

# Risk Financing Strategy

**2025-2030**

Our Risk Financing Strategy sets out how we fund the financial risks of the Natural Hazards Insurance scheme.



Figure 1: Risk Financing Strategy on a page



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## Introduction

### What is risk financing?

Risk financing is the process of determining how an organisation will pay for potential loss events in the most cost-effective and sustainable way. It involves identifying and mitigating risk, and the selecting financial mechanisms, such as self-insurance, investment, reinsurance, or alternative risk transfer schemes.

The objective of risk financing is to choose the least costly options, but ensure that after a loss event, the organisation has the financial resources available to continue its objectives.

### Risk financing at the Natural Hazards Commission Toka Tū Ake (NHC Toka Tū Ake)

We undertake risk financing to understand and mitigate financial risks, ensuring we can meet our financial obligations when a natural hazard occurs, while also providing protection for both the Natural Hazards Insurance (NHI) scheme and the broader Crown balance sheet.

New Zealand has a high-level of natural hazard risk, so the NHI scheme is exposed to a range of financial risks, ranging from more frequent, lower-cost events to infrequent, high-cost events.

The NHI scheme underpins the New Zealand insurance market for natural hazard risk. It also provides homeowners and the Government with an accessible, sustainable way to help manage the financial impacts of the natural hazard risks we face in New Zealand.

The estimated value of New Zealand's residential property portfolio is over \$870 billion for buildings alone, and a further \$940 billion in residential land.<sup>1</sup> Through the \$300,000 building cap, the Natural Hazards Insurance scheme (NHI scheme) covers approximately \$550 billion of the building risk for residential buildings and a further unmodelled amount for residential land.

### The purpose of this strategy

The Risk Financing Strategy 2025-2030 guides how we consider balancing four levers – the Natural Hazards Insurance levy (NHI levy), risk transfer, building the Natural Hazard Fund (NHF), and the amount of risk retained by the Government through the Crown guarantee. Two of these levers are set by Ministers periodically in consultation with us, and the other two are at the discretion of the NHC Toka Tū Ake Board of Commissioners (the Board) – see Figure 5.

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<sup>1</sup> Figures projected to 1 June 2025.

## Risk financing is an important feature of our legislation

The Natural Hazards Insurance Act 2023 (NHI Act) and the Funding and Risk Management Statement (FRMS) provide the legislative framework for our risk financing strategy.<sup>2</sup>

### Consistent with the NHI Act

This strategy contributes, as set out in section 128 (2)(b) of the NHI Act, to the management of the financial risk to the Crown of providing natural hazard cover. It does this by outlining our approach to managing the NHF, collecting the NHI levy, and arranging reinsurance or other risk transfer products.

This strategy also supports the delivery of the functions of NHC Toka Tū Ake under section 129 of the NHI Act, especially:

- section 129(b) – to manage the NHF, including by investing the NHF, in accordance with the NHI Act
- section 129(d) – to arrange reinsurance or other risk transfer products for all or part of natural hazard cover.

### Consistent with the FRMS and its principles

The FRMS is issued by the Government in consultation with the Board and is a critical part of the financial governance of the NHI scheme because it sets out:

- how the costs and risks of the NHI scheme are shared between the Crown and NHI levy payers
- the financial parameters of the NHI scheme, including the NHI levy rate and a statement of Crown risk appetite that informs the Board’s decisions about its risk financing strategy.

The first FRMS was released on 1 July 2024. The NHI Act introduced the requirement for the Government to regularly review the financial settings and NHI levy settings, and to develop a FRMS at least every five years. We have aligned the Risk Financing Strategy timeline with that of the FRMS.

### FRMS principles

Four funding and finance principles underpin the FRMS and have informed this strategy:

- NHI scheme sustainability: NHI levies should be set fairly to cover the long-term cost of the NHI scheme
- Intergenerational equity: the costs and benefits of the NHI scheme should be smoothed over time, as far as practical

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<sup>2</sup> [Funding and Risk Management Statement \(FRMS\)](#)

- NHI scheme liquidity: funding is available to pay claims in a fair and timely manner
- Efficiency: risks are accepted or transferred to ensure long-term economic value while maintaining the short-term resilience of the NHI scheme to meet claims.

