

# The Treasury

## Earthquake Commission (EQC) Act Review Submissions Information Release

### Release Document

July 2017

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

# New Zealand's Future Natural Disaster Insurance Scheme

Proposed changes to the Earthquake  
Commission Act 1993

Submission Form

July 2015



**THE TREASURY**  
Kaitohutohu Kaupapa Rawa

New Zealand Government



## New Zealand's Future Natural Disaster Insurance Scheme Proposed changes to the Earthquake Commission Act 1993

### Your responses

Please write your response in the template below.

Please note:

- ▶ you **do not** need to answer all sections – just the ones where you have information you would like to contribute
- ▶ please expand or delete boxes as you need to but **do** keep the original question numbers.
- ▶ please **do not** send us reports or other documents but **do** include references or links to supporting evidence or information
- ▶ please submit your response to [Submissions.Eqcreview@treasury.govt.nz](mailto:Submissions.Eqcreview@treasury.govt.nz) by 5.00pm on Friday 11 September 2015.

Thank you for your time and effort in making your submission.

### Official Information Act 1982

Submissions are subject to the Official Information Act 1982 (OIA). Please set out clearly with your submission if you have any objection to any information in the submission being released under the OIA, and in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information.

Grounds for withholding information are outlined in the OIA. Reasons could include that the information is commercially sensitive or that you wish personal information, such as names or contact details, to be withheld. An automatic confidentiality disclaimer from your IT system will not be considered as grounds for withholding information.

We will take your objections into account when responding to requests under the OIA.

Any personal information you supply in the course of making a submission will be used by the Treasury only in conjunction with the matters covered by this document. Please clearly indicate in your submission if you do not wish your name to be included in any summary of submissions that we may publish.

## Your contact details

### For individuals

Your name:	
	Indicate here if you do not wish your name to be included in any summary of submissions that we may publish.

Email address:	
Phone number:	

What city, town or province do you live in?	
Do you own your own home?	

### For organisations

Organisation name:	<a href="#">California Earthquake Authority</a>
Nature of your business:	Non-profit provider of residential earthquake insurance and earthquake-loss-mitigation services in California

Contact person name:	Glenn Pomeroy Daniel Marshall
Respective positions:	Chief Executive Officer General Counsel
Phone number:	[1]
Email address:	

In what city, town or province is your organisation's New Zealand headquarters?	Not applicable – no official New Zealand presence.
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**NOTE: ALL COMMENTS BY THE CALIFORNIA EARTHQUAKE AUTHORITY APPEAR AT THE END OF THIS FORM. THE REMAINDER OF THE FORM IS INTENTIONALLY BLANK.**

## What is the purpose of the EQC scheme?

### Proposal for discussion

- 1 That the purpose of the EQC Act be to establish a Crown-owned natural disaster insurance scheme for residential buildings in New Zealand that:
- ▶ supports, complements and is closely coordinated with the provision of effective private insurance services to the owners of residential buildings
  - ▶ recognises the importance of housing in supporting the recovery of communities after a natural disaster
  - ▶ supports improved resilience of New Zealand communities and an efficient approach to the overall management of natural hazard risk and recovery in New Zealand
  - ▶ contributes to the effective management by the Crown of fiscal risks associated with natural disasters.

### What do you think?

1a Do you agree that these purposes are appropriate and complete?

1b If not, what changes would you suggest, and why?

## What types of perils will EQC cover?

### Proposal for discussion

2 That EQC continue to insure against the following perils: earthquake, natural landslip, volcanic eruption, hydrothermal activity, tsunami, and storm and flood (with, in the case of storm and flood, only residential land being covered).

### What do you think?

2a Do you agree that EQC should continue to provide cover against the same perils as it currently does?

2b If not, what changes would you suggest, and why?

## What types of property will EQC insure?

### Proposal for discussion

3 That EQC building cover continue to be available to residential buildings and dwellings in non-residential buildings.

### What do you think?

3a Do you agree that EQC building cover should continue to only be available to residential buildings and dwellings in non-residential buildings?

