

The Treasury

Earthquake Commission (EQC) Act Review Submissions Information Release

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld. Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people;
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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.

Appendix 1: Proposals and questions for submitters

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 risk associated with natural disasters.

What do you think?

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

I fully support the proposed purposes of the EQC Act. I noted Section 4 Introduction. 4.3 Scope of Review. An objective is stated as "Minimise the physical risk to the Crown associated with private property damage in natural disasters."

I would seriously suggest that this objective should be reworded "Managed the physical risk to the Crown associated with the private property damage in natural disaster."

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

I would seriously suggest that this objective should be reworded "Managed the physical risk to the Crown associated with the private property damage in natural disaster." Because the Crown ends up as insurer of last resort if appropriate risk management is not implemented

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?

I agree that EQC should continue to provide cover against the same perils as it currently does. The benefits in the event of a natural disaster and of obtaining re-insurance on the reinsurance market are significant

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?

I agree that the EQC Building Cover should continue to only be available to residential buildings and dwellings and non-residential building.

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?

I agree that the EQC Land Cover should only be available on land associated with residential buildings.

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

Extending building cover to include more siteworks and main access way

Proposal for discussion

5 That EQC building cover be extended to include siteworks and the main access to the building.

What do you think?

5a Do you agree that EQC building cover be extended to include siteworks and the main access to the building?

I support the EQC cover being extended to include site works and the main access to the dwelling.

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

EQC to no longer provide contents insurance

Proposal for discussion

6 That EQC no longer offer residential contents insurance.

What do you think?

6a Do you agree that EQC should no longer offer residential contents insurance?

I support EQC not offering 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? Please note the information in section 1.4 regarding the Official Information Act.

How much insurance will EQC offer?

Proposal for discussion

7 That the monetary cap on EQC building cover be increased to \$200,000 + GST.

What do you think?

7a Do you agree with the proposed increased in the building cap to \$200,000 + GST?

I support the proposed increase in the building cap to \$200,000 plus GST subject to the total being inflation adjusted.

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.

Please note the information in section 1.4 regarding the Official Information Act.

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 the preferred alternative, and why?

While I support the EQC cover being reinstated after each event. I do not accept that the Canterbury experience of multiple events is rare. I support EQC's recommendations given that they had reasonable experience on this matter.

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

I support retaining the current definition of an event.

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?

I support the proposed enhanced building cover combine with restricting land cover to situations where the site of the insured building cannot be built on.

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?

I support that restricting land cover to situations where the site of the insured building cannot be rebuilt is appropriate.

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?

I have some concerns that those least able to assess the potential loss may be inadequately covered. Government guidance to all property owners would seem appropriate.

9d 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?

I agree that the government assessment that EQC's legislative standard of repairs is probably consistent with the current industry norms as reasonable. As the EQC cover increases this will become more important for the lower value properties. The difference between the private insurers terms and the EQC policy only really becomes significant when the dwelling is severely damaged and replacement of the dwelling becomes a realistic possibility.

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 if repair close to current insurance industry norms of 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?

I support EQC's building plans excess as being standardised and simplified to a flat dollar amount. For years I had been involved in technically assessing claims from property owners for earthquake damage.

Clearly only a small percentage of claims are referred to engineers for technical assessment. Nevertheless, of the claims referred the majority can be clearly established to had been historical damaged. Property owners are really aware of cracks and other movements within their dwelling. After an earthquake occurs, the owners may well look more closely for cracks in wall linings etc. or in the foundations of the dwelling. I therefore support a reasonable sized excess to determine property owners with light damage from framing.

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

While I support the \$2,000 plus GST, I consider it to be on the low side of an appropriate claims

excess.

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

Proposal for discussion

12 That EQC have no claims excess on land claims.

What do you think?

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

I support EQC having no claims excess on land claims.

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, premiums 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?

I fully support that Ministry caps premium rates and claims excesses on EQC cover should be reviewed at least once every five years. I would also support that the alignment of the EQC policy with current practise in private insurers should also be considered and reviewed every five years.

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 building? Or

I fully support the EQC cover continuing automatically attach the Fire Insurance policies on residential building. I perceive the EQC cover as insurer of last resort should any private insurer exclude some aspect of natural disaster insurance from a fire insurance policy.

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 obliged, to directly provide EQC cover to homeowners who request it?

I support EQC in continuing to have the ability but not the obligation to provide EQC cover to home loan as you requested. It should be on a commercial basis and should be widely known.

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?

Administrative simplicity, I do support that EQC claimant should be required to lodge all EQC claims with the claimant's private insurer.

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?

I agree with the current three-month time for claim notification.

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 cost and risks.

I have some concern with respect to this proposal. I have no objection to provisions within the Act for EQC to compensate the Crown for its expected cost subject to the reserves being sufficient to meet the cost of a significant event.

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?

I support the current flexibility to charge flat rate or differentiated EQC premiums being retained.

20b If not, what alternative arrangement would you prefer, and why?

20c Do you agree with Government's intention to continue charging EQC premiums at a universal flat rate?

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?

I support the natural disaster fund being retained importantly its legislative form.

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?

I do not support EQC using other forms of risk transfer without knowing in detail the risk transfers proposed. I support EQC's international profile being used to assist other apartments obtained the insurance against natural disaster.

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?

No comment.

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

One aspect which I do consider to be of significance to New Zealand is the current involvement of EQC in research. There had been significant benefits to the New Zealand public through research funded by EQC. EQC's knowledge understanding of losses in earthquake, most liaison with industry provide many worthwhile public benefits.