## Our strategic framework

Our strategic framework informs our Statement of Intent 2024-2028 (Sol), defining our strategic focus and giving us a clear vision of what we are working to achieve. For our insurer partners, stakeholders, communities and homeowners, it illustrates our core purpose and how our actions deliver on our intentions.

## Our vision and priorities

Our vision is to be a world-class public insurance scheme that reduces the impact of natural hazards on people, property, and the community.

The strategic priorities are the basis of our strategic planning. They describe the work we do, what we intend to deliver in the medium term (the four years covered by our Sol) and how we will allocate resources to progress our long-term strategy. There is one priority for each of our four output classes – Resilience, Readiness, Risk Financing, and Recovery (the ‘4Rs’). If we deliver our strategic priorities according to our roles and responsibilities as set out in our governing legislation, we will achieve our vision.

The 4Rs complement and interact with each other, with Risk Financing having a strong connection to the other output classes.

Figure 2: Our strategic priorities (the 4Rs)



**Resilience** – these activities deepen our understanding of the financial implications of natural hazards and how these can be mitigated. Examples include better loss modelling

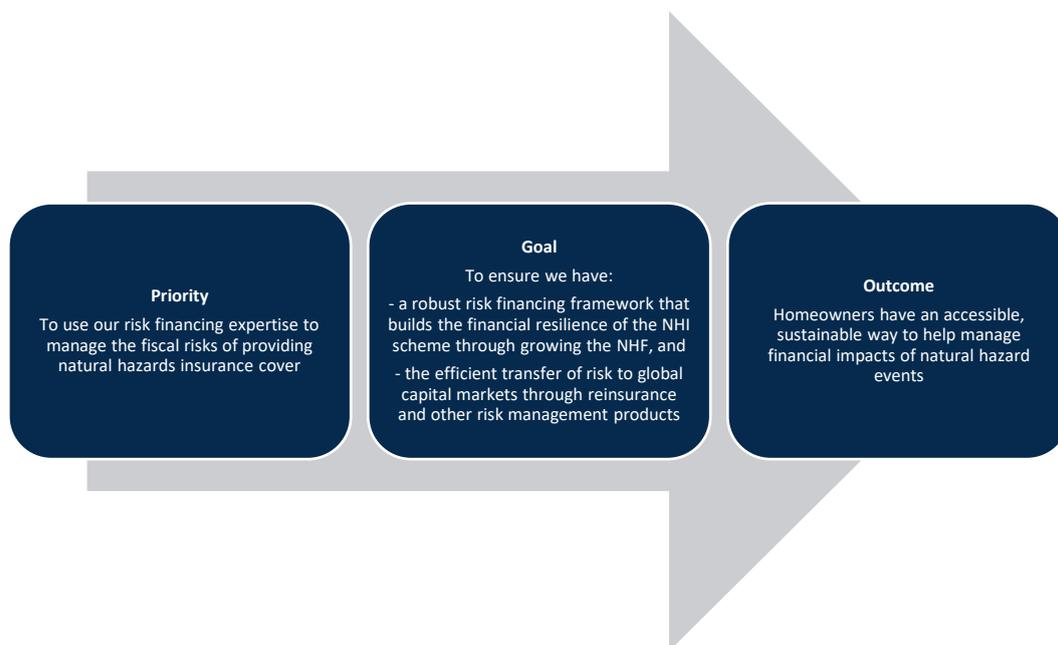
for the natural hazards the NHI scheme covers, and submissions to local governments on the natural hazard implications of planning decisions. Loss modelling allows us to better model the possible financial outcomes for the NHI scheme and consider how we will design an effective risk financing response. Supporting local and central government to understand natural hazards implications enables better planning decisions, helping to manage the financial liabilities of the NHI scheme.

