

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.

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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

The Treasury
1 The Terrace
Wellington 6011

RE: Proposed changes to legislation governing EQC Scheme: Submission

Dear Sir / Madam,

Please find Medical Assurance Society's submission regarding New Zealand's Future Natural Disaster Scheme enclosed.

MAS supports the principles of the EQC scheme and offer our support to ensure sustainability of the scheme well into the future. Given our experiences following the Canterbury earthquakes however, we believe there are a number of key areas of improvement that will ensure greater levels of consumer satisfaction following natural disaster events whilst still protecting the Crown's fiscal interests.

We have focused our submission on consumer needs rather than commercial aspirations. All of our recommendations are made with the consumer in first focus. Suffering any form of loss can be unsettling, widespread natural disasters even more so. We seek improvements in the current legislation that will enable the re-establishment of communities in an efficient manner; making sure all individuals can get back to normal with minimal disruption and ensuring continued wellbeing for all our citizens.

As we are not a profit driven organisation, keeping natural disaster insurance affordable is a central goal of ours and we support any changes that will ensure commercial visions of the scheme are balanced with the cost for consumers. We highlight a number of issues with the proposed changes that may in fact negate the principle of affordability and we ask Treasury to consider these areas closely to ensure all proposed changes will result in desired outcomes.

MAS has been heavily involved in the formation of the Insurance Council of New Zealand Submission and provide this submission to both support the points raised by the ICNZ and highlight our company's personal experiences in Canterbury to ensure Treasury has a wide range of submissions that result in a well-considered EQC scheme that will benefit all of New Zealand for generations to come.

We welcome the opportunity to discuss the enclosed submission at any time and are happy to answer any questions you may have.

Kind Regards,

Sonya Ohlen | General Insurance Products Manager | ANZIIF (Fellow) CIP

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:	MAS (Medical Assurance Society)
Nature of your business:	General Insurance / Financial Services Provider

Contact person name:	Sonya Ohlen
Position:	General Insurance Products Manager
Phone number:	[1]
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In what city, town or province is your organisation's New Zealand headquarters?	Wellington
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6.1 Purpose

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?

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

MAS Position

The purpose of the EQC Act is to establish a Crown-owned natural disaster insurance scheme for residential buildings in New Zealand.

We believe the purpose of the EQC Act would be more effective if it was a Crown-owned natural disaster reinsurance scheme.

Many of the issues experienced in Canterbury have been as a result of EQC acting as first insurer. This has made the claims handling very difficult and has resulted in consumer dissatisfaction. If the EQC Act focused on being first reinsurer for natural disaster perils and allowed insurers to manage their own customers and claims we believe community recovery would be quicker and less stressful for consumers.

On the whole we support the purposes as noted however believe refinement of specific responsibilities will allow better performance of EQC;

- One of the fundamental purposes of EQC is to keep insurance affordable, and therefore to keep penetration rates high. There is no need for EQC to manage individual rebuilds or claims of any description or cost. Allowing insurers to do what they do best will ensure less double handling of assessments, greater consumer satisfaction, and quicker reinstatement.
- The discussion document notes that the legislation should 'recognise the importance of housing in supporting the recovery of communities following a disaster'. We agree this is a critical component to a successful scheme. To keep the scheme simple and to provide a higher level of clarity at claim time we believe cover offered by EQC should be limited to

dwelling only; cover for appurtenant structures should be removed due to the variable nature of these items from property to property.

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

We believe there are a number of ways in which these objectives can be achieved. Whilst we completely support the principles of the objectives, our experience from Canterbury is that the manner in which EQC interacts with private insurers has a large bearing on the overall consumer experience and time to reinstate following loss.

The scheme introduces unnecessary complexity by providing its own cover terms and conditions and this creates a number of issues in reinstatement; multiple assessments; different rebuild standards and methodologies to name a few.

We believe the best way in which to compliment cover offered by private insurers is by acting as first reinsurer only. This would allow consumers to choose their preferred insurance supplier in the knowledge that they will receive the level of service they desire and that all cover terms and conditions irrespective of claims value are clearly stated in the policy provided at purchase.

