

# 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



## 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](mailto:Submissions.Eqcreview@treasury.govt.nz) by 5.00pm on Friday 11 September 2015.

Thank you for your time and effort in making your submission.

### Official Information Act 1982

Submissions are subject to the Official Information Act 1982 (OIA). Please set out clearly with your submission if you have any objection to any information in the submission being released under the OIA, and in particular, which part(s) you consider should be withheld, together with the reason(s) for withholding the information.

Grounds for withholding information are outlined in the OIA. Reasons could include that the information is commercially sensitive or that you wish personal information, such as names or contact details, to be withheld. An automatic confidentiality disclaimer from your IT system will not be considered as grounds for withholding information.

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.

Email address:	
Phone number:	

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:	

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