**Readiness** – the NHI scheme was able to largely cover approximately \$13 billion of costs from the 2010-2011 Canterbury earthquake sequence through a combination of money in the NHF and its reinsurance programme. It is important to understand how financially prepared the NHI scheme is to cover possible significant events and to communicate this to stakeholders, such as Ministers.

**Recovery** – risk financing supports financial recovery after an event, reducing the stresses on the NHI scheme and broader Crown balance sheet. Paying claims helps to ensure homes can be repaired, supporting homeowners to recover from natural hazards.

### Risk financing strategic priority, goal and outcome

Figure 3: Our risk financing strategic priority, goal and outcome



We achieve this outcome by ensuring we have a robust risk financing framework in place, using our risk financing expertise to manage the fiscal risks of providing natural hazards insurance cover. Over time, we are looking to build the financial position of the NHI scheme.

The strategy outlines how we will achieve this.

We receive NHI levies from homeowners taking out residential property insurance. These levies fund our expenses and claim liabilities, and any surplus is retained in the NHF. If the NHF cannot meet these costs, the Government will provide funding to ensure all payments can be made.

This first-loss natural hazards scheme, with its community-rated levy, reduces the level of natural hazard risk that the private insurance market needs to provide cover for. It also provides homeowners and the Government with an accessible, sustainable way to help manage the financial impacts of the natural hazard risks we face in New Zealand.

## **Our current position, challenges and opportunities**

### **Our current position**

We are in a strong position to achieve our risk financing strategic priority – ‘We use our risk financing expertise to manage the fiscal risks of providing natural hazards insurance cover.’

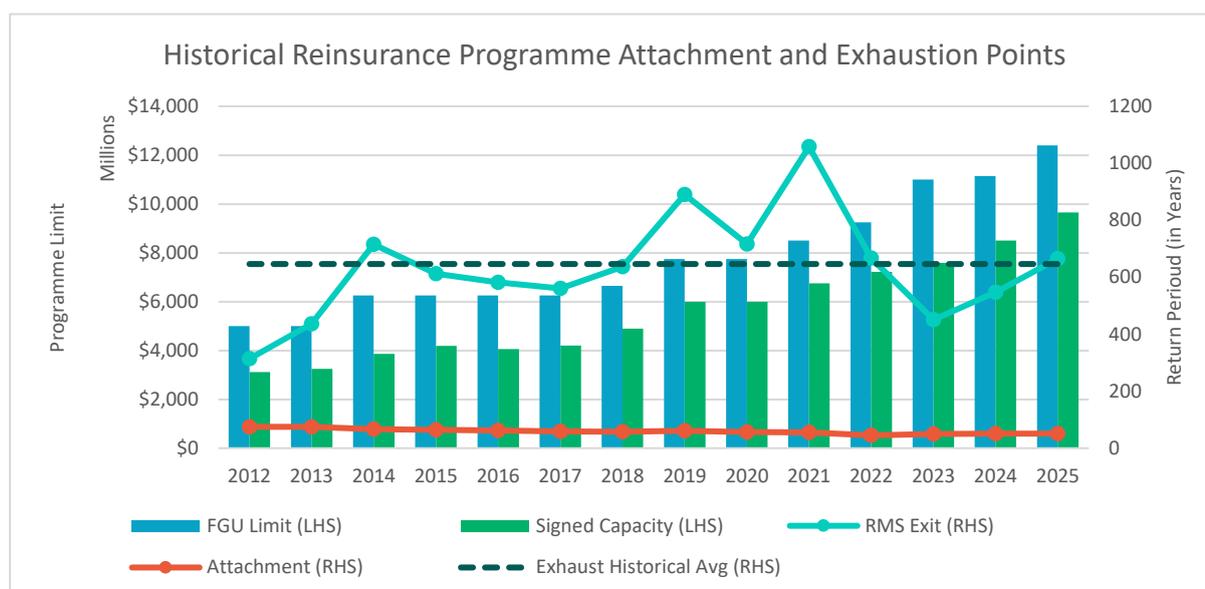
Recent work undertaken to support the initial FRMS has matured our thinking and understanding around risk financing. The FRMS has supported increased engagement from the Treasury and provided a good understanding of financial risks to the NHI scheme.

