. Sufficient to support delivery success.
Financial Case	 Minor gap: meets most needs effectively. Small refinements would strengthen this area.
Management Case	 Minor gap: meets most needs effectively. Small refinements would strengthen this area.

Gateway reviews

The proposal is subject to ongoing Gateway reviews. Gate 01 (Business Justification & Options) review has been completed with positive feedback, including support for taking a single preferred transition option to the Detailed Business Case. This reflects the support for the strategic case (the need for investment) and the Economic case (robust analysis of options).

The Gateway review is summarised in the following extracts:

Delivery Confidence Assessment	AMBER
The Project is conceptually strong, with a well-developed strategic case and broad cross-agency support. However, overall delivery confidence is constrained by the absence of a defined delivery model, uncertainty over system ownership, and the need for further development of implementation planning. This is not unusual at the IBC phase of a project. Confidence will improve markedly if these dependencies are resolved through a focused and well-governed SSBC process.	

Business Case Stage: Indicative		
Case	Quality Measure Score (1 – 4)	Summary of key focus areas
Strategic	4	The problems that the Project is aiming to address is compelling, urgent and aligned to Government priorities.
Economic	3	A credible and sufficient range of options has been considered.
Commercial	3	Through a highly skilled and functioning Advisory Committee and Project Team the Project has a clear understanding what they want to deliver and the ability of the market to deliver.
Financial	3	The financials, while sufficient for an IBC, are preliminary at this stage and the Project Team accepts will require significant work going forward.
Management	3	There is confidence in the Treasury and NHC ability as the entities best positioned to continue to deliver capability and capacity to execute the investment. As detailed within this report the task ahead for Treasury and NHC is significant and will require continuous monitoring and oversight.

The Quality Measure Score uses the following performance standards:

Score	High-level performance standard
4	The evidence provided by the agency reflects best practice for the relevant business case stage and would highly likely result in a successful investment.
3	The evidence provided by the agency reflects an acceptable quality for the relevant business case stage and would likely result in a successful investment.
2	The evidence provided by the agency includes material issues for the relevant business case stage and may not result in a successful investment without remedial actions or wrap-around support.
1	The evidence provided by the agency is of serious concern for the relevant business case stage and there is no confidence that it will result in a successful investment.

The Gateway review considered that a Single Stage Business Case (SSBC) could be appropriate for this proposal, given the strength of strategic and economic cases. However, we consider maintaining the two-stage process is appropriate given NHC will deliver the completion of the Commercial, Financial, and Management cases. Cabinet will need to consider funding options, and the Minister of Finance would need to provide a Ministerial direction to enable this phase of work.

Further reviews will be held at appropriate points in the project as agreed with the Treasury's Gateway Unit.

Post-project reviews

A post implementation review will be included in planning to confirm that the new system/facilities are operating as intended, and to identify any lessons learned from the management of the project/tranche that can be applied to future projects or projects in other agencies.

This project will report back to Cabinet within 12 months of the in-service date on the actual level of benefits achieved compared with those outlined in the Cabinet-approved investment.

A Treasury Operations and Benefits Realisation Review will be undertaken at agreed points; the initial review will be timed to inform the Benefits report back to Cabinet.

Next Steps

This IBC outlines the following activities, for which Cabinet approval will be sought:

1. Approve the preferred way forward of taking the shortlisted options, namely the staged transition option that starts with CBM then moves to ERM, through to detailed analysis at DBC stage.
2. Note that the Investment Planning phase (DBC and ImBC) will require a future funding decision.
3. Direct the Treasury to begin engagement with agencies and local government to inform the DBC assessment of options.
4. Direct the Treasury to prepare a Ministerial direction and service agreement to direct the Natural Hazards Commission Toka Tū Ake to develop the DBC, should funding be confirmed through Budget 2026.

Glossary

Term	Explanation
agencies	Central or local government departments or entities that are accountable for delivering public services or managing public assets. Agencies may be charged premiums or required to participate in shared risk arrangements to manage their exposure to loss.
captive insurance	An insurance company created and owned by a parent entity to insure its own risks. Captives can offer cost savings and greater control over risk financing.
contingent liability	Costs, which the Crown will have to face if a particular uncertain event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. However, contingent liabilities for a sovereign can also be implicit and undefined, for example a change in fiscal policy following a national risk event.
Enterprise Risk Management	A structured and integrated approach to managing risks across an organisation to support the achievement of strategic objectives. It includes identifying, assessing, responding to, and monitoring risks across all levels and types (financial, operational, reputational, etc), across all agencies.
generally insurable risks	Generally insurable risks cover all key risk/perils such as fire, flood, storm, earthquake, tsunami, and volcanic.
global risk markets	International markets where risk is transferred or shared through financial instruments such as insurance, reinsurance, catastrophe bonds, and derivatives. Accessing these markets allows governments and other entities to manage large-scale or systemic risks that exceed domestic capacity.
internal transfer pricing	The use of notional pricing mechanisms to allocate the cost of services or risk internally within an organisation. For example, charging government agencies risk-based premiums helps simulate a market, improving incentives for proactive risk management.
National Risk	One of the 33 risks included on the National Risk Register, part of the National Risk and Resilience Framework, representing serious immediate and/or long-term threats.
reinsurance	Insurance purchased by an insurer to transfer part of its risk to another insurer (the reinsurer). Used to increase capacity and reduce exposure to large or unexpected claims.
risk acceptance	A risk response strategy where an organisation acknowledges a risk and chooses not to take any action to mitigate or transfer it. This may be appropriate for low-impact or low-likelihood risks where the cost of control outweighs the potential loss.
risk avoidance	A risk response strategy that involves eliminating a risk entirely by ceasing the activity or removing the source of the risk. Often used when a risk is high and cannot be managed to an acceptable level through other means.
risk cost	The total expected financial impact of risk on an organisation, including the cost of losses, risk control measures, insurance premiums, and administrative costs. Used in evaluating and comparing different risk financing strategies.
risk financing	How an organisation understands its exposure to uncertain losses and plans to pay for those costs in the most efficient and effective way to limit the impact of volatility. This includes both operating and capital expenses, using insurance, self-insurance (setting money aside to cover future losses), or investments to reduce risk by improving asset resilience (so losses are less likely or severe).
risk mitigation / treatment	Actions taken to reduce the likelihood or impact of a risk. This may include physical controls, policy changes, risk transfer mechanisms (eg, insurance), or operational improvements.
risk transfer	The shifting of financial risk to a third party, usually through insurance or reinsurance. This is done to limit financial exposure and ensure predictability of costs.
self-insurance	A form of risk retention in which an organisation sets aside its own funds to pay for losses, rather than purchasing insurance. Effective only when risks are predictable and losses manageable.
total cost of risk (TcoR)	A comprehensive measure of the full financial cost of managing risk within an organisation. It includes retained losses, insurance premiums, risk control costs, administrative costs, and indirect impacts (like downtime or reputational damage). Used to assess the efficiency of risk financing strategies.

Annex 1: Senior Responsible Owner letter

26 August 2025

To whom it may concern

Project Indicative Business Case

The Treasury is proposing a major strategic initiative to meet future balance sheet management requirements for contingent liabilities related to low probability but high impact risk events.

This Project Indicative Business Case is a significant deliverable for this initiative. It investigates value for money options to deliver this initiative and proposes a plan for its delivery.

I confirm that:

- i I have been actively involved in the development of the attached investment proposal through its various stages
- ii I accept the strategic aims and investment objectives of the investment proposal, its functional content, size and services
- iii the indicative cost estimates of the proposal are sound and based on best available information
- iv suitable contingency arrangements are in place to address any current or unforeseen affordability pressures.

This letter fulfils the requirements of the current Better Business Cases guidance. Should either these requirements, or the key assumptions on which this case is based, change significantly, revalidation of this letter of support will be sought.

Yours sincerely



Struan Little

Acting Deputy Secretary, Budget and Fiscal Performance

Annex 2: Communications and engagement plan summary

Introduction

This Annex is a summary of key aspects of the Risk Financing Stakeholder Communications and Engagement Plan (the Plan), which outlines proposed stakeholder engagement and communication activities for the Risk Financing Project.

The Treasury has led the development of the IBC, which is due to be considered by the Minister of Finance and then Cabinet in September 2025. The Plan guides key messaging, ‘channels’ for communication, stakeholder groups (key audiences and/or customers), ongoing assessment of communications risks and mitigations, a timeline of ‘tactical’ communications and engagement deliverables, and evaluation of communications and engagement activities against their objectives. The Plan will inform activities to be undertaken during the next stage of work (the DBC). The full Plan is under development pending decisions and will be available on request. To ensure it remains current and relevant, the Plan will be updated periodically, after significant milestones.

