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Office of the Minister of Finance

Chair, Economic Development Committee

Risk Financing Indicative Business Case

Proposal

1. I am seeking Cabinet approval of the Treasury Risk Financing Indicative Business Case (IBC). Progress on a Detailed Business Case (DBC) is to be determined as part of Budget 2026.

Executive summary

2. New Zealand is highly exposed to a number of national risks, including natural hazards. Without effective management, these risks can impact our people, our economy, and undermine the Government's objective for sustainable economic growth.

3. Right now, we don't understand our balance sheet risk exposure, let alone manage it. The current system is dispersed and duplicative, with no central view of our risk exposure. The IBC provides a pragmatic, staged approach to shift from *reactive* post-disaster funding to a *proactive* approach that safeguards the country's balance sheet, fiscal, and economic resilience.

4. The Treasury recommends an institutional approach to concentrate modelling and risk market engagement at the Natural Hazards Commission Toka Tū Ake (NHC). The impact I expect from establishing this mandate is:

    4.1. More effective engagement with risk markets, similar to our approach to debt markets. Risk capital providers want to work with sovereigns that are proactively investing in resilience. A more strategic focus on long-term relationships allows for procurement savings and supports insurance affordability for all New Zealanders.

    4.2. Better understanding of whole-of-portfolio risk through asset and hazard modelling. This streamlines the 100+ separate contracts across government and allows for improved capital prioritisation where investing in resilience is more economic than using insurance. Understanding risk enables more confidence in investment for economic growth.

    4.3. Clear incentives for agencies to manage their assets, improving long-term capital performance. If risk is measured it gets managed. The Crown balance sheet currently acts as the insurer of last resort, where high insurance costs and fiscal constraints lead to a focus on short-term cost control at the cost of long-run efficiency.

5. New Zealand has the advantage of being able to take the best features from established models in Australia and the United Kingdom and improve upon them by leveraging our world-class science system.

6. The information collection and system coordination capability of the risk financing proposal is highly aligned with our national infrastructure and adaptation objectives.

7. The IBC has completed a robust strategic and economic assessment to identify a preferred way forward that manages risk by implementing the scheme in a staged manner as capability is built and the system matures:

   7.1. Stage 1: Implement a Centralised Broker Model (CBM) at NHC for central government agencies and material damage and business interruption insurance only.

   7.2. Stage 2: Amend the Natural Hazards Insurance Act 2023 to allow NHC to extend membership, potentially to include local government, and issue a broader set of insurance products (such as cyber, professional indemnity, and fleet).

   7.3. Stage 3: Implement the Enterprise-wide Risk Management (ERM) solution, which requires agencies to pass risk exposure to a central capital manager to determine the optimal risk financing strategy.

8. The ERM allows for the centre to use pricing incentives for maintaining asset data, condition, and long-term capital performance relative to an agreed risk appetite. However, the CBM as a stage on the way to implementing the ERM also provides a positive Cost-Benefit Ratio, meaning it provides a viable off-ramp if there is a future decision not to proceed.

9. I am proposing a significant system change that will take time, but we must start building our capability now to be ready to meet challenges that will only get harder in the future. Establishing the scheme at NHC complements the existing Natural Hazards Insurance scheme, allowing for modelling of public risk alongside NHC's current focus on residential risk.

10. This analytical capability will inform emergency readiness and response, and other policy, regulation, and capital investment priorities. The efficiency in more collective action allows the scheme to be cost-beneficial over time.

11. There is no commitment to funding at this time. I will make Budget 26 invitation decisions separately. However, Cabinet approval of the IBC enables the proposal to be eligible for consideration.

Relation to government priorities

12. The proposal directly supports two Government priorities:

    12.1. Going for Growth: it will improve the Crown's balance sheet management and support a stable environment to plan for growth, by enhancing our investment and asset management practices.

    12.2. National Risk and Resilience: a balance sheet strategy for risk aligns with the intent of the National Risk and Resilience Framework for a more strategic and proactive approach to national risk management and resilience [CBC-24-MIN-0112].[1]

13. A register of public assets and the hazards they face also supports national adaptation and infrastructure objectives. Modelling of public asset risk is dependent on quality asset and hazard data, including on the initial priorities of flooding and coastal inundation, as proposed as part of the development of national flood maps under Pillar 1 of the National Adaptation Framework.

