

The Treasury

Earthquake Commission (EQC) Act Review Submissions Information Release

Release Document

January 2018

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- [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 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

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. |

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| Email address: | |
| Phone number: | |

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

For organisations

| | |
|--------------------------|--|
| Organisation name: | Munich Reinsurance Company – NZ Branch |
| Nature of your business: | Reinsurance |

| | |
|----------------------|-----|
| Contact person name: | [1] |
| Position: | |
| Phone number: | |
| Email address: | |

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

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?

We agree with these purposes but consider that as the Discussion Document states on p21 "The core purpose of the EQC scheme is to ensure homeowners are able to put a roof over their heads after a natural disaster strikes." The second stated purpose should come first and the first stated should come last..

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?

We consider that that the current coverages are sensible with respect to the listed purposes. From a reinsurance point of view what is in the list of coverages is a pricing/modelling issue ie. additions to, or deletions from this are underwriting considerations (provided any addition is not a peril reinsurers do not cover).

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?

Whether dwelling in non-residential buildings are included is an underwriting issue. Our Christchurch claims experience tends to indicate that complications do arise in “mixed” buildings and the closer to residential only the easier the claims handling.

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?

The only land cover we provide is through any reinsurance we provide to the EQC. We would not want to expand this into coverage for land for non-residential buildings. Again claims experience has shown greater complications with increased non-residential content of mixed buildings. For this reason, we consider this should be available for residential buildings only is a strong preference.

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?

We can see both advantages and disadvantages in this proposal. The advantage of having the problematic interface between the land and the foundation clearly with EQC is a significant advantage. This becomes an underwriting consideration, however the clear definition of siteworks is critical.

The disadvantage of having siteworks included within the primary element of a capped sum insured is clear from an insurance company customer point of view. As many of these customers struggle with the concept of a capped sum insured on their house alone, to include an element of siteworks we can see would add significant difficulty.

We have no intention of returning to the provision of replacement (re) insurance for houses. The inclusion of siteworks in a replacement coverage would further strengthen our resolve not to be involved.

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?

We are neutral on who provides this cover. It is an underwriting consideration that we can handle.

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?

As a reinsurer we are only involved in the whole portfolio consideration of this and couldn't comment on the effect it might have at the consumer interface.

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?

We are neutral on this as it is an underwriting consideration (albeit possibly complicated if siteworks are included).

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

As above.

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

As above.

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.

For reinsurers who operate on a portfolio basis, rather than a single risk approach, it is not possible to answer this.

Reinstatement of EQC cover after an event

Proposal for discussion

8 That EQC building cover reinstate after each event.

We are neutral on this as it is an underwriting consideration. All we require is a clear definition as to the reinstatement provision to apply.

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?

As above.

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

This is also an underwriting consideration, however there should be common event definition across both the initial cover and the reinsurance treaties that support both the EQC and insurers programme. In this respect a change from 48 hours to 72 hours would be the best overall outcome.

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

Refer above.

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?

The provision of land cover to the EQC scheme is an exception to insurance practices around the world. The lack of clarity around this element of cover when there is a foundations interface has been a problem as noted in the question. The proposed solution would appear to offer a better outcome than the status quo. This will only be brought to fruition with a clear definition of Siteworks.

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?

This would appear to be good solution.

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?

If "The core purpose of the EQC scheme is to ensure homeowners are able to put a roof over their heads after a natural disaster strikes" the move to sum insured home insurance policies should not cause a problem. Only if the purpose was to put all homeowners back in exactly the same (or possibly a better) position, might this cause a potential problem.

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?

Totally disagree. On a practical level there is no comparison between EQC's legislated standard and insurance industry norms. There has been Court action to show this is not the case. The use of the plural "norms" confirms that there is no one standard in the insurance industry (something which would be prohibited in any event under the Commerce Act). Accordingly there can never be any consistency when 2 different definitions are involved. Problems in Christchurch have clearly shown is that a consistency of standard of

coverage is essential to remove confusion when EQC and insurance company coverage coincides.

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?

We consider it essential to achieve consistency in coverage to overcome the difficulties that have arisen in Christchurch. We do not consider that a legislation prescribed cover is a feasible workable outcome as any coverage above the EQC limit would be on a different (insurance company policy) basis. As outlined in 10a above we do not consider loss assessment based on coverage that changes to be an effective and efficient outcome. It can only add to disputes and delays.

