

The Treasury

Earthquake Commission (EQC) Act Review Submissions Information Release

Release Document

January 2018

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New Zealand's Future Natural Disaster Insurance Scheme

Proposed changes to the Earthquake
Commission Act 1993

Submission Form

July 2015



THE TREASURY
Kaitohutohu Kaupapa Rawa

New Zealand Government

Treasury:3208710v1

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.

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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.

Email address:	
Phone number:	

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

For organisations

Organisation name:	New Zealand Society of Actuaries ("NZSA")
Nature of your business:	The NZSA is the professional body for actuaries practising in New Zealand. Our purpose is to ensure the work performed by actuaries in New Zealand meets internationally recognised professional standards.

Contact person name:	Richard Beauchamp
Position:	President
Phone number:	[1] _____
Email address:	_____

In what city, town or province is your organisation's New Zealand headquarters?	Wellington
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What is the purpose of the EQC scheme?

Proposal for discussion

1 That the purpose of the EQC Act be to establish a Crown-owned natural disaster insurance scheme for residential buildings in New Zealand that:

- ▶ supports, complements and is closely coordinated with the provision of effective private insurance services to the owners of residential buildings
- ▶ recognises the importance of housing in supporting the recovery of communities after a natural disaster
- ▶ supports improved resilience of New Zealand communities and an efficient approach to the overall management of natural hazard risk and recovery in New Zealand
- ▶ contributes to the effective management by the Crown of fiscal risks associated with natural disasters.

What do you think?

1a Do you agree that these purposes are appropriate and complete?

We support the need for the EQC Act to contain a clear statement of the purpose for the legislation and agree that further consultation in this area would be worthwhile.

The purposes above are appropriate but, we believe, incomplete and may result in the Act and private insurers having different objectives. As seen with the current Act this misalignment can result in significant cost and delays following a significant event.

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

We note that one of the objectives of the Review is to “*minimise the potential for property owners to experience socially unacceptable distress and loss in the event of a natural disaster.*” This objective is not clearly captured within the objectives above.

We believe that for the EQC Act and private insurance to work effectively together it is important that the purpose of the Act is aligned with the intent of insurance in general. “Minimising unacceptable distress and financial loss” is the clear purpose of insurance so should be retained within the purpose of the Act.

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 support EQC continuing to cover the perils listed.

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?

We believe that the EQC should provide cover for residential dwellings regardless of whether this is a standalone residence, mixed use building or incorporated within a non-residential structure. Whilst we recognise that the extension of cover to residences in mixed use or commercial premises has resulted in some practical difficulties with the settlement of claims post the Canterbury earthquake events, it would be inconsistent with the objectives of the Act to exclude these dwellings. In particular it would suggest that reinstating accommodation in these situations is not important to the recovery of a community post an event. As these situations are often associated with small business operators that service their local community this is clearly not the case.

The nature of residential accommodation in New Zealand is changing with a standalone dwelling on a “quarter acre section” no longer being the norm. With higher density housing there is a greater prevalence of multi-unit construction, mix-use buildings and apartments. The Act needs to recognise and accommodate these changing residential models in a way that will fulfil the intent of the legislation on an ongoing basis.

The rules with regards provision of cover, levy calculation and claims settlement are overly complex. We would support simplification of these rules to provide:

- cover for any residential dwelling within non-residential buildings
- levy based upon individual unit calculated replacement value where available
- levy based on the size of the residence (as a proxy for the rebuild cost) where individual unit sum insured are not available.

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?

No. NZSA does not support the proposal that land cover is only associated with residential buildings. All dwellings should get equal coverage under the Act.

Limiting cover to only residential buildings would require mixed use buildings to be defined as “residential” or “non-residential” based on an arbitrary rule, which results in different outcomes for residents which are beyond their control.

For example a multi-story building may have retail space on the ground floor and four floors of apartments above. Under current rules this is a residential building as only 20% is used for non-residential purposes.

