

# The Treasury

## Earthquake Commission (EQC) Act Review Submissions Information Release

### Release Document

July 2017

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# 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

Treasury:3208710v1



## 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:	
Bruce McLean	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?	Auckland
Do you own your own home?	Yes (jointly)

### 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

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

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

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?  
Yes

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? 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? No

6b If not, what level of contents cover do you think EQC should offer, and why? The original \$20,000 was applied so that everyone even if they had no earthquake cover on their contents would have enough to get a fridge, table, and beds etc. i.e. basic furniture. An equivalent amount now might be say \$50,000 incl GST. We should not assume private insurance would always be there to provide this?

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? No

7b If not, what cap would you prefer, and why? Firstly some background.

I have been employed in insurance/reinsurance all my working life and have a strong interest in earthquake insurance and earthquake science. I have been a non-engineer member of the NZ Society for Earthquake Engineering for over 30 years. I have served on various insurance industry committees including on the Board of the Insurance Council at the time of the 1993 changes to earthquake legislation. Therefore both my background and strong interests may give me a better feeling for the current review proposals than the average person.

Because it is not mentioned in the review document it has probably been forgotten and probably because I am one of the few people still around from the 1993 changes mentioned when, with others, I was on the working group of Treasury, EQC and the Insurance Council to devise the new 'system' and draft part of the new Act. This mainly involved EQC being residential only and [first loss] replacement value not indemnity value.

I was effectively within this group the architect of the new cap and the \$100,000 where it came from and why.

As I recall the EQC officials (including the commissioner Ian McLean, no relation, devised and were supporting a cap of \$78,000 or thereabouts calculated from an average of building market values. I said that is no good it is not enough.

I successfully convinced everyone else that the cap should be enough to build a basic house, a 3 BR Group or State type house so that there was money from the EQC insurance to provide a replacement home even if the homeowner had no top-up private insurance either because they could not afford it or it was unavailable. And we must always remember the continual availability of private insurance will never be a certainty. If the homeowner wanted or needed something bigger or better to be equivalent to replace what they have lost they would seek private insurance top-up but no one would not be able to have at least the basic home.

So eventually everyone accepted the logic if total destruction happens of the EQC amount being enough to build this new basic house.

Where the \$100,000 came from was that in those days there was an official statistical Modal Home and this was in round figure a 1,000 sq. ft. structure at a building cost of \$100 a sq. ft., i.e. \$100,000.

Today I cannot see that this Modal Home statistic still exists and new houses are bigger these days however I've seen a figure of a 145 sq. metre house costing in Auckland \$1,767 a sq. metre and \$1,627 for 201 sq. metres. It is not clear whether this is with or without GST.

Extrapolating from this we might therefore assume a 93 sq. metres (100 sq. feet) house might be say \$1,900 a sq. metre or roughly \$176,700 and I believe we should add on say 15% to allow for natural inflation until the next five year review proposed or approx. \$203,205. Then to this we can add the suggested \$50,000 detailed in the review papers for site-works giving approx. \$253,205.

Therefore, in my view the new EQC cap using the logic that applied in 1993 should be no less than \$250,000 and to keep it in more rounded figures and to reflect the style of even a basic house today perhaps even \$300,000. Certainly more than the \$200,000 proposed.

Perhaps say \$300,000 including GST as it is not clear why the monetary cap is expressed as a GST exclusive figure. (When I insure my house I insure it for the full rebuilding cost being a GST inclusive figure)

I ask that the logic behind the original EQC cap be considered by Treasury and that the proposed EQC cap be reconsidered in the light of this and recalculated accordingly

7c Do you have strong views on the merits of a \$150,000 + GST cap versus a \$200,000 + GST cap? No strong views except provision for site works etc. is very sensible.

7d If so, what are they? Well it is essential really that the capped amount is enough to allow for building and for necessary site works.

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

8b Do you agree with retaining the current definition of an event? No

8c If not, what is your preferred definition, and why? 72 hours. This is more common with private insurance where only one excess applies for a series of events within 72 hours.

## 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? Yes

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? 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? No the move by insurers from full replacement to replacement limited to a sum insured amount has been unwise anyway

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? Yes

10b If so, do you have views on why EQC's standard of repair is seen as markedly different from current insurance industry norms? No – and I am not so sure that it is 'markedly different'.

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? No

## 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? No

11c If not, what would you prefer, and why? Effectively the excess applied does nothing to prevent or minimise damage and is therefore not anything the homeowner can control. I actually favour no excess at all but accept one might be necessary to eliminate unnecessary and cosmetic repairs when all that has happened is a few cracks in a wall and no degradation of the structural integrity. However a contribution of \$2,000 from every homeowner on every claim no matter how big or small is unreasonable and penalises poor people who may not have spare cash. I would therefore support a maximum and flat excess of \$500

### 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? Yes 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?

### 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

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? No

## 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?

Yes

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? Yes

## 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

23b What submissions would you like to make on those issues? In the details above mention is made of volcanic 'eruption' v. volcanic 'activity'. I was against insurers changing their words to be different to the legislation and I think they did it in ignorance because I don't think there is "activity" which is not "eruption" in the scientific sense.

"Volcanic eruptions arise through three main mechanisms:

- Gas release under decompression causing magmatic eruptions.
- Thermal contraction from chilling on contact with water causing phreatomagmatic eruptions.
- Ejection of entrained particles during steam eruptions causing phreatic eruptions.

There are two types of eruptions in terms of activity, explosive eruptions and effusive eruptions. Explosive eruptions are characterized by gas-driven explosions that propels magma and tephra. Effusive eruptions, meanwhile, are characterized by the outpouring of lava without significant explosive eruption."

I think that "activity" which insurers want to cover is still 'eruption' as covered by the EQC legislation.