

# 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 to the Treasury**

**Provided by the  
New Zealand Society for Earthquake Engineering  
Inc.**

**11 September 2015**



**New Zealand Society for  
Earthquake Engineering**

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

### ***Responses by the New Zealand Society for Earthquake Engineering Inc.***

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**

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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

Organisation name:	The New Zealand Society for Earthquake Engineering Incorporated (NZSEE)
Nature of your business:	A Professional Society representing over 770 members that operates in the broad area of earthquake related phenomena and hazard risk reduction by providing education benefits to the national and international membership, and through them to the public, by way of: workshops; conferences; and publications that include best practice guidelines; also, sponsors and undertakes research and Learning from Earthquake missions.

<http://www.nzsee.org.nz/>

Contact person name:	1. Quincy Ma	2. Win Clark
Position:	President NZSEE	Executive Officer NZSEE
Phone number:	[1]	
Email address:		

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

The New Zealand Society for Earthquake Engineering Incorporated (NZSEE) is a Collaborating Technical Society of the Institution of Professional Engineers, New Zealand, Incorporated.

The Society is founded on the objectives to promote international cooperation among scientists, engineers, and other professionals in the broad field of earthquake engineering, and to improve the resilience of community to earthquake related hazards.

NZSEE represents over 770 members within NZ and internationally. These are predominantly engineers but also architects, earth scientists, seismologists, social scientists, insurers, emergency managers, and learned institutions.

## THIS SUBMISSION

This NZSEE Submission has been drafted by a small committee on behalf of members. It may be noted that NZSEE members from the insurance industry have not been consulted; they are expected to be making their own submissions.

NZSEE has not the broad expertise that the proposal is addressing; hence, some response fields have been left blank. Where a response has been made it is because the drafters have experience, knowledge, or understanding of the matter.

NZSEE is happy to provide further information or clarification if required.

# Summary

NZSEE expresses general support for the proposed changes to the Earthquake Commission Act 1993.

NZSEE recognises the benefits to the New Zealand economy of the EQC Act and of the Commission. NZSEE has had a mutually beneficial relationship with EQC for some decades as is outlined in this submission and notes the ongoing improvements to the understanding and mitigation of natural hazard risk that has resulted from this collaboration.

NZSEE is pleased to see elements of a risk-based approach incorporated in the proposal, in accord with the Government's formal commitment to the Sendai Framework for Disaster Risk Reduction 2015-2030 (Hon Nikki Kaye, June 2015).

NZSEE endorses the five themes of the reform proposal in principal, namely:

**Effectiveness** – addressing tensions and inconsistencies with the Government's objectives for natural disaster insurance and natural hazard risk management more broadly.

**Simplification** – removing unnecessary complexity to make scheme easier to implement and improve outcomes for customers eg, clarifying the purpose of the scheme in legislation.

**Alignment** – removing or minimising inconsistencies and perverse incentives within the EQC scheme, and between EQC cover and private cover eg, making coverage for land damage more consistent with the approach taken by private insurers, while also providing additional cover to claimants who need to move elsewhere if it is not feasible to rebuild on the original site.

**Sustainability** – ensuring the scheme remains financially viable and can respond appropriately to changes within the broader insurance, reinsurance and property markets eg, establishing sound pricing principles and requiring periodic reviews of monetary caps, excesses and premiums.

**Connecting EQC and Insurers** – recognising the dual insurance model and ensuring EQC and private insurers work effectively together and with the customers' best interests in mind eg, requiring EQC claims to be lodged with the claimants' private insurers.

Nevertheless, NZSEE has some concerns with the proposal:

- Noting the intent of “**Connecting EQC and Insurers**”, NZSEE recommends expanding this to “**Connecting EQC, Insurers and Science**”. As the science of natural hazard risk underpins the practice of natural hazard risk insurance. Collaborations between EQC, Insurers and Science is to be encouraged, as was practiced following (some time after) the Canterbury earthquakes.
- Understandably the proposed changes are based on the experience following the Greater Christchurch earthquakes. However, testing the proposed changes with real world examples of all the natural hazard risks proposed to be covered is warranted.
- Finally, we provide additional commentary on the significant benefits to New Zealand's improving understanding of our natural hazard risks, in part due in no small measure to EQC's support to research and education, under (23).

## 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**

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?

**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?

**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?

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?

The discussion document outlines the options and the difficulties with each. Hence we cannot answer either YES or No to this question.

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?

**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?

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?

**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

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?

**YES, and there is opportunity to introduce science based information into the determination of the EQC premiums.**

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?

## 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?

**YES: 1. EQC and NZSEE; 2. Learning From Earthquakes missions; 3. New Zealand Lifeline Groups and Infrastructure; 4. EQC investment in Natural Hazard Risk Reduction Science and Engineering; 5. GeoNet; 6. Build Back Better; 7. Volcanic activity; 8. Impact data sharing**

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

- EQC and NZSEE.** EQC has had a close working relationship with the earthquake engineering community for many decades. NZSEE has been the primary vehicle for this engagement and over decades has used financial support from EQC (and the NZSEE membership and other parties) to host workshops, conferences, and to disseminate risk reduction research results through the quarterly NZSEE Bulletin, which has an international readership. ***EQC can be credited with much of the success of NZSEE.***
- Learning From Earthquakes missions.** EQC has provided funding for disbursements associated with NZSEE Learning from Earthquakes (LFE) missions to major overseas earthquakes and tsunami. Commencing with the 1985 Mexico earthquake, NZSEE has organised teams of up to fifteen practitioners and researchers to visit the scenes of these events that have relevance to New Zealand's built environment, and to bring back both technical and process lessons. These have been communicated via national road-shows and reports published in the NZSEE Bulletin. Over one hundred scientists, engineers, Territorial Authority politicians, and emergency managers have participated in thirty LFE missions over the past three decades.

