

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.

11 September 2015

Review of the EQC Act
The Treasury
Wellington

By email: submissions.eqcreview@treasury.govt.nz

SUBMISSION ON REVIEW OF EQC ACT

1. I have been adversely affected by the Canterbury quakes. I have also observed the shortcomings of the dual insurance model for homeowners.
2. I strongly support the need for reform of the EQC Act.
3. However and most unfortunately, the Review misses the mark.
4. The Review fails to address the fundamental question – *is EQC needed in the 21st century, especially when the global insurance industry has such breadth and depth?*
5. The answer is – no.
6. The community's and the Crown's objectives would be better achieved through a single insurance model – via private insurers. Insureds would have one insurance claim point of contact, regardless of the nature of their insurance claim.
7. Legislation could specify minimum natural disaster coverage requirements for home insurance.
8. Legislation could also require minimum reinsurance and minimum capital requirements for registered insurers, similar to Reserve Bank requirements for registered banks.
9. The measures noted above would solve the problems with the dual EQC/insurance model.
10. The Crown is in the insurance business via its ownership of EQC, and so it faces significant financial risks of being in that business. Private insurers are far better placed to manage, diversify and reinsure such risks on a global basis.
11. The Review states (page 15) that *"...without something like EQC, many homeowners would be under or uninsured"*. This argument is seriously flawed. Homeowners must have private insurance in order to qualify EQC cover. The existence of EQC doesn't increase the **number** of insured homeowners. It only provides a minor part of the insurance cover for already-insured homeowners.
12. As noted above, an increase in **breadth** of natural disaster cover could be achieved mandating minimum coverage requirements via legislation. The goal (page 15) of *"certainty of a legislated right to catastrophe insurance with pre-established terms"* would thus be achieved by legislation.

13. The problems listed on page 18 (and more) would be addressed with the above proposals – including:

- poor customer experience caused by unnecessary and confusing interaction with two insurers
- poor customer experience when the EQC has to scale up in catastrophes
- the Crown’s financial risk of being in the business of private insurance
- the Crown’s conflict of interest of being both a regulator of the insurance market and also operating an insurance business that the private sector can clearly do better
- the Crown’s financial risk of failure of an insurer (for example, AMI Insurance).

Regards

A handwritten signature in black ink, appearing to be 'BK', followed by a period.

Brendan Kearney
Chartered Accountant