Land cover applies. However if three floors of the residential floor were converted to office space the building would change its use to non-residential leaving the residents on the remaining floor with no land cover. Alternatively if two adjacent builds were configured as per the example above the EQC cover for the residents in buildings would be priced the same, but provide different levels of compensation.

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

We propose that land cover should be provided to dwellings in non-residential buildings based on the proportion of the floor area used for residential purposes. In practise cash settlement of these claims may need to be required.

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 believe that the inclusion of siteworks in the building cover will either leave the insured exposed to a significant financial risk or unreasonable pricing increases for the most vulnerable people. This is not in line with the objectives of the EQC scheme.

The rebuilding cost in the majority of home insurance policies is the cost to rebuild the dwelling (and other specified features) to a new condition allowing for changes required by current Government and Local Authority regulation (i.e. the cost assumes use of normal building solutions to reinstate the dwelling) . It does not allow for additional costs that may be imposed due to changes in the land quality post event and regulatory responses to this. Siteworks required as a result of changes in the land's ability to support the normal building solution are an example of such costs.

If such siteworks are included in the EQC building cover, the total cover (EQC cover plus insurer top-up) will prove insufficient to reinstate the building to the extent that the sitework costs cause the rebuild costs to exceed the sum insured value of the insurance policy. In extreme scenarios, which are often a result of large events, this will leave the insured party unable to reinstate a significant portion of the building unless they have included an allowance for siteworks in their sum insured value. Currently siteworks are not included in sum insured values, so this would require a change in sum insured estimation and potentially will result in two sum insured values (one to cover EQC events and another to cover non-EQC events where siteworks would not be covered).

The proposal to include siteworks in the building cover also implies a transfer of risk to the insurer as total losses are more likely to be experienced by the insurer than under the current arrangements, where land damage is separate to the building cover. The additional uncertainty the insurer has with regards to the contribution EQC building cover will make to the cost of rebuilding the dwelling (as opposed to remediating land) will need to be factored into reinsurance cover and will ultimately be reflected in premium levels. As such we believe the proposed approach will result in an increased cost to policyholders, as the increased uncertainty to insurers will exceed any premium reductions from the proposed increase in EQC caps.

The experience from the Canterbury Earthquakes has highlighted the siteworks issue. However, it should be noted that this was an extreme set of events on an area that contained some dwellings built on low quality land. This may not be representative of future disasters.

For these reasons, we believe that siteworks should be provided as a land cover separate to the building

cover provided by EQC. A community-pooled approach is much better suited to a risk of this nature, yet is difficult to quantify. Transferring this risk to insurers may be at the detriment of the most vulnerable people living on low-value land.

We believe that a separate EQC land cover for the building site needs to be available, where the standard for remediation needs to be well defined with the objective of providing a building platform suitable for reinstatement of the dwelling using normal building solutions for that site (specific to the Local Government requirements prior to the event occurring). This land cover should be limited to the economic value of the land.

EQC should have the option to contribute to the cost of a more extensive/expensive foundation solutions (above the normal building requirement prior to the event), as an alternative to siteworks, where this is a more economic/pragmatic solution for the site under consideration.

The separation of land remediation from building cover also provides EQC with greater flexibility in situations where blanket remediation of a wider area is more economic/pragmatic than addressing individual building sites.

This solution will provide the greatest certainty to the insured thereby minimising the level of distress and loss to individuals in the event of a natural disaster. This in turn will support the community resilience and recovery post an event.

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

As noted in 5a above, we believe that siteworks needs to be separate from the building cover. This means that land cover would be required in situations other than total economic loss. NZSA supports limiting this land cover to the building platform and structures required to stabilise this platform (and land/structures on the access way if desired). The land cover should cover siteworks sufficient to reinstate a building platform suitable to support reinstatement of the dwelling using normal building standards required by the Local Council for that site prior to the occurrence of the event. Cover should be limited to the economic value of the land.

EQC should have flexibility in the solution used to provide the required building platform including:

- remediating individual building sites
- undertaking wider area land remediation
- contributing to the cost of a more expensive building solution in lieu of siteworks.