3b If not, what forms of accommodation or living arrangements do you think should be added or removed, and why?

### Proposal for discussion

4 That EQC land cover only be available for land associated with residential buildings. Therefore, dwellings in non-residential buildings would not receive any EQC land cover.

### What do you think?

4a Do you agree that EQC land cover should only be available for land associated with residential buildings?

4b If not, what coverage of land cover would you prefer, and why?

## Extending building cover to include more siteworks and main access way

### Proposal for discussion

5 That EQC building cover be extended to include siteworks and the main access to the building.

### What do you think?

5a Do you agree that EQC building cover be extended to include siteworks and the main access to the building?

5b If not, what do you think should be done instead, and why?

## EQC to no longer provide contents insurance

### Proposal for discussion

6 That EQC no longer offer residential contents insurance.

### What do you think?

6a Do you agree that EQC should no longer offer residential contents insurance?

6b If not, what level of contents cover do you think EQC should offer, and why?

6c For insurers, what do you anticipate the impact would be on premiums your company charges for residential contents insurance, if EQC no longer offered residential contents insurance?

Please note the information in section 1.4 regarding the Official Information Act.

## How much insurance will EQC offer?

### Proposal for discussion

7 That the monetary cap on EQC building cover be increased to \$200,000 + GST.

### What do you think?

7a Do you agree with the proposed increase in the building cap to \$200,000 + GST?

7b If not, what cap would you prefer, and why?

7c Do you have strong views on the merits of a \$150,000 + GST cap versus a \$200,000 + GST cap?

7d If so, what are they?

7e For insurers, what do you anticipate the impact would be on premiums your company charges for residential property insurance, if the proposals in this document regarding changes to building cover were implemented? Please provide this information for a monetary cap for EQC building cover of both \$150,000 and \$200,000.

Please note the information in section 1.4 regarding the Official Information Act.

## Reinstatement of EQC cover after an event

### Proposal for discussion

8 That EQC building cover reinstate after each event.

### What do you think?

8a Do you agree that EQC cover should reinstate after each event? If not, what is your preferred alternative, and why?

8b Do you agree with retaining the current definition of an event?

8c If not, what is your preferred definition, and why?

## EQC land cover

### Proposal for discussion

9 That land cover be limited to situations where the insured land is a total loss meaning it is not practicable or cost-effective to rebuild on it.

### What do you think?

9a Do you agree that the proposed enhanced building cover, combined with restricting land cover to situations where the site of the insured building cannot be rebuilt on, would resolve, for future events, many of the recent difficulties with the interaction between land and building cover?

9b If not, what is your preferred alternative, and why?

9c Do you agree that restricting land cover to situations where the site of the insured building cannot be rebuilt on is appropriate, given the EQC scheme's focus on providing homeowners the resources to repair, rebuild or re-establish homes elsewhere?

9d If not, what is your preferred alternative, and why?

9e Do you have any concerns regarding the proposed change to the configuration of building cover in light of the move by most insurers to provide sum insured home insurance policies?

9f If so, what is your preferred alternative, and why?

## Better aligning EQC and private insurers' standard of repair

### Proposal for discussion

10 That EQC's current statutory repair obligation already appears broadly consistent with industry practice.

### What do you think?

10a Do you agree with the Government's assessment that EQC's legislated standard of repair is broadly consistent with current industry norms?

10b If so, do you have views on why EQC's standard of repair is seen as markedly different from current insurance industry norms?

10c If not, do you have suggestions for reforms that you consider would move the EQC standard of repair closer to current insurance industry norms for residential property?

## Simplifying EQC's claims excess

### Proposal for discussion

11 That EQC has a standard claims excess of \$2,000 + GST per building claim.

### What do you think?

11a Do you agree that EQC's building claims excesses should be standardised and simplified to a flat dollar amount?

11b If yes, do you agree that \$2,000 + GST is the appropriate claims excess on building claims?

