



Headquarters
New Zealand Defence Force
Defence House
Private Bag 39997
Wellington Mail Centre
Lower Hutt 5045
New Zealand

OIA-2024-5156

15th November 2024

[REDACTED]
[REDACTED]@interest.co.nz

Dear [REDACTED]

I refer to your email of 8 October 2024 requesting, under the Official Information Act 1982 (OIA), a copy of the briefing to the Minister of Defence titled *New Zealand Defence Force Annual General Insurance Programme Financial Year 2024-25*.

A copy of this briefing is enclosed. Where indicated, contact numbers are withheld in accordance with section 9(2)(a) of the OIA to protect privacy; the name of a New Zealand Defence Force (NZDF) staff member is withheld in accordance with section 9(2)(g)(i) of the OIA to maintain the effective conduct of public affairs through the free and frank expression of opinion; and the NZDF insurance premium is withheld in accordance with section 9(2)(j) of the OIA to enable, without prejudice or disadvantage, negotiations.

You have the right, under section 28(3) of the OIA, to ask an Ombudsman to review this response to your request. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

Please note that responses to official information requests are proactively released where possible. This response to your request will be published shortly on the NZDF website, with your personal information removed.

Yours sincerely

GA Motley
Brigadier
Chief of Staff HQNZDF

Enclosure:

1. New Zealand Defence Force Annual General Insurance Programme Financial Year 2024-25, 11 July 2024



NEW ZEALAND DEFENCE FORCE

SUBMISSION TO MINISTER COVER SHEET

Title	NEW ZEALAND DEFENCE FORCE ANNUAL GENERAL INSURANCE PROGRAMME FINANCIAL YEAR 2024/25				
Tracking No	NZDF Tracking # 2024-217		Minister's Tracking #		
Importance of the Issue	High		Moderate		Routine ✓
Urgency for Attention/Sign-off	NOT URGENT		Request ministerial response by: N/A		
Contacts	Bridget Marks s. 9(2)(g)(i)		Tel: s. 9(2)(a)		A/H: s. 9(2)(a)
Purpose	This paper outlines the New Zealand Defence Force general insurance programme and provides an update on the insurance cover for Financial Year 2024/25; and the classes of assets which the New Zealand Defence Force does not insure and must be notified to the Minister of Finance.				
Recommendations	<p>It is recommended that the Minister:</p> <ol style="list-style-type: none"> Note that the New Zealand Defence Force has renewed its general insurance policies through to 30 June 2025. Note that the New Zealand Defence Force policy excess on the Material Damage and Business Interruption insurance policy is \$20 million per claim. Note that the policy limit for Material Damage and Business Interruption insurance has reduced from \$447.5 million to \$400 million. Note that a new Aviation Ground Risk cover replaces the ground risk cover previously provided in the Material Damage policy and provides an improved coverage. Note that a new Environmental Impairment Liability policy has been put in place for new pollution events over \$5 million. Note that the New Zealand Defence Force self-insures New Zealand Defence Force-owned ships, aircraft and motor vehicles, as well as some other risk exposures against all or some risks. Note that significant premium reductions have been achieved along with improved coverage conditions for Airframes on the ground. Sign and refer a copy of the Uninsured Risk Exposures notification to the Minister of Finance. 				
MoD/NZDF Consultation	Not required: The NZDF insurance placement is an NZDF finance function.				
Minister's Comments					
Minister's Action	Signed/Noted/Agreed/Approved/Declined/Discussion required				
	Referred to:				
Minister's Signature				Date:	

T DAVIES

Air Marshal
Chief of Defence Force

11 July 2024



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NEW ZEALAND

NTM 2024-217

// July 2024

Minister of Defence

NEW ZEALAND DEFENCE FORCE ANNUAL GENERAL INSURANCE PROGRAMME FINANCIAL YEAR 2024/25

Purpose

1. This paper outlines the New Zealand Defence Force (NZDF) general insurance programme and provides an update on the insurance cover for Financial Year (FY) 2024/25.
2. This paper also outlines the classes of asset which the NZDF does not insure and these must be notified to the Minister of Finance as per the Treasury Finance Instructions, issued under Section 80 of the Public Finance Act 1989 (refer Enclosure 1).

Background

3. The NZDF has an annual insurance programme which is renewed on 30 June each year.
4. The FY 2024/25 NZDF insurance programme is similar in structure to the expired FY 2023/24 programme; however, some policy changes have been implemented. These are detailed throughout this paper.
5. The material damage insurance programme covers \$10.51 billion of NZDF assets, with a catastrophe limit of \$400 million, including business interruption. In addition, insurance policies are held to cover aviation, liability, motor, travel, construction and cargo transit risks.
6. The insurance policies are provided by insurers from both the Offshore and New Zealand insurance markets.