Communications and engagement objectives

The communications and engagement objectives for the project are:

1. People understand the risk financing proposal – it is clear what it is/what it isn’t.
2. The case for change for investing in risk financing is clearly articulated and compellingly communicated.
3. The project is well-aligned with government priorities and other agency programmes.
4. Partners/key stakeholders/potential participants feel well-informed about progress and processes relevant to them.
5. Potential reputational risks to the Government, and the Treasury are anticipated and mitigated.

Stages

The project has several different stages, which each have a different engagement focus:

1. IBC (now to September)

This stage focuses on building the case for change, in a collaborative way with the primary internal and external stakeholders to inform the IBC development. It also includes socialising the IBC with other agencies who may have had less involvement, prior to seeking Cabinet endorsement and approval of the preferred way forward.

2. DBC planning (October 2025 to March 2026)

Prior to DBC funding approval via Budget 2026, this stage will focus on ‘building a network of interested stakeholders and keeping current connections warm’. This will involve extending the network of interested stakeholders, communicating the current status of the project and next steps, working through the inter-dependencies with programmes across government, participating in forums, and targeted information gathering from potential scheme participants (customers).

3. DBC (July 2026 to March 2027):

This stage will focus on engagement with potential scheme participants, and any requirements for engagement as a lead-in or in addition to the legislative process.

4. Implementation Business Case/Approval to implement (April to August 2027):

This will focus on preparing for implementation and organisational change.

5. Implementation (By March 2028)

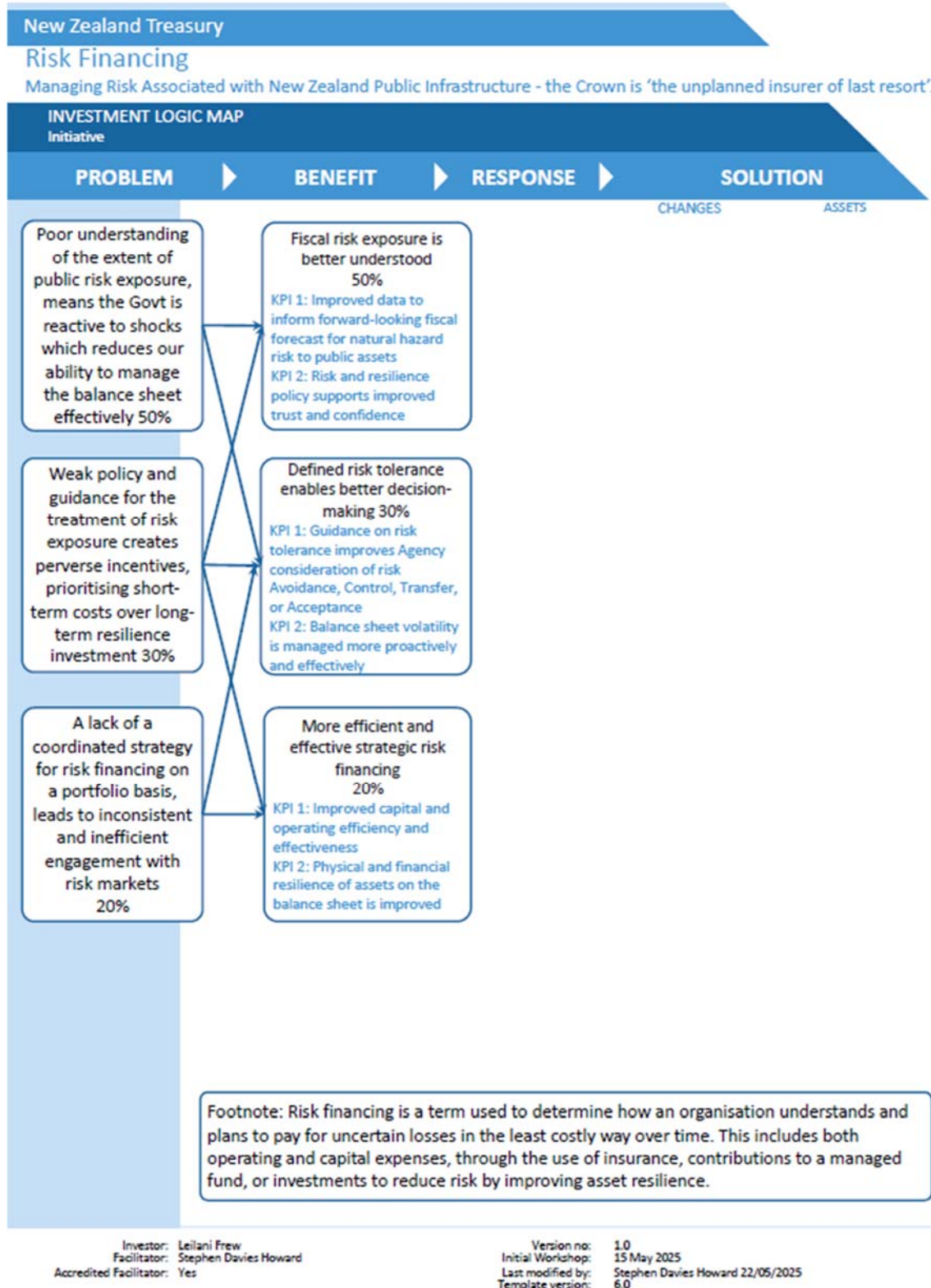
This will focus on communication of the new function, including how to access information and who to contact; as well as engagement associated with the scheme participants who may be participants at a later date.

Table 31: Key stakeholders/audiences

Key interest/influence groups who are strongly interested and/or high stake: <i>Keep involved, informed and consulted</i>
Shareholding Ministers: - Minister of Finance, Hon Nicola Willis - Minister for Infrastructure, Hon Chris Bishop - Minister for Climate Change and Local Government, Hon Simon Watts - Minister for NHC (Associate Finance), Hon David Seymour
Natural Hazards Commission (NHC) Board and Leadership Team
Treasury Executive Leadership Team
Department of Prime Minister and Cabinet (DPMC)
Interested groups (interested and are influential): <i>Keep informed and engage</i>
Te Waihanga Infrastructure Commission
Ministry of Business, Innovation, and Employment (MBIE) – NZGP function and Science system function
Department of Internal Affairs
Ministry for the Environment
National Emergency Management Agency (NEMA)
Public Services Commission (PSC)
Local Government New Zealand
Local Government Financing Agency
Government Chief Digital Officer (GCDO)
Treasury teams including Fiscal Reporting, NZDM, Climate, Financial Markets, Macro-Fiscal, and National Infrastructure Unit.
Former members of the Risk Financing Advisory Committee
Industry groups including: ICNC, insurers, reinsurers, brokers, other intermediaries
Iwi/Māori, including Iwi Chairs Forum
Customer groups: core public sector agencies, other central government entities, local government
Broader groups (interested but less influential for this project): <i>Keep aware and inform</i>
General public

Annex 3: Investment Logic Map

An Investment Logic Map session that considered problems, benefits, and investment objectives was led by accredited ILM facilitator Stephen Davies Howard. Participants included the Treasury, Infrastructure Commission, DPMC, DIA and NHC.



Annex 4: Constraints, dependencies, and assumptions

The proposal is subject to the following constraints, dependencies, and assumptions. Management strategies and registers have been developed to record management of these, and they will be regularly monitored and managed during the project.

Table 32: Constraints, dependencies and assumptions

#	Constraints	Notes
C1	Funding approval	The proposal proceeding to the next stage is dependent on funding, which will require an appropriation at Budget 2026 (unless an out-of-cycle approval is obtained earlier).
C2	Legislation / regulation	Implementation of the ERM option, or the CCM option, with NHC as delivery agency, will require amendments to the NHI Act, together with one or more Ministerial directions and service agreements under the NHI Act. This is required as public sector risk financing is not within NHC's current statutory functions.
C3	Delivery capabilities	NHC and/or the Treasury, depending on the option advanced, will need to ensure all relevant capabilities are in place to commence operation of the preferred option. If these capabilities are not in place at the preferred commencement date, interim alternatives will need to be pursued (eg, outsourcing relevant functions if necessary), otherwise implementation of the preferred option will be delayed.
	Dependencies	Notes and management strategies
D1	Funding	Funding proposals will be dependent on the Budget 2026 process and competing priorities for funding.
D2	Legislation / regulation	While Treasury will be able to prepare the Ministerial direction(s) and associated service agreements, legislative amendments will be dependent on the Government's legislative priorities.
D3	Delivery capabilities	The development of delivery capabilities will be dependent on the availability of suitable personnel, and detailed and thorough consideration of other resources such as ICT tools.
	Assumptions	Notes and management strategies
A1	Funding	The project team has proceeded on the assumption that development of a preferred option would not be funded by an existing appropriation, or by an out of cycle funding request. Thus, as indicated above, funding would be required in Budget 2026. This assumption does not in itself give rise to a management strategy but reinforces the importance of the Budget 2026 bid process.
A2	Sustainability	Options should present savings to reduce the overall cost to public financing for risk. Options that support improved information capability at a net cost will also be considered but present a high bar in a fiscally constrained environment.
A3	Legislation / regulation	The project team has proceeded on the assumption that NHC endorses the proposals and will engage with the Ministerial direction and service agreement processes, thus leaving Ministerial sponsorship of the project in relation to other Government priorities that require legislation as the residual risk. While this assumption place emphasis on the Government's legislative priorities, the project team recognises the importance of continuing to engage with NHC to ensure that this assumption remains valid.
A4	Delivery capabilities	The project team has proceeded on the basis that NHC and/or the Treasury will be able to develop the additional capabilities required for the selected option without impairing the performance of the delivery agency or agencies' pre-existing tasks. The assumption needs to be rigorously tested during the DBC stage to ensure its validity.
A5	Engagement	There will be more engagement through DBC phase to inform the design of the preferred solution.

