

# 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 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]
Phone number:	

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

Yes. I particularly support the continuation of the research and education component of EQC, which has helped to provide new understanding and quantification of natural disasters in New Zealand and the related hazards and risks, and the community response to such disasters.

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?

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?

Maybe

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

It is not clear what the difference is between apartments, which will be covered, and serviced apartments, which will not. Similarly, the boundary between retirement villages and nursing homes may be blurred in some cases. Clarification of those differences should be made and justified.

### 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?

Yes

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?

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.

**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?

Not completely

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

I think the cap of \$200,000 + GST is good for now, but I think it ought to be indexed for inflation so that it remains appropriate in the future.

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

Yes

7d If so, what are they?

I think the \$200,000 cap is more appropriate for the higher costs of buildings now compared to 1993 when the act was first introduced. That is also why I think it should be indexed for inflation in the future.

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?Yes

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

Yes

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?

Yes

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?

Yes

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?

I think that the risk of future increases is being put onto homeowners.

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

I would rather see prices and coverages all increase with inflation rather than asking homeowners to get insurance for future increases.

## 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?

Yes

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

No

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

It should start at \$2000 +GST and be indexed to increase with inflation.

### 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?

I think indexing for inflation each year would help to insure more stability so that people are not suddenly hit with big jumps in costs. Readjusting every five years due to the judgement decisions discussed on p. 32 of the discussion document is fine, but it would be smoother to have automatic changes between revisions.

## 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?

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

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

I think that if 15 is adopted, it will lead people to drop their insurance cover because of the expense of earthquake insurance and that will counteract the whole intent of the EQC act and lead to the same situation of poor coverage as exists now in California and Japan.

### 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?

Yes

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?

No

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

I think there should be a general goal of trying to compensate the Crown adequately. However, I think that insurance for large disasters is almost impossible to price fairly due to the rare nature of the disasters and their huge impact when they do occur, so such a requirement will not work. Before the Canterbury earthquakes there was concern that EQC was saving/investing too much money that would be better spent on day-to-day needs of people. Now that money is all gone, even though the earthquake was actually quite small in the scheme of things. If the costs are made high enough to really provide for the case of a huge disaster, people will balk and it will be politically impossible. I think the government will ultimately have to be the place of last resort for large disasters and they will be fooling themselves to think that they can get away from it by changing this legislation.

## 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?

No

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

I don't think it will be workable or wise to differentiate premiums too much for the same reasons that the government wants to continue charging EQC premiums at a universal flat rate. If risk-differentiated fees had been in place before the Canterbury earthquakes, then Canterbury would have probably had lower premiums than Wellington, but they've used more resources so far. We just don't know enough to properly make such differentiation.

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?

Yes

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?

Yes

## 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?

The role of EQC in research and education on natural disasters is not included in the submission form.

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

I particularly support the continuation of the research and education component of EQC, which has helped to provide new understanding and quantification of natural disasters in New Zealand and the related hazards and risks, and the community response to such disasters. I think that this mandate is one of the uniquely great aspects of New Zealand's approach to disasters and I am pleased that it continues to be considered important.