

IAG Submission

Housing Affordability: Issues Paper

3 August 2011

Introduction

This submission is New Zealand Limited's ('IAG') response to the New Zealand Productivity Commission's ('Commission') recently released issues paper '*Housing affordability*' ('Paper').

In this submission IAG does not comment in detail on the questions raised in the Paper. Instead we request that the Commission, in investigating housing affordable, does not lose sight of the need to maintain the resilience of the Nation's houses to the dangers of our geography and climate.

We would be happy to discuss with Commission any of the points we raise.

IAG NZ's contacts for matters relating to this submission are:

Bryce Davies, Head of Commercial Services

T : +64 9 969 6901

E : bryce.davies@iag.co.nz

About IAG New Zealand Limited

IAG New Zealand Limited (IAG NZ) trades under the Lantern, NZI and State insurance brands and underwrites general insurance for some of the country's leading financial institutions (including ASB, BNZ and PSIS). IAG NZ is New Zealand's largest general insurer, with a 34% share of the insurance market, managing 2.6 million policies of 1.1 million New Zealanders. IAG NZ is a wholly owned subsidiary of Insurance Australia Group (IAG), Australasia's largest general insurer.

IAG New Zealand Limited, Private Bag 92 130, Auckland

Overall Comments

House prices are a matter of immense importance to New Zealanders. While they may feature less prominently in our conversations following the 'global financial crisis', their impact remains. Houses have a large psychological, physical, social and economic impact on individuals and the nation. Increasing housing affordability is desirable and to that end IAG wholeheartedly supports the aims of the Commission's review.

Our interest is focused on the impact possible supply side changes that may arise from the review could have on the resilience of New Zealand's housing stock. Our concern is that the controls which ensure the quality and resilience of land and houses might be weakened in pursuit of affordability. As a result some houses may not be insurable or may suffer increased damage when disaster strikes.

The Paper goes some way to recognise this, noting the role legislation governing land and buildings has had in improving the quality of houses and reducing whole-of-life costs. This submission simply states the natural extension of this point; to affirm and illustrate the importance of maintaining the integrity of these controls.

Protecting the wealth a house holds

A house is the major store of wealth for New Zealanders and will likely remain their major asset well into the future. Significant damage to a house or its loss can therefore devastate financial wellbeing.

IAG is in the business of protecting the wealth held in houses. Our ability to do this depends in part on our and our reinsurers' confidence in the land and building. The rules governing the development of land and the design and construction of houses underpin this confidence.

While a stronger set of safeguards can add to the cost, it also reduces the likelihood of loss. Getting balance right helps sustain the availability and affordability of insurance.

A growing housing stock

New Zealand currently has some 1.73m private residential dwellings¹ - the resilience of which is largely set. Over the coming two decades a further 500,000² new dwellings will be built to accommodate a growing and aging population. This is a significant opportunity to influence the resilience of our housing stock. The \$11b issue of leaky homes (affecting 1:10³ homes built since 1991) demonstrates

¹ Source: Statistics New Zealand, *Private Dwelling Estimates by Tenure – March 1991 June 2011*

² Source: Statistics New Zealand, *National Family and Household Projections: 2006 (Base) – 2031update*

³ Source: The Regulatory impact Statement 'Changes required implementing the financial assistance package for leaky homes' estimates 42,000 leaky homes. Statistics New Zealand, *Private Dwelling Estimates by Tenure – March 1991 June 2011*, shows 430,000 dwellings were built between 1991 and 2011,

that despite our best endeavours to create sound frameworks to govern building, we do not always get it right.

An increasingly dangerous place to dwell

New Zealand is geographically young country, prone to natural disaster and exposed to climate change. There is a wide range of risks that can imperil houses; earthquakes; flooding; storms; coastal erosion and inundation; slips and soil erosion; geothermal activity. Our own development and use of the land exacerbate these natural hazards.

To give a sense of scale to these risks, since 1975 the New Zealand insurance industry has paid \$687m in flood claims, \$706m in weather-related claims and \$362m in earth quake claims (the September 2010 and February 2011 earthquakes are expected to add \$8,864m to this last total)⁴.

Over time each of these risks has become better understood and managed through the operation of regional and district plans; the resource management act, building controls and consents; and a range of non-regulatory methods such as guidelines and codes of practice. Indeed development of these controls has often been spurred by significant and wide spread damage to houses.

Despite these controls, houses still needlessly fall victim to natural hazards. A current example is the suburb of Bexley (recent land zoning decisions notwithstanding), where consents did not required the use of deep pile foundations generally thought necessary for peat-based land.

A changing climate will cause many of these natural hazards to become more frequent and intense. In time this will require the adaptation of land and building consents to reflect and help mitigate the growing risk. Arguably consents need greater diligence applied to their consideration and implementation.

In summary

Our houses store considerable value. That value is protected by insurance and underpinned by land and building framework that has let us down in the past. One in four houses will be built over the next 20 years. Our landscape is prone to natural disasters which climate change will exacerbate. The coming years represent a significant opportunity to influence the resilience of New Zealand's housing stock.

IAG therefore requests that the Commission not loose sight of an important point; making houses more affordable must not occur at the expense of making them less resilient to the dangers posed by our geography and climate.

⁴ Insurance Council of New Zealand, includes both residential and commercial claims