Insurance Premium

7. The NZDF insurance premium for FY 2024/25 is s. 9(2)(j)
8. The s. 9(2)(j) FY 2024/25 premium is a s. 9(2)(j) reduction on the FY 2023/24 renewal premium s. 9(2)(j) and a s. 9(2)(j) reduction on the expiring FY 2023/24 premium s. 9(2)(j)
9. Additional insurance premiums were incurred throughout the FY 2023/24 insurance year, mainly due to updated building and infrastructure valuations and the inclusion of new assets into the insurance programme. This means the insurance premium at the expiry of the FY 2023/24 insurance programme is higher than the insurance premium at the inception of the FY 2023/24 insurance programme.
10. Similarly, additional premiums are expected to be incurred during the FY 2024/25 insurance year as new assets are included in the insurance programme. s. 9(2)(j)

11. The premium reduction for FY 2024/25 is primarily due to improved market conditions, intense market pressure and strategic changes to policy structure. Minimal additional risk retention is required and this is offset by improved coverage conditions due to the revised policy structure.

12. The excess for the material damage policy is \$20 million per claim.

Annual Renewal FY 2024/25

13. Insurance capacity has been secured in the Offshore and New Zealand insurance markets, with the main Material Damage Business Interruption policy placed 55% and 45% respectively. The terms of the cover remain consistent with the NZDF insurance policies held in FY 2023/24.

NZDF Insurance Program

14. The NZDF's insurance programme provides the following policies and cover for NZDF assets:

a. **Material Damage and Business Interruption:**

- (1) Provides cover for costs to reinstate assets on a like-for-like basis. In the event of a fire or natural disaster, the NZDF has cover of up to \$400 million for property losses, subject to individual site limits. Within this limit, Business Interruption is limited to additional costs of up to \$47.5 million over a 36-month period. This differs from the FY 2023/24 insurance policy where the Business Interruption limit was in addition to the Material Damage limit. There is a standard excess of \$20 million per claim for all claims.
- (2) Previously, included in the Material Damage policy, was cover for most of the aircraft fleet while on the ground in Australasia, with engines off and not being fuelled or defueled. For the FY 2024/25 insurance programme, this cover has been removed from the Material Damage policy and insured separately under an Aviation Ground Risk Only policy.

b. **Aviation Ground Risk Only:**

- (1) This is a new policy providing cover for most of the aircraft fleet whilst on the ground, and replaces the cover previously provided under the Material Damage policy. This new Aviation Ground Risk policy provides an improved scope of cover over the previous cover. The improved coverage includes world-wide cover (excluding sanctioned countries), cover whilst being fuelled and defueled and cover whilst repositioning, either under tow or with engines on. The policy provides cover up to USD 300 million. Variable excesses ranging from USD 150,000 to USD 3 million apply to this policy, depending on the aircraft.
- (2) The King Air B350 fleet is covered separately including whilst in use under the terms of the lease. No cover is in place for the C-130H Hercules fleet as the replacement C130J fleet is imminent.

c. **Contract Works.** Covers most construction projects of up to \$10 million in value and 18 months in duration. Individual policies are required for larger projects or those outside the parameters of the policy.

- d. **Public Liability.** Provides compensation of up to \$100 million per occurrence to third parties where physical loss, damage, injury and certain wrong doings occur in relation to the NZDF. A sub-limit of \$10 million now applies to Professional Indemnity losses for the FY 2024-25 renewal as cover for this exposure to the full policy limit was deemed unwarranted.
- e. **Environmental Impairment Liability.** This is a new cover, initially inception in February 2024, to cover the NZDF's liability arising from new pollution events. This exposure has been identified in recent years as an area where some of this risk can be efficiently transferred to the insurance markets. Cover is provided up to \$20 million including an allowance of \$10 million for defence costs. An excess of \$5 million per event applies and losses below this level will continue to be managed through the NZDF risk management procedures including Defence Force Order 41, Safe Management of Hazardous Substances.
- f. **Aviation Hull and Liability.** Provides third party liability cover for NZDF aircraft to a limit of USD750 million. This limit is increased to USD1 billion in respect of the B757s. NZDF-owned aircraft do not have hull insurance cover whilst in flight or during take-off and landing. The leased King Air Fleet has full hull and liability cover, which is a condition of the lease.
- g. **Marine – Protection and Indemnity.** Provides third party protection and indemnity cover of up to USD1 billion per event. NZDF ships and other vessels do not have hull insurance cover.
- h. **Motor Vehicles.** The NZDF self-insures all vehicles in New Zealand up to \$250,000 per vehicle. A maximum of \$450,000 per event applies for multi-vehicle incidents. This is further limited to an aggregated self-insurance limit of \$2.5 million per annum. The losses are controlled through a Managed Fund with the Insurer. Once the \$2.5 million aggregate is reached, the insurer pays all claims subject to an excess of \$1,000 per vehicle. The policy includes all NZDF-owned vehicles including Military Vehicles; however, a limit of \$1 million applies to Military Vehicles. The Light Armoured Vehicles are insured for third party damage only.
- i. **Marine Cargo Freight.** Provides cover for loss or damage of up to \$15 million, whether by land, sea, air or post. Individual policies are required for items over \$15 million, including overseas disaster relief, exercises and operations.
- j. **Marine Cargo Freight – Household Effects.** Covers household effects of up to \$5 million per shipment for all personnel departing or returning from overseas.
- k. **Overseas Travel and Expatriate Insurance.** The NZDF self-insures overseas medical and travel claims up to \$250,000 each and every claim. An insurance policy is held and applies for claims over this excess.

