

# The Treasury

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

### Release Document

January 2018

[www.treasury.govt.nz/publications/reviews-consultation/eqc/submissions](http://www.treasury.govt.nz/publications/reviews-consultation/eqc/submissions)

Key to sections of the Official Information Act 1982 under which information has been withheld. Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [2] appearing where information has been withheld in a release document refers to section 9(2)(b)(ii).

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'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]

Phone number:

What city, town or province do you live in? Christchurch

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?

## 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?

Bare residential land proved a problem in the Christchurch earthquakes. It is also going to be an issue where land re-remediation is required over a wider area, e.g. a hillside that starts to slip and only half the sections on that hillside are built on. How do you re-mediate half a hillside?

## 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?

At least

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

Are Sinkholes covered by Natural Landslip?

## 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?

Yes

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?

Perhaps the cover should be extended to include residential commercial. This would include businesses that operate from what is essentially a dwelling in a residential area. Large area re-mediation also needs to be considered. Should a suburb become, say, prone to flooding after an earthquake due to land subsidence. If the remedy is to add pumping facilities does the small shopping block in the affected area pay nothing to gain the benefit?

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

As mentioned in 4a above land cover should be extended to include businesses that operate from dwellings.

## 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?

Yes

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?

Yes

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.

I would suggest the change in premium should start from a position of "No increase". Agreed there is an increased risk, but how big an increase is it? What is the annual payout on contents claims for non-earthquake claims, and compare that to the average EQC payout per annum over say the past twenty years.

## 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?

No, and yes

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

Make the monetary cap \$200,000 but it is not the first \$200,000. Instead make it a share between EQC and the insurer. Say the share was set at 50:50 then EQC would meet half the costs up to the cap. Section 17 of this submission recommends that the insurer be the one who receives any insurance claim. Therefore EQC in effect becomes a re-insurer but only where an event occurs that involves EQC. An event occurs; the insurer settles the claim with the insured, then makes a claim against EQC for its share up to the cap.

The great benefit from this is that the insurer cannot game the system. If EQC pays the first \$200,000 then the insurer can spend that amount at no cost to itself, but if it is sharing the cost from the first dollar then a more realistic approach will be taken.

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?

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.

I would suggest the change in premium should start from a position of "No change". Agreed there is a decreased risk, but how big a decrease is it? What is the annual payout on non-earthquake claims, and compare that to the average EQC payout per annum over say the past twenty years.

## 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?

No

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

In most cases an event is singular: - a flood is a flood. But for the Canterbury earthquake(s) a difficulty arose where it became impossible (despite assertions otherwise) to distinguish damage between event sized shocks if no assessment was made after each shock and before the next.

I would suggest the definition of an event be changed to revolve around settlement of the insurance claim. As long as a claim remains unsettled by the insurer then any subsequent events shall be included within the original claim, thereby limiting EQC's liability to \$200,000. This would encourage the insurer to resolve a claim as the risks of further events fall wholly on them.

So EQC would still announce events that apply to them as they currently do, but the liability is determined by the insurer as events can be merged for insurance purposes.



## 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?

Increased flooding risk after land slumps. It is still practicable to build on that land – there may be nothing wrong with that section of land. And it may be cost-effective depending on the arbitrary assessment of how likely the flooding risk is, and what the amount of damage would be when a flood does occur. That raises the issue of loss of value even though it is practicable and cost-effective to rebuild on, but the risk has gone up.

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?

Both should be the same

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?

As suggested in 7b above if the repair cost is shared between EQC and insurer then there should be no excess as it will be applied by the insurer. Then whatever the ratio of cover offered by EQC is, then that is the portion of the excess applied to EQC.

e.g. Repair bill \$180,000; excess \$5,000, EQC share 60%. EQC would payout \$105,000 being 60% of \$175,000.

The greater the excess imposed by the insurer, the greater the benefit to EQC.

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

See 11a

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

See 11a

### 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?

Yes

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?

Yes

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

Yes

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?

No. In the scenario where land slumps after an earthquake raising the risk of flooding then insurers may only insure if they can exclude flooding. Therefore the homeowner loses all flooding cover without EQC necessarily having re-mediated the original cause of the increased flooding risk.

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

ACC has separate pools – Employer, motor vehicle, etc. Perhaps EQC should create two pools: - land and buildings. The land levy be collected via rates and building levy via insurance policies. This would collect a levy on all residential land including bare land making it more equitable if land damage occurs across an area greater than one property.

### 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?

No.

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

If EQC can pick and choose who to provide EQC cover to this creates the moral hazard of EQC declining cover in a higher risk area where private insurers will not supply cover.

## 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?

No. I'm not sure what the definition of prejudice means in this context. If it includes a financial cost then every claim is prejudicial,

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

Have a set period of time in which to lodge a claim that applies to all insurers. It makes no sense for EQC to have a three month limit but the insurer has a longer time limit. The insurer would be accepting claims that EQC could decline to accept their liability for.

## 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?

No

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

EQC should collect sufficient levies to ensure its ability to meet future claims. If they fail to collect enough and the Crown is forced to make up the shortfall then that "loan" should be repaid. But a dividend, re-insurance fee, or whatever it is called should not be paid – that is an avenue to allow the Crown to pillage EQC funds.

## 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?

Yes

## 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?

EQC should become the re-insurer (see 7b above). As such it should build up sufficient funds to fill that role.

## 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?

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