Annex 5: International examples

Public risk management schemes in Australia and the United Kingdom can be seen as comparators for the options out forward in the IBC. Each Australian state government, and the Commonwealth government, operates a form of centralised risk management. The UK government operates an advisory function, the Contingent Liability Central Capability. The different Australian schemes are more aligned with the CBM and ERM options put forward in the IBC, while the CLCC is closer to the CCM option.

Australian schemes

At Commonwealth level, the Australian government has operated the Comcover self-managed insurance fund since 1998. Comcover collects premiums from members (all government agencies are required to join unless exempted by the Minister of Finance) and provides cover for all general insurable risks (other than workers’ compensation, provided by a separate agency, Comcare). Comcover is intended to be self-sustaining within ordinary claims limits, and accordingly operates on a basis of holding reserves of at least three years of forecasted cash outflows. Comcover held reserves of AUD1.16 billion as of 30 June 2024, with forecast cash outflows for the next three financial years of AUD1.04 billion. Member premiums may vary reflecting claims history and asset condition, providing a lever to influence members’ behaviour.

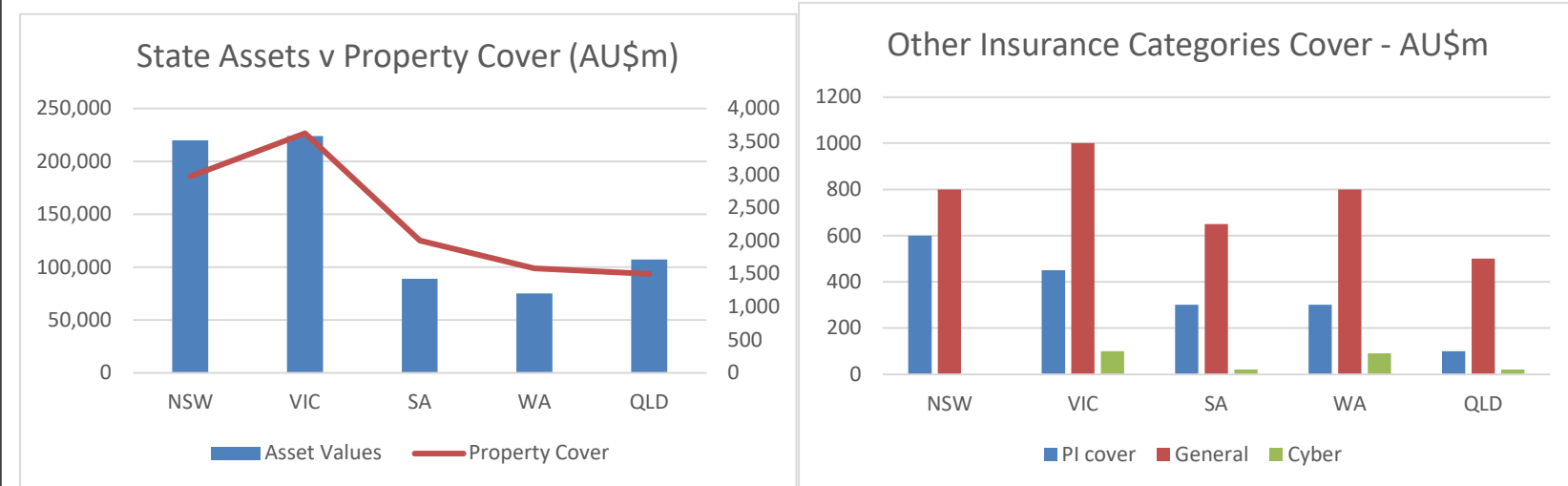
The project team’s engagement with Aon gave detailed background on the five state schemes that Aon acts for (all states except Tasmania). At state level the different state governments have similar schemes in place, with the details varying between jurisdictions. Queensland, for example, operates the Queensland Government Insurance Fund in a similar manner to Comcover. Victoria, by contrast, operates the Victoria Managed Insurance Authority which takes a low-risk approach to balance sheet risk, and seeks to place the majority of risk with markets, and in substance act as a clearing house for risk. The table below, based on Aon’s research report, sets out this diversity.

Table 33: Functions of Australian state-level insurance schemes

	QLD	NSW	VIC	SA	WA
Underwriter of Risks			●	●	
Technical Pricing			●		
Premium Allocation Model	●	●		●	●
Policy Wording			●	●	
Shortform Policy	●	●			●
Risk Management Advice to Agencies		●	●		
Centre of Insurance Excellence	●		●		●
Back-to-Back Coverage		●	●	●	

As the majority of Australian public assets are held by state governments (for example, schools, hospitals and emergency services), the comparison with New Zealand’s situation is stronger for the state governments than the Commonwealth government.

The graphics below set out state-lever assets against property insurance cover, and three other additional insurance categories (professional indemnity, general, and cyber). It is noted that any likely future scheme would be aligned with one or more of the Australian state lever schemes, with a strong bias towards property risk.



United Kingdom scheme

In contrast with Australia, and the preferred change option set out in the IBC, the UK operates a “no cover” policy, with the UK Treasury’s guidance for departments discouraging agencies from taking out commercial insurance. The underlying assessment that the UK government can absorb volatility within its debt strategy reflects the UK’s larger population and deeper capital markets, and its lower exposure to natural hazards. These factors obviously do not apply in the New Zealand context.

This was borne out in the CLCC’s 2023 report on the UK government’s contingent liabilities. The CLCC assessed UK government contingent liabilities, finding that 93% were held directly on the public balance sheet (with costs associated with nuclear decommissioning (£263bn) and clinical negligence claims (£128bn) making up the large majority of this total).¹

Table 34: UK Government contingent liabilities

Type	On-budget (£bn)	Off-budget (£bn)	Total (£bn)	Total (%)
Government responsibilities	465	15	480	93%
Government as insurer	8	6	14	3%
Government as guarantor	18	2	20	4%
Total	491	23	514	100%

The CLCC was established in 2022 with six permanent staff members, as a function of UK Government Investments (UKGI) UKGI is a wholly owned company of the UK Treasury established to create value from the Government’s most complex commercial interests. Its initial role was to undertake deep-dive analysis of Departments’ approaches to defining contingent liabilities, primarily for commercial and contractual reasons (guarantees and indemnities) but also covered insurances. It has utilised this initial work programme to improve reporting of previously hard to quantify contingent liabilities and develop guidance for the management of and revenue collection against those liabilities to minimise the cost to Government. Its approach could be summarised as the bringing to bear of financial and actuarial skills to identifying and managing risk. CLCC sets out its four-step process for¹

Table 35: CLCC steps for assisting management of the UK government risk portfolio