14. Risk financing has the potential to collect a capital fund that can support investment in research. An improved understanding of the gaps in hazard information can provide better commissioning signals to the science system to ensure we have robust and timely data to support decisions. It also enables a cost allocation mechanism to charge sectors of the balance sheet for the public benefit of hazard information. Improved science and modelling will support better allocation of capital to risk mitigation.

Background (strategic case)

15. The IBC sets out a compelling case to change institutional settings for how risk is managed. Our current dispersed approach means we have no central view of agency performance. This leaves the Crown balance sheet exposed as the uninformed ‘insurer of last resort’ and misses opportunities to seize benefits through collective action.

16. Three overarching problems are identified:

    16.1. Poor understanding of the extent of public asset risk exposure means the Government is reactive to shocks, which reduces its ability to manage the balance sheet effectively.

    16.2. A lack of a coordinated strategy for risk financing on a portfolio basis, leads to inconsistent and inefficient engagement with risk markets.

    16.3. Weak policy and guidance for the treatment of risk exposure creates perverse incentives, prioritising short-term costs over long-term resilient investment.

17. These problems must be addressed. NHC is dedicated to supporting insurance affordability and uptake for residential risk, but for our public assets we do not have visibility or the right tools to do the basics of good risk management.

18. We spend approximately $461m per year on insurance[2] without fully understanding the value of this expenditure or where we are under-insured or not insured at all. Insurance is a net cost, given the expectations from re-/insurers to return ~15-20% on deployed capital. The benefit of this cost is

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[1] The Prime Minister is taking an item to ECO today, which provides an update on the status and effectiveness of national risk management and resilience building and actions to deliver the Framework in 2025/26.

[2] Aon estimates this as approximately $280m for central government and approximately $180m for local government. Treasury’s views these estimates as prudent.

managing volatility, for which individual agency balance sheets are less able to cope than if managed centrally.

19. Our public asset exposure to a low-probability, high-impact event is significant at $25-30 billion.[3] Extreme weather events and inflation mean insurance is increasingly less accessible and affordable. Between 2020-2023, insurance costs increased by an average of 23% per annum across six government agencies with large infrastructure assets.[4] In response, a number of agencies reduced or removed insurance protection entirely. This is a hidden transfer of liabilities to the Crown balance sheet.

20. The Crown balance sheet is also exposed to local infrastructure, due to risk share frameworks for complex infrastructure.[5] These frameworks underwrite a significant portion of the cost of insurance thereby disincentivising more proactive risk management.

21. A risk financing solution would create funding and financing mechanisms to enable stable budgets and smooth the cost of risk over time. Improved management of the volatility associated with contingent liabilities creates a foundation for a stable and sustainable economic strategy.

22. Four investment objectives for the possible risk financing solutions were developed with key stakeholders, including the Department of the Prime Minister and Cabinet, Department of Internal Affairs, the Infrastructure Commission, and NHC:

    22.1. 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.

    22.2. Develop balance sheet risk tolerances to guide and incentivise agency risk and asset management to improve physical and financial resilience.

    22.3. Improve capital and operating efficiency of risk financing.

    22.4. Optimise market access to global risk capital, including by leveraging New Zealand's science and fiscal strategies.

23. Establishing a whole of portfolio view of the state of our assets and their exposure to risk is critical. It enables the Government to be a 'more intelligent customer' when engaging with global risk markets and consider the value of investing in resilience, where economic to do so.

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[3] Scenario developed for Treasury's 2025 Investment Statement. Utilises the Reserve Bank of New Zealand General Insurance Industry Stress Test in 2024. As well as public infrastructure costs, the balance sheet is exposed to natural hazards insurance, regional rebuild, and economic costs representing a total cost of ~$150 billion.

[4] The Treasury issued an information request for the Ministry of Education, Department of Corrections, Department of Internal Affairs, Health New Zealand, Kāinga Ora and the NZ Transport Agency (NZTA). NZTA insure its projects under construction but does not insure its assets. A shock facility supports liquidity to manage through risk events.

[5] Per the New Zealand Transport Agency Work Category 141: emergency works and Civil Defence and Emergency Management Act: Response, other response and recovery claims following an emergency event » National Emergency Management Agency.

Analysis (economic case)

24. The economic case assessed options for how the proposal could be designed and the appropriate institutional form that would enable the Government to better understand and manage its risk.

25. International best practice has been considered as part of looking at the options for change. These models prioritise a centralised capability to deliver good risk management outcomes.