### **A significant risk transfer programme provides protection to the Crown balance sheet**

Since 1988 we have looked to transfer a proportion of the financial risks arising from the NHI scheme to global reinsurance markets. The goal has been to manage the financial risks of severe events. Our reinsurance programme has evolved significantly, building on our ongoing investment in science, research, and loss modelling to develop a better understanding of the financial impact of the natural hazard risks covered by the NHI scheme.

The NHI scheme is respected across the globe and is often seen as a leading government pool scheme globally. It continues to provide a diversifying risk for reinsurers and investors. The programme has grown significantly in recent years.

Figure 4: Our Risk Transfer Programme growth



Term	Description
FGU limit	In reinsurance, FGU means ‘from ground up’. ‘FGU limit’ refers to the maximum amount a reinsurer will pay for a loss, calculated from the first dollar of the loss, before any deductibles or retentions are applied.
Signed capacity	This is the portion of a risk that a reinsurer, through a signed contract, has agreed to assume. It represents the risk that has been successfully placed with a reinsurer.
RMS exit	The modelled exit point of the programme in return period (in years) using RMS models.
Attachment	The point at which a reinsurer’s responsibility for a loss begins. In the graph above, we show the attachment point in terms of the return period in years.
Exhaust historical avg	The historical average of the return period (in years) where the programme reaches the limit of the coverage.

Note: Attachment and Exit Points modelled in RMS Risk Link. Source: Aon Reinsurance Solutions, August 2025

In 2023, we successfully piloted the use of catastrophe bonds (cat bonds). This met our strategic objective to diversify the potential sources of long-term reinsurance capital available to us, as part of a risk transfer programme that improves the financial stability and sustainability of the NHI scheme. The cat bond market, which has grown to over US\$55 billion as at June 2025, is a source of potential reinsurance capital for our programme.

Our Risk Transfer Programme is cost-effective and well supported by Ministers. Analysis shows it is well below the Crown’s cost of capital, so it supports an effective transfer of risk.

### Strong stakeholder relationships

Over time, we have developed strong relationships with a wide array of reinsurance market participants. This includes reinsurance companies and, more recently, investors that participate in the alternative risk transfer product market.

We also continue to invest in relationships with other insurance entities, including other government schemes. For example, through the World Forum of Catastrophe

Programmes, we have been able to share experiences and advice with other natural hazard insurers as we look to learn from others' experiences.

We also continue to invest in relationships with a number of market intermediaries. These include reinsurance brokers and advisors, as well as modelling and research institutions whose outputs are used to price New Zealand risk.

## **Opportunities we can benefit from**

### **Investment of the Natural Hazard Fund**

Before the first of the Canterbury earthquakes in September 2010, the NHF had accumulated nearly \$6.1 billion in investable assets. This reflected, in large part, a very benign geological period that had allowed annual surpluses to accumulate a significant fiscal buffer for future claims events. Within six years from September 2010, the NHF was effectively exhausted by a combination of earthquakes in Canterbury and Kaikōura.

Effective stewardship and management of the NHF is a critical function of the Board. The 2024 FRMS reaffirmed this, providing a clear mandate to the Board to manage the NHF in line with industry best practice, and to broaden investment products and earn greater returns to support rebuilding the NHF.

Over time, the growth of the NHF from accumulated surpluses and investment returns will allow the Board to consider the overall Risk Financing Strategy on a more holistic basis. This will involve considering trade-offs between investment in the NHF and the efficiency and effectiveness of our risk transfer programme.