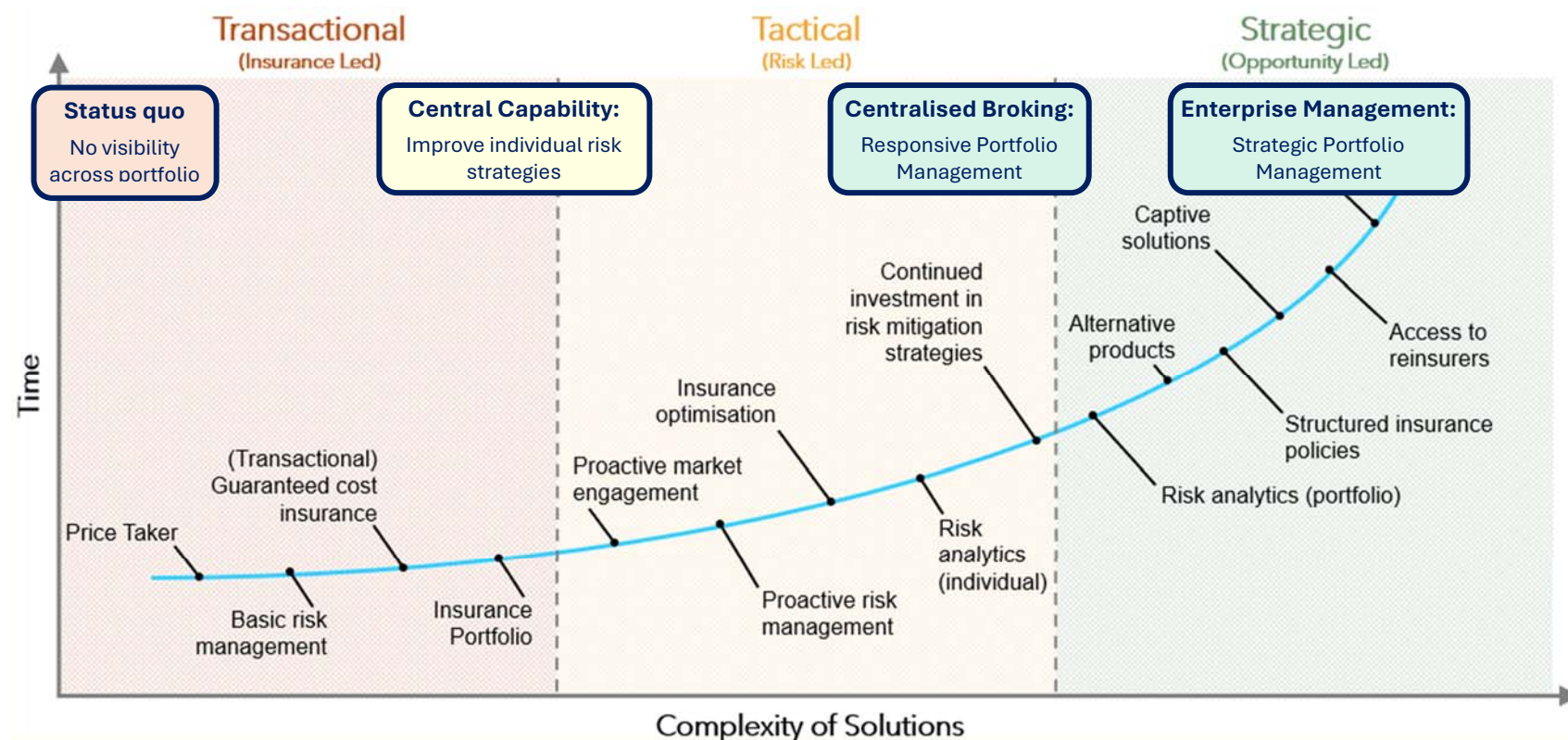
Step 1 – Identify liability risk	Identify government’s contingent liabilities, both “on-budget” and “off-budget”, to determine aggregate government risk
Step 2 – Categorise the risks	Identify types of risk, beneficiaries and counterparties
Step 3 – Assess compensation	Examine whether the government is appropriately compensated for the level of risk it holds
Step 4 – Value for money improvement	Explore potential opportunities for improving portfolio monitoring, reporting and structuring of liabilities

The key uncertainty in the Financial Case is the scalability of the Coordination function. The experience of the CLCC is it has now grown to 30 employees as demand for its services has increased from Departments, which suggests potential uncertainty as to the scope for development of a CCM model in the New Zealand setting.

Annex 6: Insurance Capability Curve

The insurance capability curve illustrates how organisations can access benefits from increased risk financing capability. As organisations better understand the risks they are exposed to, they can better understand the relative benefits of risk transfer, risk mitigation, and risk acceptance. As an intelligent customer, organisations can shift from being a price taker to a price maker, with alternative capital strategies to support the best allocation of risk to insurance markets.

The current balance sheet capability is to the very left of the curve. While there are pockets of good risk financing capability in Departments and Crown Entities, there is no portfolio visibility. This leaves the Crown in the position of uninformed and unplanned insurer of last resort. The central broking model allows for some collective portfolio benefits, but Agencies remain constrained by individual balance sheet depth and capital flexibility. A total balance sheet portfolio approach, proposed by the ERM, enables NZ Inc to shift up the curve by leveraging the scale, diversity, and centralised data of the whole system—unlocking benefits that individual agencies cannot access on their own.



Annex 7: Benefits and disbenefits

Table 36: Primary benefits and disbenefits

Name / Description*	Related Wellbeing Domains	Indicator + description	Measure(s) and evidence base (data source) –Full benefits under ERM	Beneficiary	Category	Direct or Indirect
Current Premium Savings	Economic Resilience, Fiscal Responsibility	Reduction in annual premiums through intelligent market engagement and self-insurance for ERM and CBM, and central procurement for CCM.	10% of annual premiums based on Aon Report and market structure (\$20bn capacity). [37]	Government (Central & Local)	Monetisable	Direct
Broker and Advisory OPEX Savings	Economic Resilience, Fiscal Responsibility, Market Efficiency	Reduction in external advisory and brokerage fees through centralised coordination and portfolio optimisation.		Government (Central & Local)	Monetisable	Direct
System FTEs Savings	Economic Resilience, Productivity and Innovation	Consolidation of financial risk management roles across agencies through centralisation under ERM/CBM and MBIE-led coordination for CCM.	Estimated \$4.2 million per annum through fractional FTE reductions across 20 top agencies and ~160 smaller ones.	Government (Central & Local)	Monetisable	Direct
Cost of Risk – Reductions in Expected Losses	Infrastructure Resilience, Community Resilience and Safety, Economic Resilience	Strategic risk transfer and/or self-insurance to lower expected losses from disaster events.	Average Annual Loss (AAL) scenario modelling by Infrastructure Commission - 510m of total 630m public sector exposure.	Government (Central & Local)	Non Monetisable (Quantifiable)	Indirect
Brokerage Commissions	Market Efficiency, Economic Resilience	Reduced commissions due to centralised market placement or influencing for better decisions at sectors.	Estimated at 1.97% of annual premia, with a 20% reduction, equating to \$1.35 million in annual savings.	Government (Central & Local)	Monetisable	Direct

*Only the benefits above will be used to undertake the options analysis in the Economic Case. Other expected secondary benefits are shown below.

Table 37: Secondary benefits and disbenefits

Name / Description	Description + possible measure(s)	Beneficiary	Category	Direct or Indirect
Data & Modelling Infrastructure	Enhanced data collection and modelling capabilities for risk assessment and asset resilience planning. Better forecasting and visibility of risk exposure.	Government (Central & Local)	Non Monetisable (Identified)	Direct
Infrastructure Resilience	Improved resilience of public infrastructure to withstand natural disasters and climate-related events. Reduced repair and recovery costs over time.	Government (Central & Local)	Non Monetisable (Identified)	Indirect
Service and Business Interruption Reduction	Enhanced continuity of government services and minimised business disruption through centralised risk management and contingency planning.	Government (Central & Local)	Non Monetisable (Identified)	Indirect
Strategic Procurement Capabilities	Optimised procurement of insurance and risk transfer services, leveraging collective bargaining for better terms and broader coverage.	Government (Central & Local)	Non Monetisable (Identified)	Direct
Improved Risk Maturity	Higher capability in understanding and managing risk portfolios at a system-wide level, reducing volatility and unexpected fiscal shocks.	Government (Central & Local)	Non Monetisable (Identified)	Indirect
Insurance Premium Stability	More stable and predictable insurance premiums over time, reducing volatility in budget planning for agencies.	Government (Central & Local)	Non Monetisable (Identified)	Indirect
Market Engagement and Access to Cover	Enhanced engagement with global reinsurance markets and more efficient access to cover through centralised coordination.	Government (Central & Local)	Non Monetisable (Identified)	Indirect
Wellbeing Loss – Social Resilience	Strengthened community resilience and faster recovery post-disaster, reducing long-term social and economic disruptions.	Local Communities	Non Monetisable (Identified)	Indirect

Annex 8: Detailed assessment of options against evaluation methodology

The tables that follow show the detailed assessment of options under each ‘dimension of choice’. The assessment for the ‘scope and participation’ and ‘service design’ columns show the same analysis (‘General’) in each of the three tables that follow, which have been created for the three service design options that are carried through to shortlist: ERM, CBM, and CCM. As different ‘service delivery’ options would only be relevant for certain service design options, these are tailored across ERM, CBM, and CCM. This enables the identification of best-performing options across the dimensions of choice and create a long-list. The best performing of each option has then been used as the basis through to a shortlist assessment. There is of course still scope to consider sub-options, particularly for scope and participation (eg, is local government in or out) as part of the DBC assessment.