Supports improved resilience of New Zealand communities and an efficient approach to the overall management of natural hazard risk and recovery in New Zealand

MAS supports this purpose, however we would like to understand how this will be funded. To ensure insurers can correctly calculate their risk exposure it is critical that the entire EQC cap is available to every property following a Natural Disaster event. Failure to have these full funds available will result in insurers having to calculate their exposure excluding EQC cover which will negate the purpose of keeping insurance affordable as insurers would have little choice but to calculate exposure from the ground up.

When considering the fundamental 'reason for being', we believe EQC should focus on re-establishment of communities not just individual rebuilds.

The Natural Disaster Fund (NDF) should be repurposed. It should sit outside the site by site cap limits and should be used for area wide / community initiatives following a natural disaster event such as:

- Eco rebuild allowances,
- Clean heating upgrade allowances,
- Emergency temporary accommodation, facilities, food supplies etc.

It should also be used to assist local councils to conduct area wide damage and reinstatement assessments to assist with future mitigation strategies and town planning etc. and provide funding for land settlements when rebuild on site is not possible.

Contributes to the effective management by the Crown of fiscal risks associated with natural disasters

Again we stress that to achieve this purpose there is no need for EQC to assess or manage claims following a Natural Disaster event and that many costs of EQC could be better controlled following a widespread event if they were not managing claims.

6.2 Coverage

Proposal for discussion: What Type of Perils will EQC Cover?

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?

2b If not, what changes would you suggest, and why?

MAS Position

We support the continuation of EQC Cover for all perils currently covered.

In addition we would like the peril of volcanic eruption reviewed to be more aligned with the actual volcanic motions that could occur, so 'volcanic activity' may be more appropriate here.

Perils covered should be reviewed on a periodic basis, and not simply following a widespread event. This will allow the government to understand changes in the insurance or reinsurance industries that may leave consumers susceptible to financial losses following weather and natural disaster events.

The insurance market is changing rapidly and we may quickly see insurers becoming more selective when assessing correlated risks (e.g. flood) and it may not be long before there are a significant number of New Zealand properties that cannot obtain cover from the private insurance market. If this eventuates, Government must be in an agile position to consider providing cover via the EQC scheme.

Proposal for discussion: What types of property will EQC insure?

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 continue to be available to residential buildings and dwellings in non-residential buildings?

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

MAS Position

The way in which New Zealanders are housed is changing. The number of households residing in apartments or multi-tenancy buildings is rising and this is not expected to change. As a result, to ensure all types of communities are supported by the government following a natural disaster it is imperative that EQC building cover continues to be provided to residential buildings and dwellings in non-residential buildings.

Proposal for discussion: What types of property will EQC insure?

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

MAS Position

Whilst insurers would have little difficulty in providing material damage cover for these types of residences, there could be some consumer fall out due to there not being land cover available for these risks.

We believe more consideration should be given to this aspect of the scheme, a better understanding of the financial losses that may be incurred by the property owner should be formulated before decisions made.

If the vast proportion of residential dwellings in mixed use buildings are apartments or the like, then land cover is unnecessary. If however the majority have a proportion of a land title assigned to a residential dwelling then perhaps land cover should be included to enable re-establishment of the dwelling at another location.

Proposal for discussion: Extending building cover to include more siteworks

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?

MAS Position

The distance limits currently applicable under the existing scheme have given rise to a number of issues in Canterbury, particularly where lifestyle properties or large multi title properties may be involved. MAS feels that by limiting cover to simply the dwelling only and not including appurtenant structures, would be the simplest approach to having clear delineation between EQC Cover and insurer cover. This would allow clear and consistent claims settlements irrespective of how complex the property may be.

We believe EQC land cover should include siteworks for the dwelling, the main access way and any retaining walls required to support or protect the dwelling, building platform, or main access way. This cover should not be included in the EQC building cover.

Clear cover terms and the utilisation of legislated definitions will be critical to including these often complex elements in the cover.