## **The challenges that we face**

### **Uncertainties about natural hazards**

The main challenge is the uncertainties about the natural hazards that the NHI scheme covers. We need to understand their impacts on the NHF and develop the resources and ability to respond. To do this, we seek to better understand the risk the NHI scheme faces (this is a shared objective with our Loss Modelling Strategy). We do this through our ongoing investment in science and applying it in loss modelling.

### **Capability, maturity and resourcing**

We have skilled staff with maturing skillsets, such as actuarial expertise. However, our capability is currently limited to a few individuals, creating a risk of a 'single point of failure'. We need to develop new capabilities, for example investment knowledge, as we begin to implement our new Statement of Investment Policies and Objectives.

## Reliance on reinsurance capital as the main source of risk finance

Another challenge is our reliance on global markets for reinsurance, which can be volatile. To mitigate this, we have positioned ourselves as consistent buyers and long-term partners. We also sought to diversify our sources of risk capital by placing our first cat bond in 2023.

Analysis undertaken as part of the FRMS on a break-even NHI levy includes an allowance of 3 cents per \$100 of cover for the net cost of risk financing over time. This represents a maximum allowable cost to buy \$100 of reinsurance cover over the five-year FRMS period, including the potential changes in reinsurance prices after an event. We look to manage our reinsurance budget carefully to ensure the reinsurance programme remains effective and efficient, and the organisation retains flexibility over the FRMS period to manage a range of contingencies. Any 'savings' from lower reinsurance spend are retained in the NHF.

Growth of the NHF over time will provide a considerable mitigation against the volatility of global reinsurance markets. The growth of reserves held in the NHF will provide a significant buffer for us and provide the Board with options to weather any potential volatility in global markets. Any substantial growth of our reserves over the coming five years is dependent on an increase in our existing NHI levy.

## Climate change

Climate change can increase the severity of some natural hazard risks, such as storms and floods, which can damage land we insure. However, most of the natural hazards covered by the NHI scheme are not substantially financially impacted by climate change in the medium term. External research indicates climate change losses will be between 7 and 8 percent our liabilities for 2020–2040 and 9 and 25 percent for 2080–2100.<sup>3</sup>

That said, uncertainty about the impact of climate change on future claim losses will likely affect insurer and reinsurer sentiment towards particular locations, countries, and territories. It will also potentially affect overall capital availability or pricing for risk transfer. Our Resilience Strategy for Natural Hazard Risk Reduction prioritises five actions to understand how our natural hazard risk is changing, and how New Zealand can best position itself to manage that risk:

1. Invest in research that enables an improved understanding of how our natural hazard risk is evolving, and will evolve further, in the face of climate change.
2. Grow our risk and loss modelling capability to be able to model changing natural hazard risk over multiple time horizons.

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<sup>3</sup> Pastor-Paz, Jacob et al., *Protecting the effect of climate change-induced increases in extreme rainfall on residential property damages: A case study from New Zealand*, Motu Economic and Public Policy Research, 2020.

3. Develop and implement an internally focussed Climate Action Plan. This will detail how we will contribute to emissions reduction, position the NHI scheme to adapt to the impacts of climate change on natural hazard risk, and drive and support climate-conscious natural hazard risk reduction.
4. Enable and support homeowners and homebuyers to understand changing risk, and the actions they can take to reduce risk to their property.
5. Drive a national conversation on natural hazard risk and risk management in the context of the increasing risk posed by climate change.

### **Increasing residential insurance costs and insurance penetration**

New Zealand has a very high uptake for residential insurance, with more than 90 percent of all New Zealand residential properties covered for natural hazards. This increases the confidence that the Government can rely on the insurance industry to respond to events in an orderly and predictable financial manner. This was demonstrated in the Canterbury earthquake sequence, where around 70 percent of all losses were covered by insurance and reinsurance.

As residential insurance prices have increased in recent years, there are concerns that the cost of insurance may reach levels where it is unsustainable for some homeowners to continue to insure their property.

A substantial reduction in insurance penetration would potentially increase pressure on the Government to intervene to support residential homeowners after a large-scale natural hazard event.