Uninsured Exposures

15. The Treasury Instructions (issued under Section 80 of the Public Finance Act 1989) require that the Minister of Finance is notified of any risks which are not managed by insurance or within normal departmental funding. The Treasury has confirmed that the correct method of notification is for the responsible Minister to send a letter outlining which assets are uninsured and provide the reasoning. A draft letter has been provided (refer Enclosure 1).

16. The NZDF manages a high level of self-insurance. Excesses are high with smaller assets and losses self-insured.

17. Some risk exposures are not insured. These are classified into Unmanaged Risks and Managed Risks. The main classes of the uninsured risk exposures are as follows:

a. **Unmanaged Risks:**

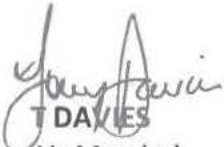
- (1) **Royal New Zealand Navy (RNZN) Vessels.** These hulls are not insured. The reason they are not insured is that the premium to do so is considered too prohibitive, and the cover available would be very limited because common policy exclusions apply to many of the RNZN activities. The hulls have not been insured in prior years.
- (2) **Royal New Zealand Air Force (RNZAF) Aircraft.** NZDF aircraft are not insured whilst in flight, or as part of take-off and landing. The reason they are not insured while in operation is that the premium is considered too prohibitive, and the cover available would be very limited because common policy exclusions apply to many of the RNZAF activities. The aircraft have not been insured in prior years. The exception to this is the King Air Fleet which are fully insured in accordance with leasing requirements.


b. **Managed Risks:**

- (1) **Material Damage and Business Interruption insurance** – the first \$20 million of each claim. The NZDF carries a self-insurance level on this policy of \$20 million per claim.
- (2) **NZDF Housing.** NZDF houses are approaching the end of their expected useful life and the housing model is evolving to meet the NZDF's operational requirement and societal changes. These assets are not insured as NZDF housing needs have changed and a regeneration programme is underway.
- (3) **Cyber Risk.** Cyber insurance policies are currently structured and priced for the needs of commercial clients. Security restrictions mean that the NZDF would be unable to comply with standard policy terms or receive value from many of the standard claim benefits. This risk is instead managed through NZDF cyber security systems and processes.
- (4) **Environmental Impairment Liability.** As noted above, a new Environmental Impairment Liability policy has been implemented to cover gradual seepage or large sudden events from new pollution conditions. The NZDF carries a self-insurance level on this policy of \$5 million per claim and no cover is in place for known or existing pollution conditions. This risk is managed through NZDF risk management procedures including Defence Force Order 41, Safe Management of Hazardous Substances.

Recommendations

18. It is recommended that the Minister:
- a. **Note** that the New Zealand Defence Force has renewed its general insurance policies through to 30 June 2025. NOTED
 - b. **Note** that the New Zealand Defence Force policy excess on the Material Damage and Business Interruption insurance policy is \$20 million per claim. NOTED
 - c. **Note** that the policy limit for Material Damage and Business Interruption insurance has reduced from \$447.5 million to \$400 million. NOTED
 - d. **Note** that a new Aviation Ground Risk cover replaces the ground risk cover previously provided in the Material Damage policy and provides an improved coverage. NOTED
 - e. **Note** that a new Environmental Impairment Liability policy has been put in place for new pollution events over \$5 million. NOTED
 - f. **Note** that the New Zealand Defence Force self-insures New Zealand Defence Force-owned ships, aircraft and motor vehicles, as well as some other risk exposures against all or some risks. NOTED
 - g. **Note** that significant premium reductions have been achieved along with improved coverage conditions for Airframes on the ground. NOTED
 - h. **Sign and refer** a copy of the Uninsured Risk Exposures notification to the Minister of Finance. YES / ~~NO~~


