

The Treasury

Earthquake Commission (EQC) Act Review Submissions Information Release

Release Document

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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.

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

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.Eqcreiew@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.

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Your contact details

For individuals

Your name:	[1]
	Indicate here if you do not wish your name to be included in any summary of submissions that we may publish.

Email address:	[1]
Phone number:	

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

For organisations

Organisation name:	
Nature of your business:	

Contact person name:	
Position:	
Phone number:	
Email address:	

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

Yes appropriate, not complete or the main focus

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

The fundamental purpose of the Act should be to protect individuals from loss, and restore their homes to a safe and sound condition. It should be looking after people who have suffered major trauma in their lives.

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?

Completely agree

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?

Yes, it needs to stay out of commercial buildings which were handled quickly and efficiently, by the private insurance sector.

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, a disaster is a disaster, all land should be covered, it effects residential as well as business proerties.

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

As above

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?

Yes

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?

Only if the private insurance industry is willing to take over the risk, and not at an astronomic cost

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 increase in the building cap to \$200,000 + GST?

Yes it would have saved many long and protracted disputes.

However, this should only happen if it can be guaranteed that the payout will cover the requirement to restore to 'as new condition', using market rates and the shonky repairs we have seen carried out many, many times are not repeated.

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?

The higher rate would have captured many more claims which have been stuck in dispute for years in Canterbury

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 your preferred alternative, and why?

Yes it should reinstate after each event

8b Do you agree with 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?

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

Land loss should be covered no matter the type as it can cost homeowners large amounts of money to remediate their land in cases where there has not been a total loss, eg installing retaining wall, drainage etc

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?

Disagree as above, can be costly to remediate land, in order to stay in same place ie retaining wall, drainage etc.

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?

The insurers have transferred the responsibility to the property owner to determine the value of their own property. Property owners are not experts in property valuing, and so there is a strong likelihood that most people will be underinsured. Thus the increase to the EQC \$200,000 limit would mean most people would be completely covered for a disaster.

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 !!! It should be, given that the Act States property should be returned to 'as new', but this has not been met in many cases.

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

insurance industry norms?

Main issue has been in Canterbury that EQC / EQR have paid minimal wages to contractors, thereby ensuring that well established contractors who have good reputations, and pay their staff well have refused to be part of the repair scheme. We have been inundated with shonky contractors in Canterbury, who have no interest in doing a good job. The homeowner has often had little say in the process, or been able to see the pricing. If you are getting a quote for a job on your own property most people get three quotes, and take into account whether they can work with the trades people. It has been a non-transparent process in many cases, with the homeowner never being given access to the figures to fix their own property. which is not the case when dealing with insurance companies.

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?

EQC should simply provide the money and leave the assessment to the professionals the area, the insurance companies. I am sure there could be a moderating system to ensure that the insurers are not passing costs onto EQC they should be funding themselves. Having EQC responsible for undertaking thousands of assessments by totally unqualified people was a great waste of money and an extremely frustrating process for many Cantabrians.

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?

No it should be on a percentage basis, for many people \$2000 is a lot of money. 1 % per claim perhaps?

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

No, as above for many people that is a great deal of money,

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

Too much money for many people to miss out on \$200 is more appropriate or 1%

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

Yes, this is a backstop for many people who are not covered by insurance policies

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?

16b If not, what alternative arrangement would you prefer, and why?

Prefer all EQC cover should be provided by insurance companies

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

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, you might find issues after the 3 month time limit

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 it has to be affordable for all

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?

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?

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?

Reiterate that EQC should be a money management scheme only. There should be no assessors, or managing of claims or repairs, this should be done by insurance companies.

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