### **Our risk financing strategy**

The FRMS provides overarching financial principles and outlines the current financial settings and levy settings and any proposed changes to them.

Figure 5 sets out how the FRMS provides the overarching framework and then the respective roles and decision-making responsibilities of our Board and the Minister.

Figure 5: Illustration of the FRMS framework and respective roles and decision-making responsibilities of the Minister and the Board



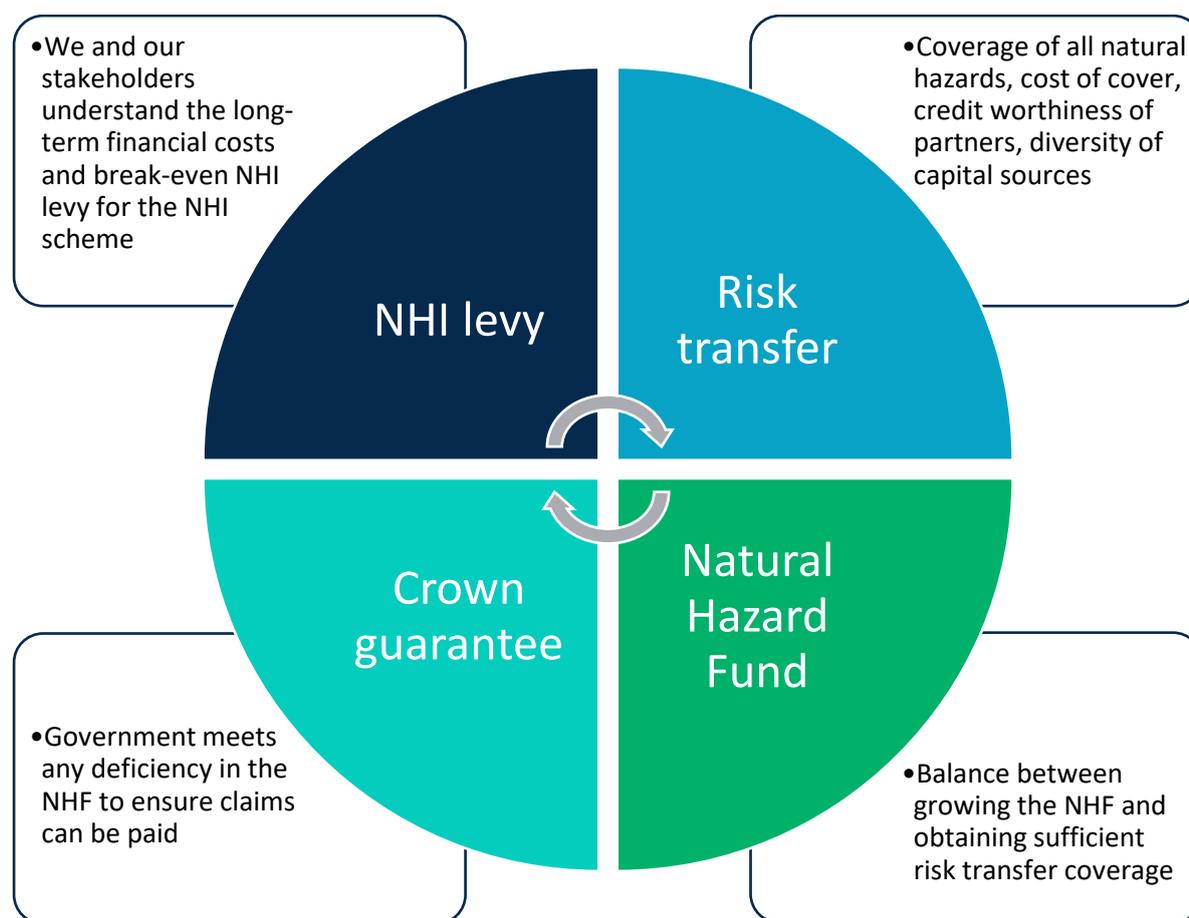
Levy settings determine our NHI levy income. We regularly monitor and model the expected costs of the NHI scheme. We update the Treasury about this work as part of our regular reporting and provide analysis on what a break-even NHI levy rate is. We provide advice to the Minister to set a break-even NHI levy for the homeowners, which should keep the NHI scheme sustainable. The FRMS principles of ‘scheme sustainability’ and ‘intergenerational equity’ inform our approach to developing advice to the Minister about the NHI levy settings.