11c If not, what would you prefer, and why?

### Proposal for discussion

12 That EQC have no claims excess on land claims.

### What do you think?

12a Do you agree that EQC should have no claims excess on land claims?

12b If not, what would you prefer, and why?

## Regularly reviewing main monetary settings of cover

### Proposal for discussion

13 That the EQC Act require monetary caps, premium rates and claims excesses on EQC cover to be reviewed at least once every five years.

### What do you think?

13a Do you agree that monetary caps, premium rates and claims excesses on EQC cover should be reviewed at least once every five years?

13b If not, what alternative would you prefer, and why?

**How will homeowners access EQC insurance cover?**

**Proposal for discussion**

14 That EQC cover continues to automatically attach to fire insurance policies on residential buildings, as defined in the EQC Act.

or

15 That EQC cover automatically attach to insurance policies on residential buildings, as defined in the EQC Act, on a peril by peril basis; so if a peril covered by EQC is excluded from the private policy, it is also excluded from the EQC cover.

**What do you think?**

14a Do you agree that EQC cover should continue to automatically attach to fire insurance policies on residential buildings? Or

15a do you agree that EQC cover should automatically attach to insurance policies on residential buildings, and EQC cover should exclude any natural disaster peril that is excluded from the fire insurance policy it attaches to?

15b If you do not agree with either of these options, what alternative arrangement do you prefer, and why?

**Proposal for discussion**

16 That EQC continue to have the ability, but not the obligation, to directly provide EQC cover to homeowners who request it.

**What do you think?**

16a Do you agree that EQC should continue to be able, but not be obliged, to directly provide EQC cover to homeowners who request it?

16b If not, what alternative arrangement would you prefer, and why?

**Who will handle EQC claims in future?**

**Proposal for discussion**

17 That all EQC claims be lodged with claimants' private insurers.

**What do you think?**

17a Do you agree that EQC claimants should be required to lodge all EQC claims with claimants' private insurers?

17b If not, what alternative arrangement would you prefer, and why?

## Deadline for reporting claims

### Proposal for discussion

18 That the current three-month time limit for claims notification be retained, but EQC be able to accept claims up to two years after an event, unless doing so would prejudice EQC.

### What do you think?

18a Do you agree that the current three-month time limit for claims notification should be retained, but EQC should be able to accept claims up to two years after an event, unless doing so would prejudice EQC?

18b If not, what alternative arrangements would you prefer, and why?

## Ensuring the scheme meets its expected costs

### Proposal for discussion

19 That the new EQC Act contain pricing and transparency principles requiring the scheme to adequately compensate the Crown for its expected costs and risks.

### What do you think?

19a Do you agree that the new EQC Act should contain pricing and transparency principles requiring the scheme to adequately compensate the Crown for its expected costs and risks?

19b If not, what alternative arrangements would you prefer, to ensure the scheme's future financial sustainability, and why?

## Allow but do not require differentiated EQC premiums

### Proposal for discussion

20 That the current legislative flexibility to charge flat-rate or differentiated EQC premiums be retained.

### What do you think?

20a Do you agree that the current flexibility to charge flat-rate or differentiated EQC premiums should be retained?

20b If not, what alternative arrangement would you prefer, and why?

20c Do you agree with the Government's intention to continue charging EQC premiums at a universal flat rate?

## How will EQC finance its risk?

### Proposal for discussion

21 That the Natural Disaster Fund be retained in broadly its current legislative form.

### What do you think?

21a Do you agree that the Natural Disaster Fund should be retained in broadly its current legislative form?

21b If not, what changes would you like to see considered?

### Proposal for discussion

22 That the Act enable EQC to use other forms of risk transfer, in addition to traditional reinsurance.

### What do you think?

22a Do you agree that the Act should enable EQC to use other forms of risk transfer, in addition to traditional reinsurance?

## Do you have any other feedback?

### Other feedback

23a Are there any issues not discussed in this document that you would like to bring to the Government's attention at this stage?