We question the suitability of the cap value when the cost of reinstatement and siteworks is unknown until after an event has occurred. Often significant land movements or changes can have a huge financial implication on the reinstatement feasibility and options. Whilst an increase in the current cap level may suit the majority of properties, the outliers give us cause for concern and the risks of insurers encroaching into land cover is simply too high.

The inclusion of siteworks in the building cap presents a number of significant issues for consumers. With the majority of the insurance market only offering capped sum insured house policies, the risk of underinsurance following a natural disaster loss is very high, and exacerbated by the inclusion of siteworks in the building cover cap. Consumers are finding it difficult to understand what their sum insured should be for a total loss event where there is no land damage, to then expect them to include provisions for foundation solutions required for land movements and changes following a natural disaster seems unreasonable.

By having siteworks cover included in the landcover provided by EQC this risk of underinsurance is minimised.

The inclusion of siteworks in the building cover also presents issues for insurers. The inability to calculate the proportion of the cap that would be used on siteworks creates unacceptable assumptions when calculating risk exposure. Insurers cannot rely on the cap value being directly proportional to the total risk held if it includes siteworks, simply because the costs associated with siteworks are variable from property to property and it is not until an event has occurred and damage assessed that there is any ability to calculate land damage costs versus rebuilding costs.

Insurers typically assess their risk on a like for like basis. We have a responsibility to understand the insured risk as it stands today. We can calculate the cost to rebuild to current specifications or to current building legislative requirements. It is simply impossible for insurers to calculate the additional costs that may be required to comply with post loss building requirements due to land movements. As a result insurers would need to include a risk factor in their premium calculations that may negate Treasury's purpose of keeping natural disaster cover affordable.

Proposal for discussion: EQC to no longer provide contents insurance

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?

MAS Position

We agree with this proposal however there is currently market variation about the types of items that are considered contents versus those consider a house item. Items such as landlord's chattels and carpets and drapes could be considered either a house component or an item of contents depending on individual insurer policy wordings. We feel the best approach here is that instead of the EQC Cover defining terms and conditions, the EQC Cover should follow each insurers specific policy terms and conditions. Therefore if MAS covers drapes under their house policy there would be automatic cover under EQC Cover (building) for these items, irrespective of what other insurers do. This approach would assist with consumer satisfaction as the cover received in a natural disaster versus another event would be consistent and in line with their purchasing decision.

To ease the claim burden of Canterbury, EQC contents claims were settled quickly and with little assessment, we believe this resulted in too much being paid, particularly for undamaged chattels and household contents. Claims costs can be better controlled if EQC no longer cover contents.

We have not yet undertaken any pricing analysis to understand how premiums would differ without EQC Cover on the first \$20,000 of sum insured, however given our relatively low reinsurance expense on this product line we would not expect it to cost consumers more than the levy amount currently charged by EQC.

Proposal for discussion: How much insurance will EQC offer?

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.

MAS Position

The key consideration on this matter is whether or not the cap is to include siteworks; should the siteworks be included in the building cover as proposed, a \$200,000 cap seems more appropriate, however more evidence would be required for us to wholeheartedly support this exact value. We are concerned that the EQC has not been able to provide convincing evidence of the costs of siteworks for previous events, or modelling for future events. The cap value must be substantiated before introduction.

If siteworks was included in land cover, we believe there is no need to lift the cap to more than \$150,000.

MAS does not expect significant reductions to our own reinsurance expense or the cost to our customers obtaining natural disaster cover for either a cap of \$150,000 or \$200,000.

Another important consideration is the EQC levy amount. We calculate natural disaster premiums on a territorial basis, with 16 geographical sectors across New Zealand. Our natural disaster premiums are risk rated based on the modelled risk exposure in each sector. This means a policy holder in Wellington pays significantly more than a policy holder in Southland for the same level of natural disaster cover.

The current EQC levy rate is more expensive than all but 5 of our sectors. Whilst we would expect to pay a higher rate for this first level of cover if obtained through our reinsurers, we must be conscious of any increases to the levy that are introduced without a strong correlation to risk. Whilst it is important to continue to ensure affordability in high risk locations, it is also important to ensure consumers are not overcharged by the government for cover they could source through competitive markets.

