

The Treasury

Earthquake Commission (EQC) Act Review Submissions Information Release

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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 EQC Act
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SUBMISSION ON REVIEW OF EQC ACT

1. As someone who has been severely affected by the Canterbury quakes and the shortcomings of the dual insurance model, for house and land (including complex retaining walls issues), I strongly support the need for reform of the EQC Act.
2. However, the Review unfortunately misses the mark.
3. The Review fails to adequately consider an important and fundamental question – *is the Commission needed in the 21st century when global insurance industry has such breadth and depth?*
4. The answer to this question is no.
5. The community's and Government's objectives would be better achieved through private insurance that includes natural disaster insurance as a standard part of house and contents policies. Insureds would then have only one insurance point of contact, regardless of the nature of their insurance claim.
6. Legislation could/should be used to specify minimum natural disaster coverage requirements for private insurers. Such minimum natural disaster coverage requirements could mirror those that apply to EQC now, or they could be expanded to respond to coverage issues identified with the Canterbury quakes.
7. Legislation could/should also require minimum reinsurance requirements for private insurers, similar to Reserve Bank requirements for registered banks.
8. With such legislation the many problems with the dual EQC/insurance model would be eliminated, and Government financial risks would be no greater than they are under the proposed dual EQC/insurance model. In fact, given it will take a period of time for EQC to build up its Natural Disaster Fund again post the Canterbury earthquakes, a private insurer only approach may reduce the Governments financial risks.
9. A Crown-owned natural disaster insurance scheme is a business and a set of risks that the Government should exit, especially when the private sector is better able to manage and diversify natural disaster risks on a global basis.

10. The Review states (page 15) that “...without something like EQC, many homeowners would be under or uninsured”. The Review cites low rates of overseas natural disaster insurance as support for this argument.
11. However, in order to obtain EQC cover, homeowners must have a contract for fire insurance. It’s therefore doubtful that EQC significantly increases the **number** of insured homeowners. EQC only increases the **breadth** of cover for already-insured homeowners – to include limited/capped natural disaster cover.
12. The increase in **breadth** of cover could simply be achieved by mandating minimum coverage requirements for natural disaster cover in all home and contents policies.
13. The goal (page 15 of the Review) of “certainty of a legislated right to catastrophe insurance with pre-established terms” would be achieved by such private insurer legislation.
14. The problems listed on page 18 (and more) of the Review would be eliminated (or at least significantly reduced) with the above proposals – namely:
 - the dual insurance model would be eliminated
 - the Crown’s challenge for EQC to scale up quickly and effectively in catastrophes would be eliminated
 - the Crown’s contingent liability for failure of an insurer (for example, AMI Insurance) would be significantly reduced as the prudency requirements for reinsurance could be set at a high level
 - the Crown’s practice of being in the business of private insurance would be ended.

Regards

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