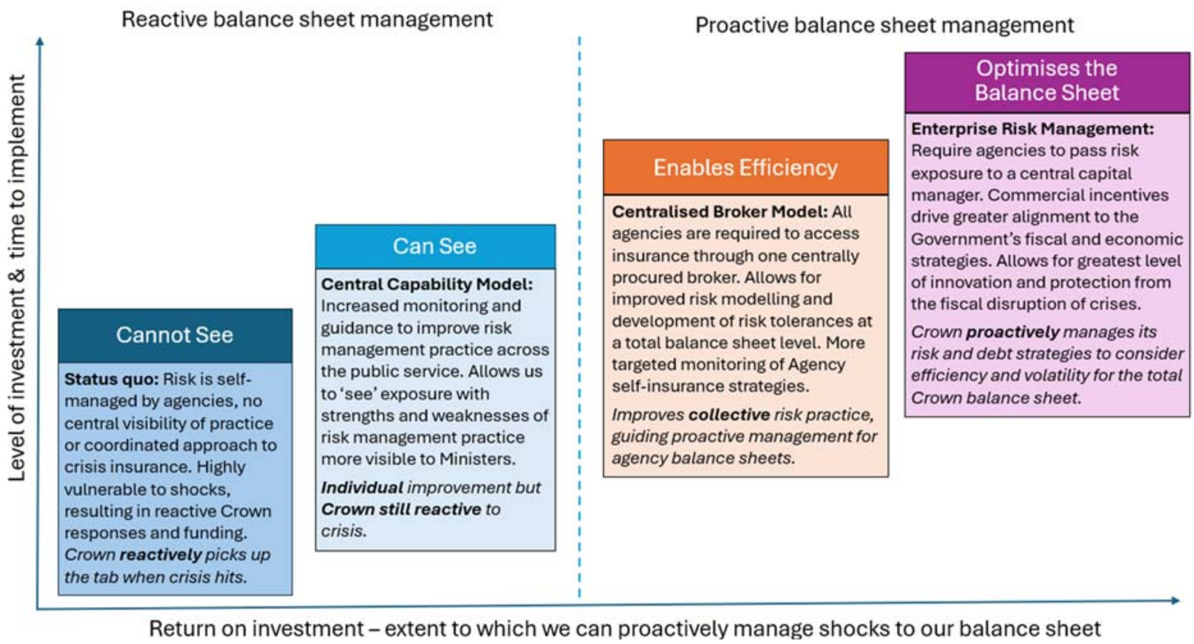
    25.1. **Coordination Model:** the United Kingdom established a Contingent Liability Central Capability in 2017 to actuarially review and improve its management of liabilities. While choosing not to insure, due to the long-term inefficiency of insurance and the country's good access to debt capital, it takes an active monitoring approach instead.

    25.2. **Central Broking and Enterprise-wide Risk Management Models:** Each of the Australian states, and the Commonwealth government, employs a centralised insurance function. This requires public infrastructure managers to pay a risk cost to the State insurer, which then determines the level of risk transfer that best aligns with its fiscal and economic strategies. This model has been in place for 25+ years and is viewed positively by both governments and participants.

26. New Zealand can select the best elements of international models while addressing shortcomings. For example, the Treasury's view is that Australia is not maximising the use of its centralised data to drive a national strategy of resilience.

27. Four options, including status quo, were shortlisted (see Figure 1). These options represent 'scaled investment choices' with each option additive to the previous in terms of service offering and benefits. However, each step towards greater centralisation also creates implementation complexity.

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



28. The preferred way forward is designed to access benefits quickly whilst also managing implementation cost and risk. The key stages are:

28.1. Stage 1: Implement the CBM by establishing a public risk financing scheme at NHC. This would be limited in scope, with a broker procured by NHC acting on behalf of central government agencies who are required to participate and with the scope limited to material damage business interruption insurance.

Modelling of public and residential risk in one institution allows for regular stress testing to inform emergency readiness and response, other policy and regulation development, and prioritisation of capital to where resilience investments present the highest value impact.

28.2. Stage 2: Amend the Natural Hazards Insurance Act 2023 to enable the scheme to extend to local authorities and other insurance products (such as cyber, professional indemnity, and fleet).

A national portfolio of public asset risk can then inform operational and policy amendments, including civil defence and transport regulations that provide Government financial support post-disaster without levers to influence proactive asset and risk management.

