

# The Treasury

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

### Release Document

January 2018

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# 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:	[1]
	Indicate here if you do not wish your name to be included in any summary of submissions that we may publish.

Email address:	[1]

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

### For organisations

Organisation name:	
Nature of your business:	

Contact person name:	
Position:	
Phone number:	
Email address:	

In what city, town or province is your organisation's New Zealand headquarters?	
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## 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?

No

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

The Act serves to provide a safety net following a natural disaster, it is wholly appropriate to consider that such an event will affect not just a single policyholder and will lead to mass failure. There needs to be recognition within the framework and processes that the response is NOT similar to replacing a lost handbag or mending a dented car. It responds to mass failure / mass fatality and should promote and support the response to a natural disaster whilst the private insurers pick up speed and manage the reinstatement.

## 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?

Yes

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?

No, as the business policyholders perform are part and parcel of economic activity. No shops open = no business = no mortgages paid = policyholders moving out or going bankrupt

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

All functional space

### 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?

No

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

I think our changing world is going to be evermore subject to natural disaster and as such continually paying out will be a waste of finance and resource. Establishing a genuine repair cost for damaged land is an impossible task, so unless there are benchmarks established NOW to determine the full extent of the soil structure at a parcel of land (levels / soil structure / soil samples / full soil engineering report) then the situation will not improve if the status quo is maintained.

## 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?

Partly

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

The intention should be to fund IMMEDIATE relief where the private insurers do not have the staffing capacity to do so. Develop a number of solutions whereby cost effective temporary driveways / walkways could be set in place particularly where the vulnerable are affected so that property can still be accessed safely.

## 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?

I can't understand why they did in the first place..... my contents insurance only indicates that the private insurer will pay the difference, they don't exclude damage having arisen from a natural disaster.....

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

Nil

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?

The insurer has never made it clear exactly how they arrive at a premium, I've seldom experience insurance going down irrespective of the number of years I've been claim free so to be honest it doesn't much matter does it. The answer is going to be that the premium will go up, whatever happens.

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?

Why not just keep it at \$100,000 and state that in the event of a claim, the figure will be adjusted for the year / quarter and relative cost calculated against the year that \$100,000 was decided upon.....it's how quantity surveyors determine cost levels.

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

Index linked cap.

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

No

7d If so, what are they?

Strong views on a \$50k difference ? Odd question.

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.

They'll go up.

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?

Yes

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

What is the definition ?

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

Presumably it's something like "naturally occurring and that which is not within the control of the policyholder which causes loss to property"

## 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?

No

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

The difficulties have been caused by lack of; benchmarked data, experience, competence, process interrogation, effective data management and scenario mapping.

Remove land cover. Focus on the gap – immediate emergency aid / temporary works / warmth / shelter / access to and from site / power. Whatever those services cost at each property, deduct off the index linked adjusted \$100k discussed earlier and pay the remainder to the Client. Send notification to Insurer on all matters.

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?

No

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

Given that we're now planning to put man on mars within a decade, it's pointless to say 'we can't build there' when the reality is, we can build anywhere, apart from where the property has simply disappeared – eg cliff edge site. In that case, if the full boundary can not be pegged out physically, then it's time to pay up (immediately) and allow policyholder to move on. If the policy holder has to move, then pay up (current cost) for a lot the same size in an economically comparative area.

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?

No

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

If EQ Act cover is index linked, it won't impact on how the insurers function.

## 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?

No

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

There's been absolutely no evidence of property process control, efficient management systems and worst of all, no quality milestones / assessments / control. Not that the Master Builder or Certified Builder organisations drive the provision of quality amongst their members. The delivery has been shambolic and globally embarrassing.

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?

The insurers don't understand quality and they don't understand the built environment. Handbags and cars are really all they are fit for dealing with.

1. EQC should take the lead in driving for better data on existing properties. Not a single set of levels were taken from a repaired building to be registered with the Authority, so the next time ChCh has a shake there will be no benchmark data to reflect upon.
2. The Insurer can refuse a claim if the property is not code compliant, so again, the EQC should take the lead in ensuring that NZ properties are fit for purpose and compliant in the first place.
3. Start making landlords more accountable for the condition of their properties.....how many buildings in a considerable state of disrepair have been repaired to as new standard when the landlord hadn't spent a dollar on the property in the last two decades ?
4. QUALITY QUALITY QUALITY – EDUCATION EDUCATION EDUCATION

## 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?

No

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?

No excess. Take the running costs out of the pot. Why an excess to EQC AND Insurer ?

### 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?

No

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

No land claim.

## 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?

No

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

Waste of time and resources. Index link it.

**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

No

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?

Yes – just leave the insurers in charge. The staff at least know at the outset how to progress a claim.

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?

Yes

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?

Yes

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?

Seems reasonable

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?

Surely as an Act established by the Crown this would not be necessary.

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?

Index linked to more robust property rebuild cost data

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

No

**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?

I'm not familiar with the form, so difficult to offer an opinion.

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?

Insurance is all about risk transfer, so it seems odd if the EQC didn't have this considered already.

**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?

QUALITY – INTEGRITY – KNOWLEDGE – EDUCATION - AWARENESS

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