Re-establishment of the NDF should not be the first consideration of the levy amount as this will risk the principle of affordability and may prejudice consumers.

Proposal for discussion: Reinstatement of EQC Cover after an event

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 definition, and why?

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

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

MAS Position

Our main concern in this area is around the apportionment issues that have arisen in Canterbury where a swarm of Earthquakes has resulted in multiple events being declared. We seek improvement in this area, and acknowledge this could come from either a revised definition of an event or reinstatement of cover conditions.

Removing the hurdles to apportionment will result in the re-establishment of communities in a more timely manner and will ensure greater consumer satisfaction.

MAS does not have an individual opinion on a preferred approach and will ensure alignment of our policy terms and conditions to EQC Cover once determined. We are conscious however, that changes to either the definition of event or reinstatement may have implications on our reinsurance agreements which could have a downstream premium implication for customers.

Proposal for discussion: EQC Land cover is complex and causes a number of problems

- 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?
- 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?
- 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?

MAS Position

We agree changes must be introduced into the scheme to resolve a number of issues which have arisen in the Canterbury context where the obligations of EQC with respect to land remediation and insurers for building reinstatement overlap and can incentivise cost-shifting.

We believe the proposed site works cover must be included in land cover, not building cover. As such, land cover will be available to sites upon which rebuilding can occur. It is of fundamental importance that foundation solutions are considered in tandem with land remediation strategies. Once the desired strategy has been determined the building cover can then easily step in to repair or rebuild the 'above ground' portion of the dwelling (noted that 'above ground' would be the existing legislated requirements for building a new home on the existing site in a non-damaged land state).

We are concerned that there appears to be a unilateral decision making power regarding the declaration of a property as being non-economically viable to repair or rebuild in situ and would like to understand how this determination would be made in practise before we support this being a sole function of EQC, however we support the continuation of land payments where a site is deemed unable to be built upon.

MAS has not followed other insurers in restricting house cover to a capped sum insured. We still offer an Area Replacement policy which is the predominant choice of cover by our customers. Where other

insurers have absolved their responsibility for estimating cover requirements and transferred this to the consumer, we have accepted the risk of incorrect estimation of cover by our customers and retained this responsibility as our own.

This means, that compared to other insurers, we have an even greater need to understand the likely cost to rebuild a property in the event of a total loss; whether as a result of a natural disaster or some other peril. To assist us we employ the expertise of Cordell and obtain valuations for all exception risks presented. However, the key with these tools and experts is that they can only assess in a like for like environment – no consideration can be given to how potential land movements may affect the cost to rebuild. To do this, a geo technical expert would need to be employed, the expense of which is prohibitive to most home owners and is not a cost that can be absorbed by insurers without increases to premiums.

We must have clear expectations of what portion of the risk is transferred to EQC versus MAS. Including site works in the building cover will make this nearly impossible. As a result we will be required to purchase reinsurance at higher levels to ensure adequate portfolio protection following a widespread event where many caps could be exhausted through site works alone.

Failure to place siteworks into EQC land cover will result in increased premiums to consumers.

Proposal for discussion: Better aligning EQC and private insurers' standard of repair

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?

MAS Position

MAS disagrees with the Treasury proposal and takes the position that EQC Cover should not be a set of policy or cover terms and conditions at all, rather the EQC should act as first reinsurer only and support individual insurer policy wordings as other reinsurers do. This would eliminate any need to consider alignment of terms and conditions between the EQC and private insurers.

MAS has incurred a number of Member complaints from under cap claimants in Canterbury. Many of these complaints have been centered on repair scope and methodologies undertaken by EQC when compared to methods undertaken by MAS on over cap claims. We believe a higher level of consumer satisfaction will result from private insurers managing all claims and settling based on the terms and conditions of their own policies and ensuring consistent scopes and methodologies irrespective of the cost of damage incurred.

Proposal for discussion: Simplifying EQC's claims excess: Building

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?

MAS Position

The proposed \$2,000 is the highest excess MAS will support, any higher than this and vulnerable consumers would be at risk; unaffordability extends further than the premiums associated with cover.