28.3. Stage 3: Implement ERM within three to five years, requiring agencies to pass risk to a central capital manager to determine the optimal financing strategy. It is this feature that allows for pricing incentives to drive agency accountability for maintaining asset data, condition, and long-term capital performance relative to an agreed risk appetite.

29. ERM shows both the highest financial and non-financial (information) benefits 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 for insurance purposes.

30. However, the CBM also has a positive Cost-Benefit Ratio, meaning this is a viable off-ramp should there be any reason not to progress at a later stage. I consider the staged transition approach can provide effective risk management, will create forward momentum, and improved information to support a future move to ERM.

31. The benefits of improved risk financing will be generational, and the shift in capability at a system and organisational level will require high levels of coordination. I intend to seek support from opposition parties, in due course, to assure that this high value change to the machinery of government is not at risk of being unwound prior to benefits being achieved.

32. Some of the future decisions relate to potential inclusion of local government. Higher volume increases the efficiency and effectiveness of the proposal and strengthens asset management accountability for local management. The staged implementation approach allows Cabinet to consider these future policy choices, for example whether participation in the scheme is mandated or if local authorities are able to ‘opt-in’ to access benefits.

33. The DBC stage will seek to ensure that the regulatory design is coordinated with other funding and financing activities (such as annual appropriations in

budgets, how the fire and emergency levy is funded for public sector contributions, and/or hypothecated revenue like the National Land Transport Fund). These design choices will be informed by further engagement with agencies.

Commercial, Financial and Management Implications

34. No funding approvals are sought at this time. The financial case considers the lifecycle of the investment through planning and delivery. The scheme is intended to be financially self-sustaining over the long-term but requires an up-front investment, which should be considered relative to other priorities.

35. Up-front costs include the next phase of planning. Any new function conferred on NHC must be appropriated as NHC is legally restricted from using any Natural Hazards Insurance Scheme levies for additional functions.[6] NHC would lead development of the DBC, given the organisational design requirements, supported by the Treasury as the system and policy lead.

36. Market and institutional assurance was undertaken to validate that the proposal can be delivered without unintended consequences. The governance, organisational, and legislative models for NHC will require change, with the detailed plan to achieve this to be set out in a future DBC.

Investment assurance

37. The investment proposal was classified as 'high-risk, high-value' using the Treasury's Risk Profile Assessment tool and moderation by the Investment Panel. In accordance with CO (23) 9 requirements, the proposal has:

    37.1. Completed an Independent Quality Assurance (IQA). This confirmed that Risk Financing IBC is a robust and well-structured document. The review noted "Overall, the IBC provides a sound justification for progressing to the next phase of work".

    37.2. Completed a Gateway Review (01- Business Justification and Options). This noted the project is conceptually strong, with a well-developed strategic case and an economic case that presents an effective risk management strategy.

    The Gateway Review panel scored delivery confidence as Amber, noting the organisation and system risks that require further implementation planning. However, it provided strong support for the proposal, noting broad cross-agency support, and recommended that the project accelerate as much as feasible. This includes recommending a focus on the preferred way forward.

38. In the period between now and Budget 2026, I expect Treasury to continue to engage with agencies to gather information on their asset data and risk transfer strategies.

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6 Section 111 of the Natural Hazards Insurance Act 2023 covers the use of the Natural Hazards Fund.

Legislative Implications

39. The Treasury has assessed the legal and regulatory implications of the CBM and ERM options. It will be necessary to consider a legislative strategy alongside policy development. In summary:

    39.1. The NHC is subject to the Crown Entities Act 2004 and the specific provisions of the Natural Hazards Insurance Act 2023 (NHI Act). Jointly, these require a limitation to business operations related to natural hazards and public sector.

    39.2. Directions to confer a new function on NHC are enabled but limited and must be accompanied by a new Crown appropriation. There is no current ability to accept third-party funding for services provided.

40. Should Cabinet agree to fund work on the DBC in the future, I intend to issue a direction to NHC that is consistent with the limited scope of central government and material damage business interruption insurance. I will also consider whether to submit a bid for house time to amend the NHI Act to allow for an expanded scope to local authorities and other insurance products.

Cost-of-living Implications

41. The proposal in this paper does not create any cost-of-living implications. There are positive benefits that would arise from a sovereign risk manager working proactively with insurers and reinsurers to deepen risk capital markets in New Zealand.