T DAVIES
Air Marshal
Chief of Defence Force


Hon Judith Collins KC MP
Minister of Defence

Enclosure:

1. NZDF 2024/25 Uninsured Risk Exposures notification to the Minister of Finance

Hon Judith Collins KC

Attorney General
Minister of Defence
Minister for Digitising Government
Minister Responsible for the GCSB
Minister Responsible for the NZSIS
Minister of Science, Innovation and Technology
Minister for Space
Lead Coordination Minister for the Government's Response to the
Royal Commission's Report into the Terrorist Attack on the Christchurch Mosques



Hon Nicola Willis
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Minister

NEW ZEALAND DEFENCE FORCE UNINSURED RISK EXPOSURES**Introduction**

The Treasury Finance Instructions (issued under Section 80 of the Public Finance Act 1989) require that the Minister of Finance be notified where a significant identified risk cannot be managed by a department using baseline funding or insurance markets. The New Zealand Defence Force (NZDF) has completed its Financial Year (FY) 2024/25 insurance renewal with two such unmanaged risks. Additionally, the NZDF has four further risk exposures which are not insured in FY 2024/25 but which are considered managed risks.

Unmanaged Risks

The NZDF has two risk exposures which are not insured and which are considered unmanaged risks. These uninsured risks are noted below:

a. Royal New Zealand Navy (RNZN) Vessels:

- (1) Historically RNZN vessels have not been insured.
- (2) The reason they are not insured is that the premium is considered too prohibitive and even if purchased, the available cover would be heavily limited by standard policy exclusions and conditions which apply to many of the RNZN activities. Examples include intercepting and boarding operations, operating without commercial identifiers or lights, southern ocean activities, shallow water activities and cyclone response.
- (3) This risk is mitigated as much as possible by standard operating procedures, activity approval processes and the expertise and professionalism of NZDF personnel.

b. Royal New Zealand Air Force (RNZAF) Aircraft:

- (1) NZDF aircraft have historically not been insured whilst in use. Insurance cover is in place for most aircraft whilst on the ground, including cover whilst under tow, whilst being fuelled or defueled and whilst engines are running (excluding as part of flight, take-off or landing). This cover applies world-wide excluding sanctioned countries.
- (2) It is noted that this is an improvement over coverage offered in FY 2023/24 and prior, where cover was limited to Australasia only and no cover applied for fuelling and defueling, under tow or whilst engines running.
- (3) The reason that they are not insured whilst in flight, take-off and landing, is that the premium is considered too prohibitive and, in some cases, cover is unavailable. Even if purchased, the available cover would be heavily limited by standard policy exclusions and conditions which apply to many of the RNZAF's

activities. Examples include low altitude operations, night flying without lights, landing on ships, operating without commercial identifiers and Antarctic flights.

- (4) This risk is mitigated as much as possible by standard operating procedures, activity approval processes and the expertise and professionalism of NZDF personnel.

Managed Risks

The NZDF has four further risk exposures which are not insured but which are considered managed risks and are included here for completeness:

- a. **Material Damage and Business Interruption Insurance.** The NZDF carries a self-insurance level on this policy of \$20 million per claim.
- b. **NZDF Housing.** NZDF houses are approaching the end of their expected useful life and the housing model is evolving to meet the NZDF's operational requirements and societal changes. Losses in the housing portfolio can be managed by reprioritising the housing regeneration plan.
- c. **Cyber Risk.** Cyber insurance policies are currently structured and priced for the needs of commercial clients. Security restrictions mean that the NZDF would be unable to comply with standard policy terms or receive value from many of the standard claim benefits. This risk is instead managed through NZDF cyber security mechanisms.
- d. **Environmental Impairment Liability.** A new Environmental Impairment Liability policy has been implemented to cover gradual seepage or large sudden events from new pollution conditions. The NZDF carries a self-insurance level on this policy of \$5 million per claim and no cover is in place for known or existing pollution conditions. This risk is managed through NZDF risk management procedures including Defence Force Order 41, Safe Management of Hazardous Substances.

Recommendations

I recommend that you:

- a. **Note** that the New Zealand Defence Force has renewed its insurance policies through to 30 June 2025; and
- b. **Note** the four exposures which are considered managed risks and the two unmanaged risk exposures.

Yours sincerely



Hon Judith Collins KC MP
Minister of Defence

NOTED

Hon Nicola Willis
Minister of Finance