The best outcome is for the coverage (ie the basis of loss settlement) to be that chosen by the Insured for their material damage (fire) cover. If that standard is satisfactory for them in the event of a fire, it must be satisfactory for them in the event of EQC perils. There is the potential for differential treatment between neighbouring properties however this would in any event be the outcome if for example a fire spread from 1 to the other. Additionally the 1 which had selected the lower standard of repair would get more repair work done under the EQC cover than that with the chosen higher standard. In this latter case the property would transition more quickly into a insurance company paid repair.

With respect to pricing of reinsurance treaties, the differing basis of loss settlement would be a very small consideration when looking at a large portfolio, whilst the benefits to be gained through smooth individual claim loss handling will be large.

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, there is benefit in having a single consistent claims excess. Both parties know from the beginning what it will be and both can factor it into the loss settlement.

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

The amount of the deductible is an underwriting consideration from a reinsurance point of view. \$2,000 seems an appropriate amount.

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?

In the absence of land cover elsewhere in the broader market, the level of the excess is not relevant.

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

This is an underwriting consideration with respect to the EQC reinsurance programme and can be factored in at whatever level is selected.

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, this would appear to be a sound proposition in light of both the Canterbury experience, where there had been no change for some time, and for the ongoing relevance of the stated purpose of the EQC.

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

We have no strong view on the best attachment mechanism for EQC cover.

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?

On the assumption that such an exclusion to EQC cover would be rare, we have no strong view on this.

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?

This would appear to be a pragmatic option for EQC to have available to 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?

We very strongly believe that all claims should be lodged with, assessed and managed by 1 entity only. In this regard we fully agree with the Insurance Council of NZ submission that the party best placed to handle this is the claimants' private insurer. This is a continuous core business function for private insurers, it is not for EQC in the normal course of its business functions. Additionally the offshore operations of most insurers will give them access to a wider pool of experienced insurance personnel.

The double handling of over cap EQC claims for the Canterbury events has been both costly and inefficient. We believe the cost could be as high as 10% additional.

To further improve this performance, we believe it essential that the coverage upon which claims are assessed must be consistent throughout – refer to our answer to Questions 10a and 10c.

As a reinsurer this mechanism of a party external to our own organisation handling claims that we will pay is implicit in all the business we do. We have the right to audit our clients claims handling – this is a core skill which we have developed and one which EQC could develop, much more efficient than it could retain its own claims handling personnel. It is our view that EQC would be better auditing claims than being involved in the double handling of claims which has proven extremely inefficient, costly and time consuming in the Canterbury events.

Should an EQ occur which is large enough to possible exceed the EQC net underlying retention, we would envisage possible “cut-through” audits, where reinsurers of the EQC might audit the claims performance of the company assessors. This core function of reinsurers would be added protection for EQC that insurers were acting appropriately with their claims handling.

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?

We consider that 3 months is an adequate period. Only on the occurrence of an event that is so big that it threatens to overwhelm the resources of the industry and the country should consideration be given to extending this period. It should not be an automatic default position.

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?

Only the Crown can balance the needs of it social policy and the cost of fulfilling that. Accordingly whilst

transparency around pricing should be a requirement in terms of a taxpayer entitlement, the adequacy of compensation to the Crown is not a consideration we would want to comment on.

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?

This is not a reinsurance underwriting consideration however it would appear to be a good option to retain.

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?

Whilst it could be argued that this is inequitable, this would appear to be the most pragmatic solution. Exposure rating would likely introduce affordability issues and would be open to technical challenge.

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?

We have no strong view on this.

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?

This would appear to be a good flexibility to have, however we have no strong view on this.

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?

New Zealand's Future Natural Disaster Insurance Scheme

Proposed changes to the Earthquake
Commission Act 1993

Submission Form

July 2015



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Your contact details

For individuals

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

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| Email address: | |
| Phone number: | |

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

For organisations

| | |
|--------------------------|-------------------------------|
| Organisation name: | Swiss Reinsurance Company Ltd |
| Nature of your business: | Reinsurance |

| | |
|----------------------|-----------------------|
| Contact person name: | Andrew Davidson |
| Position: | Senior Client Manager |
| Phone number: | [1] |
| Email address: | |

| | |
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| In what city, town or province is your organisation's New Zealand headquarters? | N/A |
|---|-----|

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? **We agree these purposes are appropriate.**

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, however we would suggest that the EQC cover needs to align with the private insurance products or vice versa. Difference in conditions relating to the perils covered under the act should be avoided.**

2b If not, what changes would you suggest, and why? Referring to comment in 2a – for instance a consistency between EQC and insurers in regards to protection from volcanic hazards.