Extension of the land cover for the access way any associated artificial surface and related structures (culverts, retaining walls or bridges) could be incorporated within this proposed model.

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 support this change.

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.

The NZSA represents members who may be employed or retained by private insurers. We cannot comment on an individual insurer's likely response and have not undertaken any analysis of the likely impact on premiums. However, in principle, transferring this risk to insurers will lead to more targeted pricing for contents insurance and less cross-subsidisation. The impact on customers will depend on the insurer's view of the risk versus the existing part of the EQC levy relating to contents insurance.

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?

Where the cap should be is a question of balancing the objectives of the EQC in light of post event recovery and wide take-up of natural disaster insurance, against the affordability and the extent to which cross subsidisation of these costs are socially acceptable.

The appropriate building cover cap will also be closely linked to the coverage provided by this benefit.

NZSA agrees that the building cap should be increased to reflect at least inflation in building costs since the current cap was set. Regular reviews of this cap should also be undertaken in future.

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

We do not have a preferred cap as we believe that it is necessary to resolve the issues around scope of the building cover before an appropriate figure can be established. The final figure is largely a matter for the Crown given they have the fiscal risk of the schemes assets and reinsurance arrangements being inadequate.

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

See comments above in 7a & 7b.

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.

We have not undertaken any investigation as to the likely impact on premiums as a result of an increase in the EQC cap. As mentioned in 5a the proposal to include siteworks in the EQC building cover increase the uncertainty insurers have as to the contribution EQC will make to the cost of reinstating the dwelling. This additional risk will come at a cost, making any reduction in client premium associated with an increase in the EQC building cap lower than it would be if siteworks were excluded from the scope of the building cover.

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?

We support a third option that is proposed by the Insurance Council of New Zealand. Under this proposal,

EQC's maximum liability for an individual dwelling would not exceed an amount equal to one maximum payment under that cover until the dwelling is completely repaired. EQC would pay the full costs of accumulating damage in each event until it reached the cap, and pay nothing more until the repair was fully completed. The insurer would be liable for any further damage from earthquake (or other specified peril) above the cap, but only up to the agreed sum insured until repairs were fully completed.

This proposed option has some features of both options in the discussion document, but with fewer shortcomings than either of them. It is also more aligned with how current private insurance policies operate, compared to wordings historically in the market and during the Canterbury earthquake sequence.

This approach is also consistent with the fundamental insurance principle of indemnity (i.e. for the insured to be put back to the same position after an event (or after several events) that they were in immediately prior to the loss). This means the insured should never obtain (or require) any more than what they were insured for regardless of whether loss was caused by fire or a series of earthquakes.

This option proposes that the full sum insured should not be reinstated until after permanent repairs have been completed to a dwelling. This does not mean that the dwelling would not have insurance cover, but that the cover would be limited by the amount of damage already sustained. Naturally each insurer will have its own specific policy wording but in general terms, policies would specify that the sum insured would be reduced by the amount of damage incurred prior to the completion of permanent repairs.

We recognise that this process envisages reinstatement of the property and both the EQC cover and industry cover may need to be amended to ensure that reinstatement is enacted appropriately where settlement is on a cash basis. Schedule 3(a) of the current Act envisages such a circumstance.

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

The NZSA does not have a view on this question.

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?

No.

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

As outlined above in section 5 in relation to siteworks, we do not believe siteworks and building repairs can be included in one combined cap as it results in significant risk being transferred to the insured party.