We wish to bring to the Government's attention the mission of essential earthquake-loss-mitigation work accomplished *before* a damaging earthquake occurs, through research in earthquake sciences and engineering *and* through targeted programs to support and encourage property owners to retrofit their homes to better withstand earthquake shaking and prevent damage. Historically, the New Zealand Earthquake Commission (EQC) has been a respected contributor to pre-earthquake risk management.

23b What submissions would you like to make on those issues?

- Over the years, the [California Earthquake Authority](#) (CEA) has worked in cooperation with the EQC to raise public awareness of the value of reasonably insuring against earthquake losses to residences. Not only is securing earthquake insurance widely considered a basic step of personal financial responsibility—but, in addition, the fact that suitable earthquake insurance/cover can be equitably obtained, and its purchase encouraged and made possible by responsible government action, reveals a clear social goal and accomplishes a genuine social purpose.
- But earthquake insurance is not and cannot be the sole bulwark against the terrible damage—and the huge public, private, and business costs—that earthquakes can bring. There can be no doubt that the purchase and maintenance of an earthquake insurance policy or cover gives a family comfort that, should the worst happen, reasonable levels of recovery will be possible—families will have a roof over their heads, and breadwinners can get back to work. But as important to the average family are two factors that bring symmetry to what

is otherwise an asymmetrical proposition:

- If a family is “protected” only *after* the fact—by purchasing an insurance cover to help pay for damage and smooth recovery, post-event—opportunities to protect that family *before* the ground shakes are absent and therefore .. missed.
- Introducing two basic things to the mix *before* the earthquake strikes brings that needed symmetry of preparation and readiness: knowledge and understanding of risk, *and* seismic strengthening through positive earthquake-loss-mitigation steps.
- CEA is very active in the field of earthquake-related research in California, and EQC has demonstrated an indispensable role in earthquake-science support in New Zealand.
  - The CEA is a prime sponsor, financial supporter, and data-consumer of the [Uniform California Earthquake Rupture Forecast](#) projects) as well as the award-winning [Next Generation Attenuation Relationships](#) engineering studies.
  - In addition, and important to these comments, is the CEA’s new research project to establish—in conclusive and authoritative financial and engineering terms—the relationship between basic seismic-strengthening techniques and the reduction in dwelling/structural damage and resulting value preservation for typical California (or any similar wood-frame) house. Earthquake-loss modelers, insurers, academic organizations, and governments will know with certainty the value of spending modest amounts before an earthquake—to save huge sums afterward, in earthquake-caused damage and loss.
- We mention these matters in some detail solely to highlight a key function of the EQC: that of encouraging, helping to establish, and supporting—to the clear benefit of the New Zealand public and, indeed, people around the world—a network of science and engineering that is, on the world stage, second to none. Together with GNS Science, the EQC has helped build a collaboration in its GeoNet system that, besides being the “official source of geological hazard information for New Zealand,” is an essential tool for those around the world working with all aspects of earthquakes.
- These kinds of activities and deep commitments, whether conducted by CEA or by EQC, do not constitute an insurance product and of course do not replace earthquake-damaged furniture or rebuild earthquake-damaged houses. But they are so necessary to those of us who operate in the space of disaster-based personal/financial risk management—specifically around earthquakes’ impacts on people’s homes—that our jobs could not be done responsibly without those activities being accomplished.
- As the NZ Government sorts through the various proposals and responses that might come as a result of this solicitation for comments, we at the CEA wish to express clearly that we recognize and appreciate the breadth of EQC’s mission, particularly as it extends to creating and spreading useful knowledge. These activities critically support the health and functioning of local and national economies, as well as the ability of families and even whole communities not to dissolve, but to bounce back, after damaging earthquakes.
- The California Earthquake Authority respects this careful effort by The Treasury of the New Zealand Government to plot the future course of the Earthquake Commission, and we are pleased to have had this opportunity to illuminate how we perceive and appreciate EQC’s enduring value.