Table 38: Enterprise Risk Management (ERM) assessment

Dimensions of Choice*	Scope and Participation (General)				Service Design (General)					Service Delivery (ERM only)			
Description of Option:	Mandatory public service; other Crown eligible (no LG)	Mandatory public service; other Crown + Local Govt eligible	Mandatory for all Central govt; Local Govt eligible	Mandatory all public sector incl Local Govt	Managed Capital Fund (Treasury)	Centralised Capability Model (incl. register of risk appetite)	Centralised Direction Model (CDM)	Centralised Broker Model (CBM)	Enterprise Risk Management (ERM)	Treasury (Central Agency)	NHC (Crown Agent)	New Crown Agent	New ACE
Investment Objectives													
Efficiency	1	2	2	3	1	1	2	2	2	1	2	0	0
Resilience	1	1	2	2	0	1	2	1	2	1	1	1	1
Access to Global Risk Capital	1	2	3	3	0	0	0	1	2	1	2	1	1
Portfolio View	1	2	2	3	0	1	1	2	3	1	2	1	1
Critical Success Factors													
Strategic Fit	1	2	2	-1	1	1	-1	1	2	-1	2	-1	0
Value for Money	1	2	2	3	1	2	2	2	2	1	2	1	1
Deliverability & Feasibility	0	0	-1	-3	-1	-1	-3	-1	-1	-3	-1	-2	-2
Market Viability	0	0	0	0	0	0	0	1	1	0	1	0	0
Scalability & Adaptability	0	1	0	-1	1	0	0	3	2	-1	0	1	1
Summary													
Total:	6	11	11	8	3	6	4	12	15	0	11	2	3
Assessment – Long List:	Retained	Retained	Retained	Retained	Rejected	Retained	Rejected	Retained	Retained	Rejected	Retained	Rejected	Rejected
Long-listed Options (ERM only)													
ERM model at NHC – Mandatory public service; other Crown and Local Govt eligible*		X							X		X		
ERM model at NHC – Mandatory for all Central Government with Local Govt eligible			X						X		X		
ERM Model at NHC – Mandatory all public sector, including Local Govt				X					X		X		
ERM Model at NHC – Mandatory for public service; other Crown eligible (no Local Govt)	X								X		X		
Comments													
					CDM has more teeth than CCM but scored low due to poor strategic fit and poor feasibility as the model for one agency to direct another undermines accountability including Ministerial responsibility. Consequently, it was discounted as it is not viable within existing regulations so carries implementation complexity for little benefit. The MCF option was discounted as it does not deliver on the investment objectives as it does not improve market engagement, procurement, or risk pooling practices.								

*Green indicates best performing of the ERM options.

Table 39: Centralised Broker Model (CBM) assessment

Dimensions of Choice*	Scope and Participation (General)				Service Design (General)					Service Delivery (CBM only)			
Description of Option:	Mandatory public service; other Crown eligible (no LG)	Mandatory public service; other Crown + Local Govt eligible	Mandatory for all Central govt; Local Govt eligible	Mandatory all public sector incl Local Govt	Managed Capital Fund (Treasury)	Centralised Capability Model (incl. register of risk appetite)	Centralised Direction Model (CDM)	Centralised Broker Model (CBM)	Enterprise Risk Management (ERM)	Treasury (Central Agency)	Joint Venture (Treasury & NHC)	NHC (Crown Agent)	New Crown Agent
Investment Objectives													
Efficiency	1	2	2	3	1	1	2	2	2	2	1	2	0
Resilience	1	1	2	2	0	1	2	1	2	1	1	1	1
Access to Global Risk Capital	1	2	3	3	0	0	0	1	2	1	2	2	1
Portfolio View	1	2	2	3	0	1	1	2	3	1	1	1	1
Critical Success Factors													
Strategic Fit	1	2	2	-1	1	1	-1	1	2	-1	1	-1	0
Value for Money	1	2	2	3	1	2	2	2	2	1	2	2	1
Deliverability & Feasibility	0	0	-1	-3	-1	-1	-3	-1	-2	-2	-1	-2	-2
Market Viability	0	0	0	0	0	0	0	1	2	0	1	1	0
Scalability & Adaptability	0	1	0	-1	1	0	0	3	2	-2	1	-2	1
Summary													
Total:	6	11	11	8	3	6	4	12	15	1	9	4	3
Assessment – Long List:	Retained	Retained	Retained	Retained	Rejected	Retained	Rejected	Retained	Retained	Rejected	Retained	Rejected	Rejected
Long-listed Options (CBM only)													
CBM Joint Venture - Mandatory public service; other Crown + Local Govt eligible		X						X			X		
CBM Joint Venture - Mandatory for all Central govt; Local Govt eligible			X					X			X		
CBM Joint Venture - Mandatory all public sector incl Local Govt				X				X			X		
CBM Joint Venture - Mandatory public service; other Crown eligible (no Local Govt)	X							X			X		
Comments													
					A Managed Capital Fund (MCF) was discounted as it does not deliver on the investment objectives. A Centralised Direction Model (CDM) was discounted as it is not viable within existing regulations so carries implementation complexity for little benefit.					Joint Venture provides lower efficiency but scores highest for strategic fit as the Treasury is the system lead that would need to engage with agencies and provide guidance. This role is supported by an operational function responsible for modelling and market engagement for which the Treasury has limited existing capacity or capability.			

*Green indicates best performing of the CBM options.

Table 40: Central Capability Model (CCM) assessment

Dimensions of Choice*	Scope and Participation (General)				Service Design (General)					Service Delivery (CCM only)			
Description of Option:	Mandatory public service; other Crown eligible (no LG)	Mandatory public service; other Crown + Local Govt eligible	Mandatory for all Central govt; Local Govt eligible	Mandatory all public sector incl Local Govt	Managed Capital Fund (Treasury)	Centralised Capability Model (incl. register of risk appetite)	Centralised Direction Model (CDM)	Centralised Broker Model (CBM)	Enterprise Risk Management (ERM)	Treasury	DPMC	NIFFCo (Schedule 4)	InfraCom (ACE)
Investment Objectives													
Efficiency	1	2	2	3	1	1	2	2	2	1	1	1	0
Resilience		1	2	2	0	1	2	1	2	1	1	0	0
Access to Global Risk Capital	1	2	3	3	0	0	0	1	2	0	0	0	0
Portfolio View	1	2	2	3	0	1	1	2	3	1	1	1	1
Critical Success Factors													
Strategic Fit	1	2	2	-1	1	1	-1	1	2	1	1	0	0
Value for Money	1	2	2	3	1	2	2	2	2	1	1	0	0
Deliverability & Feasibility	0	0	-1	-3	-1	-1	-3	-1	-1	1	1	0	0
Market Viability	0	0	0	0	0	0	0	1	1	0	0	0	0
Scalability & Adaptability	0	1	0	-1	1	0	0	3	2	1	1	0	0
Summary													
Total:	6	11	11	8	3	6	4	12	15	7	7	3	1
Assessment – Long List:	Retained	Retained	Retained	Retained	Rejected	Retained	Rejected	Retained	Retained	Retained	Retained	Rejected	Rejected
Long-listed Options (CCM only)													
Central Coordination at the Treasury – Mandatory for all Central govt; Local Govt eligible			X			X				X			
Centralised Capability at DPMC – Mandatory for all Central govt; Local Govt eligible			X			X					X		
Centralised Capability at DPMC (with Tsy) – Mandatory public service; other Crown + Local Govt eligible		X				X				X	X		
Centralised Capability at DPMC – Mandatory public service; other Crown eligible (no Local Govt)	X					X					X		
Comments													
										DPMC provides strategic coordination and system stewardship, particularly through its leadership of the National Risk and Resilience Framework. Treasury is better placed to deliver the CCM due to its core financial, budgetary, and policy advisory functions. It holds responsibility for Crown balance sheet management, fiscal strategy, and public sector funding settings—capabilities essential for influencing agency incentives, monitoring financial exposure, and embedding risk management into investment decisions.			

*Green indicates best performing of the CCM options.

Annex 9: Indicative CBA assumptions

Table 41: General Assumptions

Item	Figure (p.a.)	Rationale / Source
Insurance Cost Increase	3.0% - Premiums	Construction Group (Capital Goods) Price Index – 25-year historical trend (1999-2024) annualised
	1.4% - Cost of Risk	Based on InfraCom Report Invest or Insure – 120% increase in expected damages from a flooding event in next 30 years. CAGR of 2.66% per annum applied to 54% of total assets affected by flooding risk
Inflation %	2.0%	RBNZ medium-term target
Discount Rates	8.0% & 2.0%	CBAx guidance
Sensitivities	Figure	Rationale / Source
Premiums	1.4% (+/-)	Invest or Insure report sensitivity ranges (High/Med/Low scenarios)
Inflation %	1% (+/-)	RBNZ inflation target range (1-3%)