The level of excess must be balanced with flexibility around collection. Many people would struggle coming up with ready funds if required to pay the excess before repair commencement and the reinstatement programme may be significantly lengthened as a result.

We would like to see options introduced to allow non-payment of a cash excess, instead allowing consumers to elect to compromise on repair – i.e. choosing not to have decorating work completed under the claim or the like.

The method of collection must also be changed from status quo. If insurers were lodging, assessing, and managing claims collection of excesses would be done as per current insurer practises and would be administratively cleaner and result in higher levels of consumer satisfaction.

Proposal for discussion: Simplifying EQC's claims excess: Land

12 That EQC have no claims excess on land claims.

What do you think?

12a Do you agree that EQC should have no claims excess on land claims?

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

MAS Position

MAS agrees with the Treasury proposal.

Proposal for discussion: Regularly reviewing main monetary settings of cover

- 13 That the EQC Act require monetary caps, premium rates and claims excesses on EQC cover to be reviewed at least once every five years.

What do you think?

- 13a Do you agree that monetary caps, premium rates and claims excesses on EQC cover should be reviewed at least once every five years?
- 13b If not, what alternative would you prefer, and why?

MAS Position

MAS agrees with the Treasury proposal, however would not be supportive of reviews more frequently than every five years due to the administrative burden this may place on insurers.

6.3 Distribution

Proposal for discussion: How will homeowners access EQC insurance cover?

- 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?

MAS Position

MAS would like to emphasise keeping attachment as simple as possible to enable focus to remain on reinstatement provisions rather than compliance issues. Whether this is to a single peril of fire or to all perils is of little concern to us as all but the smallest minority of policies we provide are for all perils. We do not offer restricted peril policies unless there is an underwriting need and even when we do this natural disaster is still included. We generally do not allow exclusion of individual perils from a policy so there would be little reward from attaching EQC over on a peril by peril basis. Instead, potential undermining of the scheme could result from attaching perils to selected cover. If insurers

allowed customers to purchase cover based on peril selection we could see a dramatic rise in the number of uninsured consumers in particular events.

We implore Treasury to consider the effects of changes to the EQC Act on the Fire Service Levy as these are intrinsically linked at present.

Proposal for discussion: EQC will continue to offer 'voluntary insurance' for homeowners at its discretion

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?

MAS Position

The principles of a free market should allow behaviour such as this to exist. It also allows the government to retain visibility of risks or properties that are not deemed insurable by the private sector. As a social insurer this may result in changes to legislation to provide support to New Zealanders that is not available through traditional means. MAS supports the Treasury proposal.

6.4 Claims

Proposal for discussion: Who will handle EQC claims in future

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?

MAS Position

MAS agrees with the proposal to allow lodgement of claims with insurers but would like to see more improvements in this area; including allowing insurers to undertake damage assessments and manage reinstatement. Whilst we understand it is not the position of the Act to do this, we would like some way of ensuring the EQC will enter into commercial agreements in a timely manner.

We also believe that this should be an industry agreement between all insurers collectively and EQC. This will avoid issues at claim time for all parties attempting to interpret individual agreements and understand responsibilities.

We believe the EQC should act as first reinsurer providing funding for the first \$200,000 (or other amount to be agreed) of a claim. They would have ability to audit insurers as reinsurers do presently and this would give them a high level of visibility of all insurers and enable them to streamline and enact consistent approach mandates. Given that all insurers have a responsibility to minimise claims costs we do not believe there should be any concern about insurers spending on behalf of the government. Audits will also ensure a high level of transparency and control for EQC without the burden of individual site assessments and managed claims.

Duplication of costs should be removed and the current triangular effect needs to be eliminated. Particular areas of cost inflation in Canterbury were seen in the assessment space where often EQC and the insurer were assessing the damage to quantify the cost of repairs. This duplication of cost and effort would be removed if insurers were responsible for the assessment of claims.