The proposal of a cap of \$200,000 for EQC building cover including siteworks effectively limits the land cover to the \$200,000 unless EQC decides the land is uneconomic to repair. This is because the insurer does not cover land. For example a property with \$300,000 of land may require siteworks of \$250,000 post an event. EQC would contribute \$200,000 towards this cost and the remaining \$50,000 would be uninsured as the insurer does not cover land. Unless the insured undertakes these repairs the dwelling could not be reinstated. Instead, it is NZSA's view that the solution to this siteworks and land cover issue can be resolved as outlined below:

- Legislative clarity is required around what constitutes siteworks and what structures EQC covers. NZSA's view is that siteworks must include all work, including ground-testing, professional advice, design solutions, earthworks and actual on-site work that is required to enable the repair or rebuild using normal building standards required by the Local Council for that site prior to the occurrence of the event. Insurers do not insure land as a matter of course.
- The total amount of EQC's liability for siteworks will always be capped at the amount that EQC could be called upon to pay if the land itself cannot be built on.
- The determination of whether a cost incurred on a site is dwelling or siteworks should be clarified by adopting the definition we propose. The legislation should be sufficiently flexible that EQC may elect to contribution to the cost of foundations in excess of the "normal building standard prior to the event" in lieu of siteworks where this is a more economic solution.
- Consideration should be given to whether the definition of cover for siteworks could be expanded to encompass either "true" siteworks such as land remediation or a different and more economic approach such as more extensive foundations, depending on what is required at the site.

We support restricting EQC cover solely to the main dwelling structure and the main access way to the dwelling. This would enable insurers to provide differentiated cover to the insured around other structures and the need for the changes to be focused on reinstatement of the dwelling.

An alternative view would be to list those appurtenant structures that would be covered based on Protocol 5 developed between EQC and insurers in Canterbury. A list of what is included would provide clarity and avoid dispute.

9c Do you agree that restricting land cover to situations where the site of the insured building cannot be rebuilt on is appropriate, given the EQC scheme's focus on providing homeowners the resources to repair, rebuild or re-establish homes elsewhere?

No.

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

As above, it is our view that land cover should not be restricted to situations where the land cannot be rebuilt on. It is our view that siteworks should be a separate component of EQC money available to redress land issues up to the maximum that would be paid if the land was a total loss.

It is important to recognise that the decision not to remediate the land is separate from the assessment as to whether the property can be reinstated. As was the experience in Christchurch Red Zone, it is possible that the land may be written-off when the dwelling is repairable. In these circumstances the insurance payment is limited to the value of the damage and the insured is left with insufficient funds to compensate for the total constructive loss. Extending the land cover to compensate for this shortfall would be a possibility.

Alternatively the Government may choose to retain the fiscal risk associated with providing compensation in these circumstances.

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?

In 5a and 5b we have highlighted how the proposed changes would result in a significant transfer of risk to the insured.

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

As noted in our response to sections 5,7 and 8, our view is that siteworks should be included in the land cover that is provided by the EQC.

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?

The NZSA does not have a view on this question.

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?

We agree that the current excess arrangements are unnecessarily complex. We note the importance of the insured being able to understand their own obligations as well as those of EQC, so a move to a simpler, standard excess is the preferred solution. We also note that the minimum excess of \$200 has not been adjusted for 22 years which of itself would indicate that it is low for their intended purpose. The application of a flat dollar amount would provide greater certainty and be operationally more efficient.

We also submit that in the interests of simplicity a single excess should apply to an EQC claim, with no separate excess for Land and Building cover.

Furthermore to align with the reinstatement proposal in question 8, a single excess should apply up until the time when the damage has been fully reinstated, with no additional excess being payable if another event causes further damage before the property is reinstated.

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

While an excess of \$2,000 would significantly reduce the number of small claims being managed we have concerns with regards the affordability of this excess for vulnerable individuals. We would be particularly concerned if the level of excess meant that emergency repairs (particularly health and safety and weather tightness issues) were not completed promptly.

Making the excess too high will increase the collection costs as non-payment becomes a more significant issue, this would erode the savings from having a higher excess in the first place. Insurers often offset the excess, in consultation with the insured, against the reinstatement work. For example using a lower quality repair (e.g. using linoleum rather than tiles) or not completing some part of a reinstatement (e.g. interior painting) to offset the cost of the excess. As the level of excess increases, the ability to do this without significant impact on the insured is reduced.

