

The Treasury

Earthquake Commission (EQC) Act Review Submissions Information Release

Release Document

January 2018

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

11 September 2015

Review of EQC Act
The Treasury

By email: Submissions.Eqcreview@treasury.govt.nz

New Zealand's Future Natural Disaster Insurance Scheme

Attached is a submission from the Insurance Brokers Association of New Zealand regarding the proposed changes to the Earthquake Commission Act 1993.

The proposed changes to EQC outlined in the discussion document are considered generally sound by IBANZ. However after discussion with various members of IBANZ who were directly affected by the series of earthquakes beginning September 2009, we are concerned that the proposed changes may not go far enough to provide the more efficient and positive action seen as urgently required.

The nine key proposals outlined in the preferred reform package are seen as the minimum changes required to the EQC scheme. In addition we believe the proposed change of 'EQC claims to be lodged with insurers' is not sufficient to achieve the aim of delivering a more efficient and streamlined response to the home owner.

Not only should the claims be lodged with the insurer, but the insurer should also be charged with managing all the reported claims through to closure. The insurer could then seek recovery of the under cap portion of the settlement from EQC. To compensate it for incurred costs relating to the EQC part of the settlement the insurer should be able to charge an administration fee for their service. To ensure transparency claims could be audited by EQC.

Our members believe this will remove the senseless and time consuming duplication in the assessment of claims. The major frustration for insurance brokers and their clients, the insured, following the earthquakes has been the inability of EQC to efficiently manage the below cap claims. Enabling the private insurer to manage the full process from start to finish will remove those frustrations and deliver a far more efficient response to the home owner.

IBANZ is available to discuss any aspect of our submission if required.

Yours faithfully



Gary Young
Chief Executive

Insurance Brokers Association of New Zealand Inc.

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

Your contact details

Organisation name:	Insurance Brokers Association of New Zealand Inc. (IBANZ)
Nature of your business:	Professional Association

Contact person name:	Gary Young
Position:	CEO
Phone number:	[1]
Email address:	

In what city, town or province is your organisation's New Zealand headquarters?	Auckland
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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 agree that having EQC involved in contents cover is inefficient and distracts from the core focus on housing.

We note that removing EQC contents cover will impact fire service levies; change will be required to the Fire Service Act. This issue can be considered as part of the current review of the Fire Service 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 agree an increase in the cap is warranted. However the justification should not be that it will reduce significant problems resulting from the interaction between EQC and private insurers. The interaction issues will be best addressed by having all claims lodged and settled by insurers. See our responses to question 10 and 17.

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

We do not however we note that an increase in the cap for residential dwellings will also mean a doubling of the fire service levy for homeowners and continue to put pressure on the affordability of cover. This would be in addition to any increase in EQC premiums as a result of increasing the cap.

The effect on fire service levies needs to be addressed, perhaps as part of the current review of the fire service funding being undertaken by the Department of Internal Affairs.

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?

There is a real issue with the EQC standard of repairs. Whether this is because of the legislated standard or the EQC interpretation of the standard is open to debate.

Our members have reported many instances where the EQC approach to repairs has differed significantly from that adopted by insurers. To quote our members who have dealt with claims out of Christchurch:

"We see it time and time again that EQC have this mysterious standard and repair methodology that can repair houses way cheaper than the private insurers."

"I can never remember one where the insurers could repair something even closely to what EQC allocated."

"I have had others where EQC have said they don't pay more than \$ for carpet no matter how good it was, they have a limit that they stick to."

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

The legislation needs to be updated to accurately reflect the approach of modern insurance policies. The EQC should also engage with the insurance industry to better understand the approach the industry takes to repairs when settling claims.

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?

The nine key proposals in the discussion document are seen as the minimum changes required to the delivery of the EQC scheme.

However we do not believe the proposed change of 'EQC claims to be lodged with insurers' is adequate to realise the aim of delivering a more efficient and streamlined response to the home owner. Not only should the claims be lodged with the insurer, but the insurer should also be charged with managing all the reported claims to closure and then seek recovery of the under cap portion from the EQC.

The insurer should be allowed to charge an administration type fee for this service. Transparency of the process is important and EQC should be able to audit the claims process.

We believe this will remove the senseless and time consuming duplication in the current claims assessment process. The major frustration following the earthquakes has been the inability of EQC to efficiently manage the below cap claims and the duplication of assessing work undertaken for those claims subsequently established as being over cap. Enabling the private insurer to manage the process from the commencement will remove these frustrations and deliver a far more efficient response to the home owner.