Table 42: Specific Assumptions – ERM

Category	Item	Rationale / Source
Costs*	OPEX – One-off	Confirmed via NHC discussions – ~100m over first 4 years for NHC, 1.5m for Treasury. Majority of One-off spend incurred across Y1–3 to support establishment and early delivery functions.
	OPEX - Ongoing	Confirmed via NHC discussions. Starts at \$12.5m in Y1, scaling to \$30m per annum at maturity. Operations begin Jan 2028 to align with insurance renewals from April 2028.
Scope	Participants	Phased onboarding from 2026/27 to 2029/30: 90% of Central Government and 60% of Local Government. Early years focus on large entities (e.g., Kāinga Ora, Education, Health).
Benefits (Monetised)	Premium Savings – Cost of Insurance	Lower Cost of Insurance – ‘Intelligent Customer’ allocates risk into markets at the optimal layer and withdraws where the ‘ceded ROE’ offers poor value relative to debt capital: assumed 5% efficiency.
	Premium Savings – Cost of Placement	Lower Cost of Placement – currently estimates of ~\$20bn market capacity. Scale and diversity of a portfolio provides a broader revenue pool to have a higher utilisation of self-insurance whilst not increasing the net risk of Crown underwrites. Assume market placements reduce by 50% to remove private margins of 10%: assumed 5% efficiency
	Premium Savings - Timing	50% of premium savings realised in first year of onboarding for each agency.
	Broker and Advisory Savings	Advisory fees: ^[37]
	System FTE Savings	Marginal (indicative) FTE reductions for risk managers at individual Agencies. Represents aggregated fractions of FTEs accrued across government to be reallocated 0.4FTE x Top 20 agencies = 5 FTEs (prudent estimate), 0.1FTE x ~160 remaining agencies = 16 FTEs (realistic estimate), 21 FTEs in total x 200k = 4.2m per annum
Benefits (Quantified)	Cost of Risk reduction	Based on AAL modelling on GNS Science Report 2025/10 – applied a prudent assumption of 2% and 5% efficiency gain for earthquake and flood-related risks respectively

Table 43: Specific Assumptions – CBM

Category	Item	Rationale / Source
Costs*	OPEX – One-off	Confirmed via Advisory Committee discussions; lower FTE count and partial outsourcing model relative to ERM
	OPEX - Ongoing	Confirmed via Advisory Committee discussions; set-up costs include limited internal systems, modelling, and procurement cost
Scope	Participants	75% of Central Government. No Local Government participation assumed. Onboarding phased over FY27 to FY30
Benefits (Monetised)	Premium Savings	Full benefit = 6.5% of annual premiums. Assumes 3.5% efficiency from improved insurance placement (70% of ERM's) and 3% efficiency from portfolio coordination (60% of ERM's)
	Premium Savings - Timing	50% of premium savings realised in first year of onboarding for each agency. Consistent with ERM profile.
	Broker and Advisory Savings	[37]
	System FTE Savings	\$2.1m per annum. Assumed 50% of ERM system FTE savings based on leaner scale and lower integration depth.
Benefits (Quantified)	Cost of Risk reduction	Same approach as ERM but influential levers are less likely to be effective as direct pricing incentives - prudent assumption of 40% success factor compared to the ERM. Volume pro-rated to match the Monetised benefit cohort

Table 44: Specific Assumptions – CCM

Category	Item	Rationale / Source
Costs*	OPEX – One-off	Upscaling cost assumptions on in-house capabilities needed - \$0.5m total over two years to support in-house risk modelling transition. Includes DBC costs and initial advisory setup.
	OPEX - Ongoing	Risk modelling in-house transition costs - Y2–3: 4 FTEs at \$0.3m = \$1.2m p.a.; Y5 onwards: 8 FTEs at \$0.25m = \$2.0m p.a. Includes higher cost senior roles. Also includes outsourced broker support (Y1–6 = \$0.5m p.a.), transitioning to in-house model from Y7 (\$0.2m p.a.), and additional \$0.1m for cross-government coordination.
Scope	Participants	Central Government only. Phased onboarding: 25% compliance by Y7, 50% by Y9, 100% by Y10. No Local Government inclusion.
Benefits (Monetised)	Premium Savings	Cost of Insurance - Assumes 2.5% efficiency through modest coordination improvements and limited portfolio effect. Applied to 60% of Central Government premiums. Cost of Placement – No benefit assumed under CCM.
	Premium Savings - Timing	Phased (Partial) Benefits – Year 3 to Year 9 Full Benefits – Year 10 onwards
	Broker and Advisory Savings	Not applicable. CCM does not involve coordinated procurement or central broking.
	System FTE Savings	Fractions of FTEs accrued across government that will be reallocated (eg, MBIE) or transferred to the Treasury function – 1-2 FTEs
Benefits (Quantified)	Cost of Risk reduction	Based on InfraCom AAL methodology. Applies 1% (EQ) and 2% (flood) efficiency. Assumes 20% effectiveness of ERM due to weaker levers and no pricing mechanism.

Annex 10: Optimism bias

Optimism bias is a well-recognised tendency for project teams to underestimate costs, overestimate benefits, and assume favourable outcomes, even when uncertainties and risks exist. In developing the options, specific measures have been taken to guard against this bias, ensuring a realistic and robust assessment of project costs and benefits – as outlined below.

Costs and Benefits Assumptions

Cost and benefit assumptions have been conservatively modelled to reflect realistic expectations. For example, insurance cost increases are estimated at 3.5% for premiums and 1.4% for the cost of risk, aligned with historical trends from the Construction Price Index and informed by InfraCom's 'Invest or Insure' report.

Inflation has been modelled at 2%, which is consistent with the RBNZ's medium-term inflation target.

We have been conservative in estimating benefits gained from Premium Savings, FTE savings, and OPEX savings. In instances where there is uncertainty in input figures, we have been conservative on quantifying benefits and allowed contingency buffers on costs to maintain a prudent approach.

Sensitivity Analysis

We have applied a range of sensitivity tests to understand how different economic conditions, implementation speeds, and cost variations impact the performance of the ERM and CCM models. This analysis ensures robustness against uncertainty and validates that projected benefits are resilient across multiple scenarios. Key sensitivities include:

- **Pace Adjustment Sensitivity:** Ranges from **0.6% to 5.3% per annum**, with a midpoint of **2.9%**. This accounts for variations in implementation speed and market adoption.
- **Overall Benefits and Totals:** A **±15%** range has been applied to benefit calculations to reflect potential over- or under-performance.
- **Terminal Value Sensitivity:** An explicit sensitivity has been added for terminal value, recognising the uncertainty in end-of-period valuations and future state assumptions.

A. Pace Adjustment Sensitivity

Ranges from **0.6% to 5.3% per annum**, with a midpoint of **2.9%**. This reflects different rates of implementation speed and market adoption, recognising that delays or accelerations could impact both costs and benefits.

Table 45: Results of Sensitivity Analysis (BCR) – Pace Adjustment

ERM		CPI Inflation		
		Low	Med	High
Premiums	Low	1.45	1.81	2.32
	Med	1.25	1.53	1.92
	High	1.10	1.32	1.62

CBM		CPI Inflation		
		Low	Med	High
Premiums	Low	1.36	1.67	2.12
	Med	1.19	1.43	1.77
	High	1.06	1.25	1.51

CCM		CPI Inflation		
		Low	Med	High
Premiums	Low	1.22	1.71	2.44
	Med	0.97	1.33	1.87
	High	0.78	1.05	1.45

B. Overall Benefits and Totals:

A **±15% range** has been applied to benefit calculations to account for potential over- or under-performance. This ensures that both optimistic and conservative scenarios are captured in the analysis.

Table 46: Results of Sensitivity Analysis (BCR) – Benefits/Costs Total

ERM		Benefits		
		Low	Med	High
Costs	Low	1.53	1.80	2.07
	Med	1.30	1.53	1.76
	High	1.13	1.33	1.53

CBM		Benefits		
		Low	Med	High
Costs	Low	1.43	1.64	1.89
	Med	1.22	1.43	1.60
	High	1.03	1.24	1.43

CCM		Benefits		
		Low	Med	High
Costs	Low	1.33	1.57	1.8
	Med	1.13	1.33	1.53
	High	0.98	1.16	1.33

C. Terminal Value (TV) Sensitivity

An explicit sensitivity was performed for the **terminal value** to address the inherent uncertainty in end-of-period valuations and future state assumptions. This recognises the long-term nature of risk pooling and insurance market engagement.

Table 47: Results of Sensitivity Analysis (BCR) – Terminal Value

Terminal Value	ERM	CBM	CCM
Excluding TV (Default)	1.53	1.43	1.33
Including TV	1.62	1.51	1.50

D. Volume Sensitivity

Volume sensitivity was tested by adjusting total participation rates by $\pm 10\%$ to reflect uncertainty in onboarding scope—such as changes in the number of participating agencies or local government uptake. This directly affects the size of the insured portfolio and therefore the scale of monetised benefits, particularly premium savings. As premium savings are applied as a percentage of total premiums, changes in volume proportionally adjust the benefit base. Broker fee savings, advisory spend reductions, and FTE efficiencies are also volume driven. The results demonstrate that options with greater scalability (ERM and CBM) benefit more from volume increases, while smaller options (CCM) are less responsive.