In addition to bringing back and conveying the direct lessons relevant to New Zealand from each event, most LFE team members return with an enhanced awareness and focus on the imperatives and opportunities for Disaster Risk Reduction, and became actively involved in implementation activities. Many of those involved have also maintained relationships with their team members and with those people they have met overseas, enabling better integration of national and international hazard event responders as demonstrated in Greater Christchurch. This constitutes an important part of New Zealand's critical overall international emergency and risk reduction connectivity.

Technical lessons from these LFE missions have been directly incorporated into New Zealand's engineering design standards, and provided the basis for many guidance documents that NZSEE has produced. Observations and learning's from LFE missions have led to the development of New Zealand's urban search and rescue (USAR) arrangements and the building safety evaluation procedures that were variously implemented following the Canterbury and Cook Strait earthquakes and following recent

flooding events in Dunedin, Nelson, and Whanganui.

***EQC's continued support of NZSEE and its LFE Programme has been for the benefit of all New Zealanders.***

3. **New Zealand Lifeline Groups and Infrastructure.** Observations from LFE missions led to the development and underpinning of the Lifelines engineering processes and arrangements that form a key part of infrastructure resilience improvement at regional and national levels. Longer-term lessons from these events and recovery processes have been accessed by New Zealand's research programmes and outcomes have been enhanced. ***EQC has successfully supported the development of Lifeline Groups across New Zealand and the National Lifelines Committee.***
4. **EQC investment in Natural Hazard Risk Reduction Science and Engineering:** EQC's support for professionals and emerging leaders (via Scholarships and Awards) at varying career stages represents a significant investment in the development of human capital, and is as important as the direct technical learnings.

***The investment by EQC in science and education including via academic appointments at the universities has been key to the maturing of earthquake engineering knowledge, understanding, and the increasing implementation of risk reduction measures across New Zealand.***

5. **GeoNet.** The establishment of GeoNet in 2001 was an EQC initiative.

GeoNet is a project to build and operate a modern geological hazard monitoring system across New Zealand. It comprises of a network of geophysical instruments, automated software applications and skilled staff to detect, analyse and respond to earthquakes, volcanic activity, large landslides, tsunami and the slow deformation that precedes large earthquakes.

GeoNet has proven to be of high standard and effectiveness from public dissemination of hazard event information and has reported a good return on investment to the satisfaction of regular international reviews. However, continued upgrading is essential, as for weather monitoring and forecasting by MetService and NIWA, to improve relevant public warnings, risk reduction, and to inform emergency managers and insurers at times of need.

The GeoNet development and operation has an international reputation with a standing equivalent to or better than most developed countries. ***EQC's continued support of GeoNet is for the benefit of all New Zealanders.***

6. **Build Back Better.** Post an event the recovery process of rebuilding needs to be able to "Build back Better" to reduce risk of future events. Some of the Christchurch rebuild demonstrates this with new damage minimisation buildings replacing those fragile buildings damaged by the earthquakes. However, some of the Christchurch recovery is understood to be only replacing like with like, this perpetuates vulnerabilities and future societal exposure to financial risks. ***The revision of the EQC Act should allow for "Build Back Better" to reduce disaster risk and not limit replacing like with like.***

NZSEE commends all six items above as evidence of the benefits of the current provisions in the EQC Act, under the stewardship of EQC, for funding natural hazard risk reduction research and application in and for the benefit of all New Zealand. In addition, NZSEE supports the following Technical Issues at Section 7 of the discussion document:

7. **Volcanic activity.** ***"volcanic eruption" should be redefined as "volcanic activity".***
8. **Impact data sharing.** NZSEE supports the Canterbury Earthquakes Royal Commission recommendation 94, namely that "Section 32(4) of the Earthquake Commission Act 1993 should be amended to allow for disclosure of information that may affect personal safety". Additionally, the lack of impact data sharing by EQC following the Darfield and Christchurch earthquakes duplicated efforts and limited the understanding of the impacts and the management of the emergency response. NZSEE recommends that ***the EQC Act be further amended to allow for post hazard event impact data to be collected in a collaborative manner and to be shared appropriately, protecting sensitive information, amongst EQC, insurers, and the emergency services, including Civil Defence Emergency Management Groups, during states of emergency.***

Finally, NZSEE notes that New Zealand's capability to better define our natural hazard risks is a result from more than a hundred years of observing past hazard events and, most recently, by the successful acquisition of data from GeoNet, together with other observations, enabling advanced research and modelling of New Zealand's natural hazard risk environment. This is due to sustained funding by EQC and government public good science. The communication of better understanding of New Zealand's natural hazard risk environment by EQC to re-insurers enables the Natural Disaster Fund to be re-insured on favourable terms, while EQC's communication to and education of the public is assisting improvement to New Zealand's resilience.