Part of the NHI levy income funds the Risk Transfer Programme, claim costs and operating expenses, while the rest builds the NHF.

The Crown guarantee will ensure we have the funds to pay claims (beyond the capacity of the Risk Transfer Program and the NHF).

Figure 6 illustrates the connections between the four levers of our risk financing strategy.

Figure 6: The connections between the four levers of our risk financing strategy



## Risk financing objectives and outcomes

Our goal is to ensure we have:

- a robust risk financing framework in place that builds the financial resilience of the NHI scheme through growing the NHF, and
- the efficient transfer of risk to global capital markets through reinsurance and other risk management products.

We are looking to build the financial position of the NHI scheme to settle claims without drawing on the Crown guarantee.

Table 1 outlines our risk financing strategic objectives and expected outcomes.

Table 1: outline of our risk financing strategic objectives and outcomes

<b>Area</b>	<b>Objective</b>	<b>Outcome</b>
<b>Capability</b>	Maintain and strengthen our risk financing capability	We have a skilled internal team and formal partnerships with key external providers.
<b>NHI levy</b>	Understand the cost of NHI scheme risks and ensure accurate collection of NHI levies due	We provide clear, evidence-based advice to the Board, the Treasury, and Ministers on NHI levy options.
<b>Risk transfer</b>	Deliver a reinsurance programme that is cost-effective and efficient	Risk transfer arrangements align with Board-approved appetite and demonstrate value for money.
<b>Investment</b>	Grow the NHF through prudent investment	NHF investment targets in the Statement of Investment Policy and Objectives are met and compliant.
<b>Crown Guarantee</b>	Ensure readiness to operationalise the Crown Guarantee if required	We and the Treasury have documented processes and tested protocols for activating the guarantee.

## Sequencing of delivery over five years covering 2025-2030

Figure 7 provides a high-level view of the main activities during 2025-2030, noting that some activity will span the full five-year horizon.

Figure 7: Risk financing activities over five years from 2025-2030



## Risk financing requires specific expertise

We need a range of capabilities to successfully execute this strategy, including actuarial, loss modelling, investment, market engagement, economic and financial expertise. Over the last decade we have developed our 'in-house' capability to deliver this strategy, and we intend to continue to do so over the next five years.

Our in-house capability is complemented by strong partnerships with other organisations. These include reinsurance brokers, capital market advisors, investment experts, actuarial consultancies and other publicly funded risk pools. We seek to learn from these entities and share our experience and knowledge.

Markets are dynamic and ever evolving. We need to be connected to understand the innovation that is happening and how we could benefit, for example:

- alternative risk products
- the impact of natural hazards happening outside of New Zealand
- investor appetite and global economic trends.

## **Monitoring progress and success**

We will track our success and progress by monitoring and annually reviewing the delivery of our Sol measures, including any Statement of Performance Expectations measures and progress of our roadmaps. We will also monitor how we are meeting our objectives through our priorities, and whether they are meeting our desired outcomes.

Our Sol sets out the following Risk Financing measures:

- Obtaining appropriate reinsurance cover.
- Reviewing our risk financing strategy annually.
- Collecting expected NHI levies.
- Delivery of an investment strategy and framework based on parameters provided in the Crown's FRMS.

The following committees provide oversight and governance of our risk financing activities and related Sol output class:

- Capital Management Board Subcommittee – this forum supports the Board by reviewing the development, execution and performance of this strategy.
- Investment Management ELT Committee – a management committee that discusses major items and tracks progress on deliverables relating to investments.