Table 48: Volume Sensitivity

Terminal Value	ERM	CBM	CCM
10% Increase	1.65	1.59	1.47
Neutral	1.53	1.43	1.33
10% Decrease	1.41	1.27	1.20

Staged and Phased Implementation

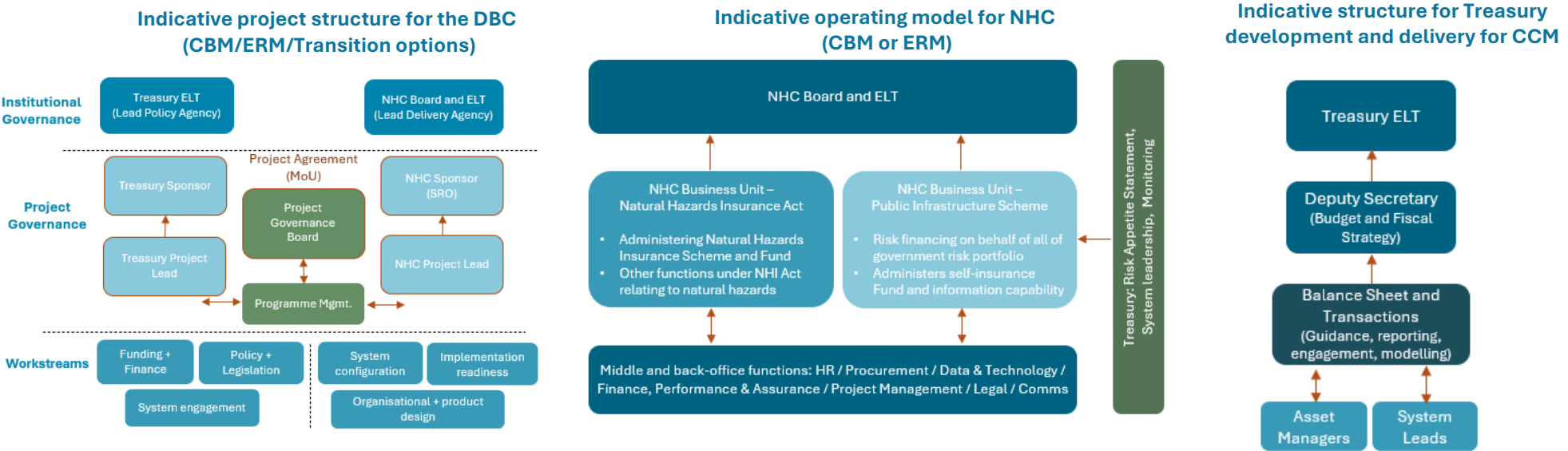
Options have been structured with phased onboarding and implementation stages, designed to mitigate risks associated with large-scale transitions: Key agency onboarding dates are staggered from Year 1 to Year 5, rather than onboarding immediately. This approach allows for progressive realisation of benefits while managing transition risks. Local Government onboarding is similarly phased. This prevents system shock and allows for iterative learning and adjustment.

Risk-Adjusted Cost and Benefit Realisations

- **Premium Savings** under ERM are conservatively estimated at **10% of annual premiums**, with a prudent phasing plan that accounts for first-year onboarding adjustments and full benefits only realised in subsequent years.
- **Cost of Risk Benefits** are aligned with Average Annual Loss (AAL) scenario modelling, with progressive realisation over 20 years to account for exposure maturation and system efficiency gains.

Annex 11: Indicative governance and delivery structures

This annex shows the indicative governance and delivery structures that are recommended for the DBC phase for CBM, ERM, and the staged transition option,, and the associated indicative operating model. It is assumed that the proposed governance structure for CBM would be very similar to the ERM option. An indicative structure for development and delivery of CCM is also shown.



Annex 12: Institutional assurance for portfolio management

Treasury's preparatory work for the IBC included a strategic assurance exercise to determine the appropriate host for the CBM or ERM options. This identified that a Crown Agent is the most appropriate model, with strategic advantages for this to be the Natural Hazards Commission Toka Tū Ake (NHC).

We engaged NHC to formally understand its ability to stand-up a new function alongside its existing responsibilities for the Natural Hazards Insurance scheme (NHI scheme).

Table 49: Summary assessment of NHC's appropriateness as a delivery agency

Can a core Crown department host the CBM or ERM options?	- Portfolio management would involve transfers of risk from government agencies to a central risk management function or central broker. - As Departments are part of the core Crown rather than separate legal entities, this would involve the Crown purporting to transfer risk to itself. - Operational businesses with a mix of commercial and all-of-government activities would ordinarily be undertaken by a Crown company or Crown entity, depending on the degree of expected Ministerial input. Conclusion: a Department is not appropriate to deliver operational risk financing.
If the CBM or ERM options are to be hosted by a Crown entity, which category of Crown entity would be most appropriate?	- The expected input for Ministers on risk appetite and pricing incentives to support economic resilience require an entity that could be directed. - This would ordinarily be a Crown Agency, but this could be set out in bespoke legislation for any other form of Crown Entity. - Crown Entities that otherwise have autonomous decision making create an arms-length arrangement. However, as the intended tool is for balance sheet management and alignment with the Government's fiscal and economic strategies, this would favour operational independence but close, strategic alignment. Conclusion: a Crown agent would be the most appropriate delivery agency.
Is there a suitable Crown entity or should a new Crown entity be stood up?	- PSC advised early in policy development that the creation of new agencies should be avoided where an existing agency could achieve synergies without undermining the performance of existing mandates. - NHC and ACC are the only Crown agents identified as having a risk management related current mandate. Treasury undertook an options analysis in 2024 comparing NHC, ACC and a new Crown agent. - A new Crown agent could be purpose designed but would duplicate existing capabilities. Of the two existing Crown agents, NHC already manages natural hazard risk financing for residential assets. Conclusion: the NHC is the Crown entity most aligned with the objectives of the risk financing proposal.

NHC's ability to stand up a new business function

Treasury undertook further assurance activity to assess the degree of strategic consistency between NHC's existing and proposed new functions; its organisational capacity; and how key design choices for a risk financing solution can manage the risk of undermining performance of the NHI scheme.

NHC has recent experience of introducing new functions at an operational level, such as the Natural Disaster Recovery Model (NDRM). It would stand up a public risk financing scheme as a new front-line business unit, requiring consideration of governance models to oversee two schemes, and an allocation methodology to apportion middle and back-office costs to each scheme.

Processes and technology solutions will require investment, including to support the insurance value chain, the collation of an asset register, loss modelling, and claims management. Actuarial and accounting

requirements will require configuration for more complex business processes, relative to those currently in use to administer the NHI scheme, with additional external assurance activity.

Factors that may assist NHC in operationalising a public risk financing scheme include its existing relationships. NHC has established and productive relationships with a range of organisations operating in the insurance market including reinsurers, brokers, actuarial consultants, claims handlers, and assurance firms. Its existing IT systems will be able to be leveraged as these currently provide for data handling from multiple sources. Off-the-shelf, cloud-based technology solutions will require some configuration but not to a level of significant risk. These areas will be the subject of detailed review during the DBC.

Legal and regulatory issues for NHC in standing up a risk financing solution

Treasury has assessed the legal and regulatory steps that would be associated with NHC hosting an ERM option. This assessment has primarily focussed on the NHI Act, and the general governance provisions for Crown entities in the Crown Entities Act 2004.

Treasury's assessment is that NHC's current statutory functions and objectives in the NHI Act do not provide a basis for NHC to deliver insurance-related services beyond the public sector, beyond its core purpose of natural hazards, and incur any costs that are not covered via a Parliamentary appropriation. The Minister of Finance may confer a new function on NHC that does not conflict with these restrictions. This reflects the NHI Act's focus on the administration of natural hazard cover for residential buildings and land.

Treasury has accordingly concluded that amendments to the NHI Act would be required to give full effect to the ERM option or for a CBM option that extends beyond central government, beyond business interruption insurance, or requires revenue collection.

Interim amendments could be made to the NHI Act to expand the Minister's power to confer new functions on NHC. If Cabinet wishes to proceed directly to the ERM option, it is anticipated that there would be a period of approximately nine months between a potential Cabinet decision in September 2025, and funding being made available for the DBC under Budget 2026. Treasury Legal has advised that this period will be sufficient to make amendments to the NHI Act expanding the Minister's powers of direction to confer new functions.

At the same time, Treasury can prepare a direction and service agreement so that when funding is available the Minister can direct NHC to undertake the development of the DBC and provide funding for it to do so under the funding agreement. While it would be possible for the Minister to confer one or more additional functions on NHC without amending legislation, Treasury Legal's advice has been that would carry a residual level of risk.

Given that the preferred way forwards provides a sufficient period to pass full amending legislation, it is recommended that Cabinet authorise the inclusion of an amending bill on the Government's legislative programme only after completion of the DBC to avoid inefficient use of house time and the risk of unintended consequences, should Cabinet not proceed with the risk financing proposal at a later stage.

Annex 13: Risk register summary

This project risk register has been developed by the project team and with input from the Advisory Committee members.