Regulatory Impact Statement

42. The Ministry for Regulation has determined that this proposal is exempt from the requirement to provide a Regulatory Impact Statement (RIS) on two grounds. First, on the basis that the proposal has no or only minor economic, social, or environmental impacts, as it relates to internal government administration. Secondly, on the basis that providing a RIS would substantively duplicate the Indicative Business Case. The Treasury will work with the Ministry for Regulation to confirm how Cabinet's impact analysis requirements apply to subsequent decisions.

Climate Implications of Policy Assessment

43. The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this policy proposal, as the threshold for significance is not met.

Population Implications

44. The proposals contained in this paper will not have any population implications but would have positive intergenerational benefits by smoothing the cost of risk across generations.

Human Rights

45. The proposals contained in this paper would have positive human rights benefits as they incentivise investment in physical resilience to hazards.

Resourcing and external resources

46. A Design Advisory Committee has provided technical expertise and internal assurance throughout the IBC stage. This panel is comprised of representatives from Department of Prime Minister and Cabinet (DPMC), NHC, Department of Internal Affairs (DIA) for local government policy, and the Treasury. This Committee also has three independent members that are contracted to provide technical market expertise.

47. This internal assurance panel has been supplemented by independent assurance through the Gateway Review process, an Independent Quality Assurance, and an accredited Investment Logic Map facilitator.

Sponsorship

48. There have been previous attempts to improve the procurement efficiency of insurance or moral hazard exposure on the Crown balance sheet. However, these have been limited in their nature, with proposals for local government only or a subset of Departments and Crown entities.

49. I am proposing a system-wide change that reflects a national approach. I propose to sponsor this project and work with the Minister for Infrastructure, and the Associate Minister of Finance responsible for NHC, on key policy settings. I seek Cabinet’s authority to delegate policy decisions and future approval of the DBC and Implementation Business Case to these Ministers, subject to funding decisions to develop the DBC being approved by Cabinet.

50. I will keep the Prime Minister, Minister for Emergency Management and Recovery, and the Minister of Climate Change and Local Government informed.

Consultation

51. DPMC, NHC, and DIA have been closely involved in the development of the IBC. The Treasury has also consulted on this paper with the Infrastructure Commission, the Ministry of Business Innovation and Employment, the Public Services Commission, the Ministry for Regulation, Parliamentary Counsel Office, the National Emergency Management Agency, Fire and Emergency New Zealand, Kāinga Ora, New Zealand Transport Agency, Te Puni Kōkiri, Department of Corrections and the Ministries of Primary Industries, Education, Housing and Urban Development, Transport, and Health.

Communications

52. The risk financing proposal was submitted as part of March quarterly reporting and has been included in the June 2025 Quarterly Investment Report (QIR). This is scheduled to be reviewed by the Infrastructure Investment Ministers’ Group in September and Cabinet in October 2025.

Proactive Release

53. The Cabinet paper will be considered for proactive release prior to any DBC stage commencing.

Recommendations

The Minister of Finance recommends that the Committee:

1. **note** that the risk financing proposal supports the Government’s priorities for Economic Growth and National Risk and Resilience, by improving the Crown’s balance sheet management to support a stable environment to plan for growth and enhance asset management practices;

2. **note** that the development of the Risk Financing Indicative Business Case (IBC) (Annex 1) has completed the requisite assurance processes required by the Investment Management System;

3. **note** the preferred way forward arising from the IBC short list is a staged transition of first implementing the Centralised Broker Model (CBM) option then transitioning to an Enterprise-wide Risk Management (ERM) option;

4. **note** that the Gateway review agreed that the risk management strategy as outlined in the IBC preferred way forward is sufficient for Cabinet to take forward to detailed design;

5. **approve** the Risk Financing Indicative Business Case and short list of options for detailed analysis at Detailed Business Case stage(s), subject to funding decisions;

6. **note** that any direction to the Natural Hazards Commission Toka Tū Ake to take on a new function, such as delivery of a Detailed Business Case, requires a new appropriation from Parliament, per section 111 of the Natural Hazards Insurance Act 2023;

7. **note** that this Cabinet paper does not seek any funding at this time and that Budget 26 invitation decisions will be made separately;

8. **agree,** subject to future funding decisions to undertake the Detailed Business Case, to delegate approval to the Minister of Finance, Minister for Infrastructure, and the Associate Minister of Finance with responsibility for the Natural Hazards Commission Toka Tū Ake to make policy decisions associated with the CBM, and approve the Detailed and Implementation Business Cases

Authorised for lodgement

Hon Nicola Willis
Minister of Finance