We believe it is critical for consumer satisfaction that the insurer acts as one point of contact for all natural disaster claims, irrespective of estimated costs. It is vital that the person or team that is best suited for the claims management role is assigned, we believe this comes from the insurer as we are the experts and undertake claims management every day.

Shifting responsibility for claims management to the insurer will also mean that the speed of rectification is much better than at present.

Proposal for discussion: Extend deadline for reporting claims

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?

MAS Position

MAS agrees there should be a time limit publicised to ensure claims are notified in a prudent manner however would like there to be discretion in mitigating circumstances, as failure to do this goes against the principles of the Insurance Law Reform Act.

If insurers were managing claims they could be more prudent in identifying those customers who haven't made a claim and could proactively contact them to understand their damage (if any).

6.5 EQC Premiums

Proposal for discussion: Ensuring the scheme meets its suspected costs

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?

MAS Position

MAS supports Treasury's desire to ensure the total revenue collected via the EQC Levy to be enough, over time, to fully compensate the Crown for the expected costs of the risks imposed by the scheme and the costs of EQC performing its functions.

In particular we strongly support the comment "this would include administering the EQC scheme, purchasing reinsurance or other risk transfer products, and being responsible for research and education about the scheme, natural disasters, their damage and mitigation".

Treasury have noted the need for "future pricing to reflect yet-to-be-made decisions on a range of other factors. Including the future size and cost of EQC's reinsurance programme, the strategy for rebuilding the Natural Disaster Fund..." MAS questions the need to rebuild the NDF when alternative funding strategies exist and implore Treasury to ensure that the total levy costs incurred by consumers are balanced against commercial desires of EQC.

Reiteration of the principle of affordability is prudent here. EQC cannot simply expect to increase levies to cover all the above objectives without their being negative effects on consumers. Insurers cannot hold total invoiced premiums to absorb increases in EQC premiums; any increases must be passed on to consumers and therefore EQC must ensure any changes still align with their four principles discussed at the start of the discussion document.

Coupling any EQC levy change with the expected RMS and AIR catastrophe models due soon could see significant changes in the total premium charges to consumers. Treasury must take a sustainable approach to any levy changes and must consider the total insurance premiums consumers are paying in all locations and the associated government changes of Fire Service Levies and GST before simply applying the theoretical levy required to achieve their objectives.

Proposal for discussion: Allow but do not require differentiated EQC premiums

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?

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?

MAS Position

We feel more analytical assessment should be undertaken before a final decision is made on changes to pricing structure.

Our own model for disaster rating uses differentiated rating based on risk location and this works very well for us. There could be benefits to introducing a level of differentiation in EQC levies, whilst maintaining a 'fair' approach for all consumers and ensuring no segment of the population is left in a less desirable position than another due to affordability of premiums.

6.6 Financing

Proposal for discussion: How will EQC finance its risk?

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?

MAS Position

All insurers are required to adhere to solvency expectations, to achieve this they will use a balance between capital, on call investments, and reinsurance. In general reinsurance is the primary protection against the costs incurred following catastrophe events. We question the need for the fund, and implore EQC to reconsider how it could best serve consumers.

MAS feels that Natural Disaster Fund can be better utilised and benefit more consumers if its purpose was redefined as per our previous discussions. The proposed changes would enable a greater level of comfort for government that their fiscal risk following a wide spread event is managed and the need to call upon ad hoc funding minimised.

If the fund is retained in its current legislative form we would question the amount of the fund. We believe the total value of the fund should be considered against the total cost of the levy charge to consumers and the financial benefits gained from having lower reinsurance requirements. It is not a reasonable expectation for levy payers to re-establish the fund to its pre Canterbury levels.

Proposal for discussion: More flexible approaches to financing risk, for EQC and the Crown

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?

MAS Position

MAS agrees with the Treasury proposal.

7 Technical Issues

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?

MAS Position

There are a number of points under the Technical Issues heading of the discussion document that MAS feels needs more research and consideration prior to the legislation being finalised. MAS feels that many of these issues will leave significant areas of ambiguity and will result in less than desirable claims outcomes for consumers, the Crown, and private insurers. These must be considered as part of this review rather than being left for post implementation consideration.