Category	Subcategory	Risk Description	Likelihood	Impact	Owner	Mitigation Actions	Reviewed	Inherent	Residual
Sponsorship & Governance	Political	The risk that the project loses Ministerial sponsorship, which may result in the project being cancelled, paused, or materially delayed if it is not seen as a priority.	Possible	Major	Treasury	Engagement with MOF and other relevant Ministers (Infra, Climate Change and NHC/AMOF) to maintain key block of Ministers supporting project. Maintain regular contact with Ministerial offices to be aware of any concerns and respond in a timely manner.	15/5/25	High	Medium
	Institutional	The risk that ELT and/or Board of one or both of the key agencies involved in the project (Treasury and NHC) no longer wishes to progress the project. Alternatively, the risk that the project does not satisfy an internal review or independent assurance process such as Gateway, resulting in the project failing to progress.	Possible	Major	Treasury	Regular updates to respective ELTs and NHC's Board on project. Compliance with all requirements of Gateway process, or equivalent NHC process. Key collateral will be the Indicative and Detailed Business Cases.	15/5/25	High	Medium
	Institutional	The risk that the implementation of the Risk Financing solution at NHC impacts the performance of the Natural Hazards Insurance Scheme.	Possible	Major	NHC	NHC will lead the DBC if the ERM option is progressed. It will undertake a detailed assessment of its operational costs and sensitivities for ERM alongside its other responsibilities and put forward a proposal that addresses these. If NHC is to share delivery of the CCM option with Treasury, NHC will similarly have an opportunity to be engaged in the design process, and any shared governance arrangements or service agreement at the delivery stage will enable NHC's ELT to raise concerns.	15/5/25	High	High
Funding & Resources	Funding	The risk that funding for the project is not sufficient to complete the appropriate phase of the project, or funding is not available to continue project momentum - meaning implementation is materially deferred. Subsequent funding changes also present an additional risk.	Probable	Major	Treasury	Indicative Business Case will include a range of funding options, albeit out of cycle funding is likely to be challenging.	15/5/25	Very High	High
	Policy Leadership	The risk that Treasury funding is likely to be reprioritised. If not sufficient funding, this can lead to insufficient thought leadership, stakeholder engagement, development of communication materials. A further risk of insufficient engagement with sponsors.	Probable	Major	Treasury	Engagement with Treasury ELT prior to submission of the Indicative Business Case - consider options for reprioritisation or budget bid to complete the work.	15/5/25	Very High	High
	Capability	The risk that Treasury and/or NHC are unable to attract sufficient capability for the project, either by recruitment, developing internally, or outsourcing. Delays in recruiting may present a similar risk.	Unlikely	Moderate	Treasury	Indicative Business Case will highlight required specialist capability and procurement approach.	15/5/25	Low	Low
Scope & Timeline	Unrealistic plan	The risk that the Indicative Business Case makes unrealistic assumptions for the ability of Treasury and/or NHC to carry out planned activities, leading to project timelines being extended due to poor planning.	Possible	Major	Treasury	Ongoing engagement with NHC, and internally within Treasury, to test the viability of assumptions. Adherence to Better Business Case guidance, IQA, and Gateway independent assurance processes.	15/5/25	High	Medium
	Speed of decision making	The risk that delays in decision making result in key milestones to take on insurance contracts being missed, or other loss of momentum that undermines confidence in the delivery of the project. The project team will need to be mindful of delays both within Treasury and/or NHC's internal governance structures, and Ministerial and/or Cabinet delays.	Possible	Moderate	Treasury	The Indicative Business Case will have a fully tested timeline to allow implications of delays to be fully communicated. All relevant information to be provided, including implications of delay, as and when required.	15/5/25	High	Low
	Significant natural hazard	The risk that a significant natural hazard event results in NHC (and potentially Treasury) impacting priorities meaning there is a need to divert resources to respond, deferring the project.	Possible	Major	NHC	The risk can potentially be transferred by willingness to apply additional resources or mitigated by deferring project milestones.	29/5/25	High	Medium
System/Sector Engagement	Accountability	The risk that a perception of disruption to departmental or sectoral accountability could lead to lobbying from asset managers.	Unlikely	Moderate	Treasury	Pre-engagement with market sectors has provided confidence that a Government-led solution is desirable. Execute communications against the stakeholder engagement plan as included in the Indicative Business Case.	15/5/25	Medium	Low
	Participation	The risk that agencies are either unwilling to engage or dissatisfied with being mandated to utilise the public risk financing scheme.	Possible	Major	Treasury	Stakeholder engagement highlights the overall system benefits relative to individual benefits and aiming through the design to ensure that no individual agency is disadvantaged.	15/5/25	High	Medium

Category	Subcategory	Risk Description	Likelihood	Impact	Owner	Mitigation Actions	Reviewed	Inherent	Residual
	Policy mis-aligned	The risk that subsequent policy adjustments, if required, are not adequately signalled or accepted. For example, Transport sector post-event funding or Civil Defence Emergency Management settings.	Possible	Moderate	Treasury	Continued engagement with DPMC with oversight of the National Risk and Resilience Framework to coordinate consequential policy decisions.	15/5/25	High	Low
	Incentives mis-aligned	The risk that a perception that risk must be managed at all costs, creates a negative reaction from asset managers.	Possible	Moderate	Treasury	Development of a Risk Financing Strategy document, alongside the Detailed Business Case, to support clear and consistent engagement with stakeholders and sponsors for how minimum/maximum levels of risk are to be allocated.	15/5/25	High	Medium
Regulation	Ministerial Direction and Service Agreement	The risk that the Ministerial direction to NHC or service agreement between MoF and NHC does not achieve the intended purpose.	Unlikely	Severe	Treasury	Guidance via Treasury Legal and NHC to ensure that the Ministerial direction is appropriately drafted, and the service agreement is appropriately drafted.	15/5/25	Medium	Low
	Legislative strategy	The risk that necessary legislative amendments are unable to be completed in a timely manner.	Possible	Major	Treasury	Advocacy with Ministers to support appropriate placement on the Government's legislative agenda, noting that placement as a legislative priority will also assist management of the risk of Ministerial Directions not being fit for purpose.	15/5/25	High	Medium
	Legal Challenge	The risk that the Ministerial direction, or other aspect of the legal process, is the subject of a legal challenge (whether or not the challenge is successful).	Unlikely	Major	Treasury	Ongoing engagement with Treasury Legal (and Parliamentary Counsel Office for legislative amendments) to assess legal risk and ensure that those risks which are taken are within appropriate risk appetites.	15/5/25	Medium	Low
	Financial implications of regulatory design	The risk that the timing of updates are not sufficiently coordinated with other funding and financing system updates, for example annual appropriations in budgets, the fire and emergency levy and/or hypothecated revenues such as the National Land Transport Fund.	Possible	Major	Treasury	System engagement as part of the Detailed Business Case to identify consequential policy amendments and financing implications	15/5/25	High	Medium
Market & Data	Market Signalling	The risk that markets are not adequately engaged, thereby reducing confidence in New Zealand, and giving rise to perceptions by rating agencies of higher risk for the Crown's balance sheet.	Possible	Major	Treasury	Stakeholder Engagement Plan incorporates market engagement and provides sufficient lead time to enable a transition strategy and enable better informed assessments of the impact of the changes on the Crown's balance sheet.	15/5/25	High	Low
	Gaps in data and information	The risk that the project is adversely impacted by insurance and asset information of insufficient quality.	Probable	Major	Treasury	Pre-engagement with a subset of Departments and Crown Entities provides confidence on insurance level information. Expectation that data will continue to be sub-standard for many stakeholders, with incentives improving quality of data over time.	15/5/25	Very High	High
Costs & Benefits	Cost and benefit accuracy	The risk that inaccurate cost and benefit projections are used for modelling purposes, leading to inaccurate BCR or NPV calculations in one or more business cases.	Possible	Minor	Treasury	Peer review, IQA and Gateway independent assurance processes.	15/5/25	Medium	Low
	Ability to track benefits	The risk that, once one of the changes options put forward becomes operational, it is not possible to track benefits to validate the accuracy of the project's modelling.	Possible	Major	Treasury	Investment Logic Mapping to identify KPIs - to be confirmed as part of the Detailed Business Case for the ability to track benefits.	15/5/25	High	Medium
ICT System Capability	Capability of NHC's ICT systems	The risk that NHC's ICT systems are unduly stretched by implementation of the ERM option or the CCM option (if sharing delivery with Treasury). Potential contributing factors include: - unclear expectations of system utilisation for the CCM option; - unexpected complexity of implementation and/or limited ability to leverage existing systems; inaccurate scoping of the ERM option leads to system development inefficiency (timing/cost); and unexpected requirement for customers of the ERM option, giving rise to a need to invest in system upgrades.	Possible	Major	NHC	NHC will lead the DBC if the ERM option is progressed. It will undertake a detailed assessment of the ICT demands for the new activity and assess these against its existing capabilities. If NHC is to share delivery of the CCM option with Treasury, NHC will similarly have an opportunity to be engaged in the design process, and any shared governance arrangements or service agreement at the delivery stage will enable NHC's ELT to raise concerns regarding ICT issues.	15/5/25	High	High

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