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

The consultation document talks about the average excess from the Canterbury building claims being about \$500 (half of the maximum that could apply). In light of this and the concerns we outline above we feel an excess of \$1,000 would be a fairer sharing of cost between EQC and the insured.

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?

As noted in 11a, NZSA's position is that only one excess should be applied by EQC. So we agree with the position in the discussion document, but for different reasons.

The consultation document envisages land cover would only be available in case of total economic loss of the land. In this scenario applying an excess will not reduce the number of claims incurred so serves little

purpose. We propose that land cover should remain and include siteworks required to remediate the building site. As the repairs are related to remediating the dwelling it seems inconsistent to apply an additional excess.

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?

We agree with this recommendation.

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 agree with the status quo point of attachment of EQC cover to fire policies. As insurers in New Zealand almost exclusively offer 'all risks' policies as part of the residential fire policy there is no reason to attach on a peril by peril basis. If attachment was on a peril by peril basis, then presumably EQC cover would be lost if an insurer declined to cover a peril which would undermine a purpose of the scheme.

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?

We agree with this recommendation.

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 agree with this recommendation.

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?

The NZSA does not have a view on this question.

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?

We agree with this proposal. The Crown should receive compensation for the expected costs and risk associated with the covers provided under this scheme. However the levy should be not used to compensate the Crown for other risks associated with natural disasters.

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?

We support the continued flexibility to charge a flat or a differentiated rate, recognising there are good arguments in favour of both approaches. The current flat-rate has a social policy benefit because cross-subsidisation reduces the rate in high risk areas which enables those on low incomes in those areas to better afford cover. It therefore meets the objective of maintaining high levels of residential cover for catastrophe cover. Maintaining a flat rate also makes the administration around collection simpler and easier.

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?

Please see answer 20a.

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 support retaining the Natural Disaster Fund in broadly its current form. The Natural Disaster Fund fulfils a number of important roles:

- Paying the first claims incurred prior to the reinsurance program being called upon, this reduces the cost of the reinsurance program.
- It meets the cost of the reinsurance program and when this is insufficient, claims that exceed the level of the program, before calling on Crown resources.
- It funds research relating to the objectives and functions of the Commission.
- It funds natural disaster awareness and education programs.
- It meets the expenses of running the commission.

The existence of the Fund gives the Commission autonomy outside of Crown funding to facilitate the objectives of the Act.

The Fund provides a way of smoothing the funding cost of the scheme and provides some buffer against the pricing cycle of the reinsurance market. It also allows for funding of area wide land remediation projects that are outside the traditional property insurance model.

The scheme has a role in understanding natural hazards and working with local authorities and others to ensure efficient management of, and recovery from, natural disasters. We do not believe this responsibility should extend to funding pre-emptive mitigation work, this could see a significant change in the use of the NDF, with lower funds accumulated overall. It could be argued that risk mitigation work limits the EQC's exposure to future claims. However prioritising this work relative to other local risks is a decision for local authorities and so is more appropriately funded through local levies.

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?

The NZSA does not have a view on this question.

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?

As noted in 1b, the NZSA believe that it is essential that the EQC and private insurance industry work together to ensure that New Zealanders get the support they need following natural disaster events. In our opinion this has been the key learning following the Canterbury earthquakes. We believe the review of the EQC Act should also consider better methods of co-operation between the EQC and private insurers.

This should also include the sharing of information between EQC and insurers. Section 32(4) of the current EQC Act limits the sharing of information with insurers. NZSA would recommend that the EQC Act ensures that information that is gathered for the purpose of settling a claim can be shared between EQC and insurers. Information is also gathered post-disaster by both EQC and insurers or their agents to determine the vulnerability status of residents. This information helps prioritise recovery needs. At the same time, other agencies, such as District Health Boards and the Ministry of Social Development may hold information that will also identify vulnerable people.

NZSA believes consideration should be given to how the EQC legislation and Privacy Act provisions can be made more flexible within established protocols and confidentiality provisions to enable better information sharing.

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

Please see comments in 23a.