

The Treasury

Earthquake Commission (EQC) Act Review Submissions Information Release

Release Document

January 2018

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- [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.

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.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: | Nicholas J G Donne |
| | 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 |

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? | |
|---|--|

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?

No

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

The object of the scheme should be restricted to “the provision of effective private insurance services... “and “management by the Crown of fiscal risks....” relating to the occurrence of natural disasters as defined in the scheme.

The objectives relating to “the importance of housing...”, “resilience of New Zealand communities....” and the “...management of natural hazard risk....” are concepts that are part of a wider social responsibility that any government should have on their agenda as a matter of course. These topics should therefore be addressed separately.

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?

No

2b If not, what changes would you suggest, and why?

The catastrophic perils above are quite comprehensive but these should be reviewed and compared to those offered by the private insurance industry to ensure that cover is the best available and that the perils are aligned with the private insurance market. The changes, if any, may only be small but will ensure that complaints are minimised, the cover is the best available and the public is not confused about any difference between the EQC perils and the private insurance industry perils. If there are differences, then the public may wish to avail themselves of coverage available in the private insurance market, which will result in different standards.

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, assuming that the term “residential” would include free standing dwellings, apartments, townhouses, units, and retirement villages

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?

Yes

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 but see comments below

7b If not, what cap would you prefer, and why?

The cap should be reviewed at least every 3 years in the light of inflation and sooner if trends (aka Auckland Property) are recorded showing large increases in property values emerging.

7c Do you have strong views on the merits of a \$150,000 + GST cap versus a \$200,000 + GST cap?

Yes

7d If so, what are they?

The cap should be a minimum of \$200,000 and see comments under 7b above re future increases

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?

The definition of an event should be aligned with the best international practice for the private insurance industry. This will ensure that there are no gaps in reinsurance protection and that reinsurance coverage can continue to be purchased with full transparency in the worldwide reinsurance market on best available terms.

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?

Yes

9f If so, what is your preferred alternative, and why?

The coverage offered by EQC should be fully aligned with that offered by the private insurance market. This will reduce confusion for policyholders, and align the benefits with the private insurance industry, eliminate any gaps and reduce misunderstanding with private insurers thus making the claim process easier.

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

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

The issue here is that for a significant event, the volume of claims will slow down any responses, lead to delays and create inefficiencies.

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 completely align its standards of repair to that of the private insurance industry

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

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

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

A study should be undertaken to consider alternatives such as flat dollar amounts, and percentages of the amounts claimed. Retention of excesses is essential to eliminate small claims that do not unduly result in hardship for the policyholder, as well as a means to keep premium costs down

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?

No

13b If not, what alternative would you prefer, and why?

A review should be performed least every 3 years and sooner if trends dictate. The purpose of insurance and especially catastrophe insurance is to ensure that the policyholder is put back in the same position after a loss as he or she was before the loss. This principal of indemnity is fundamental to insurance.

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

No

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?

Yes

15b If you do not agree with either of these options, what alternative arrangement do you prefer, and why? Again, the EQC wordings should be aligned with those for the private insurance industry.

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?

No

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

The provision of insurance by the EQC is already “generous” in its coverage and in any event the current method of combining the coverage offered by the EQC with that offered by the private insurers provides all residential owners with more than adequate means to purchase catastrophe insurance. Any separate such scheme run by the EQC will be expensive to administer and will moreover create confusion as to the coverage available. It will also affect the relationship with the private insurance industry.

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?

No

18b If not, what alternative arrangements would you prefer, and why?

The period should be 6 months (with a proviso to accept a claim notification up to 2 years). In a significant event (such as Christchurch), the sheer number of claims, the size of the disaster and the enormous administration duties will mean that the time limit needs to be extended

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?

No

19b If not, what alternative arrangements would you prefer, to ensure the scheme's future financial sustainability, and why?

The EQC scheme should be self-funding and not rely on the state to bail it out. The insurance coverages are all arranged through the private insurance industry. The pricing should reflect current local and international insurance and reinsurance costs.

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. This is not equitable for people residing in low risk areas or for residential dwellings with superior construction. The premiums should be risk rated because this is an insurance scheme and not a general levy such as tax where all are assessed equally.

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?

No

21b If not, what changes would you like to see considered?

The Natural Disaster Fund should be separated from all funds associated with the EQC. The EQC should be self-funded purely from the premiums charged.

The Natural Disaster Fund can be kept by the government to provide for all types of disasters as considered expedient at the time. This can be used as a top up in the event of a deficiency in the EQC funds, for uninsured residential owners or for other disasters outside the current EQC perils eg drought, crop failures, bushfire, disease, terrorism etc.

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?

Yes

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

Apart from the deletion of War coverage, the proposed changes to the Earthquake Commission Act 1993 are the most significant since the commencement of the Earthquake and War Damage Commission was established by act of Parliament in 1944. Any review should also take in to account not only the functions and purpose of the coverage provided but also the operations of the commission. Whilst much of the operational management does not require any amendment to the act, nevertheless **this significant review must also include an examination of operational capability to ensure that the commission can continue to fulfil its objectives and deliver the changes outlined above.**

[2]

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