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. We support cover over residential buildings and non-residential buildings where the residential component is more than 50%. Note that reinsurers will charge for their excess of loss reinsurance of the EQC programme a price detached from the EQC**

levy, it would be prudent that the EQC put in place adequate methodology in regards calculation of the levy when applied to mixed use properties.

3b If not, what forms of accommodation or living arrangements do you think should be added or removed, and why? **We are not supportive of making the distinction between primary and secondary residences.**

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? **EQC land cover should be restricted to land remediation around foundations works. This remediation may be in combination with site specific engineering/foundation work.**

4b If not, what coverage of land cover would you prefer, and why? **We do not support the underwriting of land that is not supporting a residence. We are in the main supportive of the ICNZ proposal to cover "landworks".**

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? **We reference the ICNZ proposal for "landworks" as a separate cover issued alongside the building cover by the EQC. We remain neutral as to whether the EQC building limit is re-set to either \$200,000 or \$150,000. The "landworks" cover provided by the EQC should be limited to the lessor of the economic value of a defined area of land or a landworks cover cap. We do not support a situation where siteworks erode the building cover cap, putting insurers in a first loss position and heightening the potential for underinsurance of policyholder residences.**

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

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. To avoid debate as to what is contents or building, the EQC coverage should mirror the overlying insurer cover.**

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.

As a reinsurer, we will offer catastrophe excess of loss protection to the EQC and the private insurers. All other things being equal, the shifting of the risk away from the EQC to insurers will not affect the risk pricing we calculate. Terms offered (incorporating but not limited to risk premium, loadings and margin requirements) will differ between individual insurance companies, reflecting our assessment of each company's claims handling ability and overall trading relationship.

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? **We support a material increase in the building cap to reflect current day needs. Whether the monetary cap is either \$200,000 or \$150,000 is less important. The higher the cap - the more we would expect the levy to be community rated.**

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

We would prefer to see a meaningful increase in cap. If the ICNZ "landworks" proposal is adopted we would expect that the limit exceeds by a sensible (>\$40K) amount a no land cover EQC cap. The cap should not be so great as to stymie private insurer competition. We support a review of the cap every 5 years.

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.

As a reinsurer, we will offer catastrophe excess of loss protection to the EQC and the private insurers. All other things being equal, the shifting of the risk away from the insurers to the EQC will not affect the risk pricing we calculate. Terms offered (incorporating but not limited to risk premium, loadings and margin requirements) will reflect our assessment of the EQC's claims handling ability and trading relationship.

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? **No. The reinstatement cover should be in line with the majority of overlying insurance covers i.e. reinstatement of the insurance cover only occurs once the damaged property is reinstated.**

8b Do you agree with retaining the current definition of an event? **Yes, however It would be acceptable to make a shift (part of many to create a more seamless interconnection between insurers and EQC) in the limitation to fall in line with private insurers.**

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? **We are not opposed to this proposal if it is modified to exclude appurtenant structures nor are we opposed to the alternative two cap ICNZ proposition.**

9b If not, what is your preferred alternative, and why? **Refer our response in 9a**

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? **To limit the risk of under-insurance it makes sense to consider separate "landworks" and building covers.**

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? **No. Christchurch events clearly highlighted the reinstatement standards applied by the EQC and insurers differed and lead to disputes. Efforts should be made to match the overlying insurer's policy approach. We favour claims lodgement, assessment and handling of under and over-cap claims be assigned to the insurers. If there is to be legislation it should be addressing minimum standards applicable to both the EQC and insurers.**

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

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? **See 10a**

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? **Insights from direct insurers around purchasing behaviour should be sought before setting an appropriate flat dollar excess.**

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

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? **NO**

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

It should attach to fire or all-risk policies on residential building policies. EQC cover should not be restricted to the perils named in a fire policy, it should continue as per the Act.

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. Furthermore we believe the country would be best suited if the whole claims process was handled by the insurers. EQC could monitor and control through service level agreements and audits.**

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?

Yes

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**

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. Whilst acknowledging the benefits of price signalling, community rating appears appropriate for the New Zealand risk profile and social goals.**

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?

No comment

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? **We agree that the EQC could entertain the use of other forms of risk transfer, whilst confident that traditional reinsurance shall maintain a dominant role in the risk transfer mechanisms that New Zealand may adopt.**

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?