

The Treasury

Material Provided to the Public Inquiry into EQC Information Release

August 2021

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- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
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- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Reference: T2015/2189

CM-1-3-15-1

Date: 16 September 2015

To: Minister Responsible for the Earthquake Commission
(Hon Gerry Brownlee)

Deadline: 2.30 p.m. Monday 21 September 2015

Aide Memoire: EQC Review: Initial Discussion on Key Themes in Submissions Received

This aide memoire summarises key themes in submissions received on the discussion document *New Zealand's Future Natural Disaster Insurance Scheme*. Submissions closed on 11 September 2015. You are scheduled to discuss this with Treasury and EQC officials at 2.30 p.m. Monday 21 September.

Treasury received 61 submissions. There are 26 submissions from individuals (about half being Christchurch residents) and 35 submissions from organisations and individuals with subject expertise, such as academics and industry practitioners. A list of organisations that made submissions is attached.

The key proposals in the discussion document were:

- EQC to exit from contents insurance;
- Extending EQC building cover to include building siteworks and access way;
- Increasing the cap on EQC building cover from \$100,000 to \$200,000 (this increase in part to recognise that costs which are presently part of EQC's land cover would become part of EQC's building cover);
- Limiting land cover to situations where rebuilding is not practicable;
- A claims excess of \$2,000 per building claim and a zero excess on land claims;
- Requiring claimants to lodge their EQC claim with their private insurer; and
- Technical improvements in drafting core elements of the legislation.

Insurance Industry Submissions

Insurance industry submissions support:

- Retaining the broad structure of the current co-insurance model;
- EQC continuing to cover homes against the current perils;
- EQC exiting from contents insurance;
- EQC cover being attached to fire insurance policies;

- EQC premiums reflecting sound pricing principles; and
- EQC's research and education functions being retained or strengthened.

Insurance industry submissions also:

- ***Propose that the purpose statement in the Act include timely repair.***
- ***Strongly oppose including siteworks in building cover.*** ICNZ and individual insurers consider the proposal risks unacceptable levels of under-insurance as it is difficult for the insured homeowner to appropriately value future siteworks when choosing their sum insured. Also, as this liability is hard to model insurers submit that including it in building cover will see an uncertainty premium built into premiums paid by homeowners, pushing up insurance costs.
- ***Propose retaining a modified land cover focussed on the impact of the land damage on building costs. This would pay for the extra cost of additional land or foundation works required to repair or rebuild a residence as a result of damage to land or post-event regulatory change.*** Under this proposal, ICNZ and insurers suggest the building cover be \$150,000 (+GST) instead of the proposed \$200,000 (+GST).
- ***Propose that the EQC standard of repair follow the repair standard of the underlying private insurance policy*** (as is currently the case for EQC contents cover).
- ***Seek a stronger legislative presumption that insurers will manage EQC claims beyond claims lodgement.***
- ***Propose that once claims on EQC building cover reach the monetary cap the cover reinstate only when repairs are completed.*** Submitters accept this transfers risk from EQC to insurers, but consider that the claims handling benefits of greatly reducing the claims apportionment problem make this worthwhile to insurers.
- ***Submit that the impact of the proposed changes on insurers' house and contents premiums is likely to be small; much smaller than insurers indicated when last consulted in 2013*** (although only a few insurers provided a substantive answer to this question).
- ***Submit that at least 18 months is required between passage of the new Act and entry into force.***

Individual Submissions

Views in individual submissions are more mixed.

Support and opposition for the proposed changes to the configuration of building and land cover is fairly evenly split. Some of those opposing the proposals consider land cover should be extended to include the entire section or be available for vacant residential sections. Some are concerned about reductions in cover for retaining walls.

Some consider the monetary cap should be increased, while others consider it should not be, as they consider claims going over the EQC cap to be good for claimants.

Support for limiting EQC land cover to situations where a site cannot be rebuilt on was evenly split. Opposition focused on cost to homeowners of carrying out repairs such as debris removal or retaining wall repair currently met by EQC.

There was majority support EQC cover reinstating after each event. Opposing submissions wanted a solution that can fix the apportionment problem.

There was majority support for aligning the repair standards of EQC and insurers.

A majority considered an EQC claims excess of \$2,000 to be too high.

A majority agreed that claimants should be required to lodge EQC claims with private insurers.

All individual submitters support EQC exiting contents cover.

Other Submissions

Proposals by other submitters include:

- Reducing legislative impediments to EQC sharing information with others; and
- Establishing an independent dispute settlement mechanism.

Next Steps

We will discuss this aide memoire with you at 2.30 p.m. Monday 21 September.

During that meeting we would like to discuss options for next steps and timing. Insurers are looking for more engagement on and development of their proposals. During the drafting of the discussion document we indicated that following submissions Treasury would analyse the submissions and provide advice to responsible Ministers on October, aiming for a Cabinet paper seeking final decisions in November.

Steve Cantwell, Principal Advisor, Financial Markets, [39]

James Beard, Manager - International, Financial Markets & Tax Strategy, Financial Markets, [39]

List of Organisations that have made a Submission on EQC Review

Insurers

IAG
Vero
QBE
Tower
AA Insurance
Farmers Mutual Group
Medical Assurance Society
Southern Response
California Earthquake Authority

Reinsurers

Munich Re
Swiss Re
Gen Re
Amlin
Tokio Marine Kiln

Industry and Professional Bodies

Insurance Council of NZ
Insurance Brokers Association of NZ
NZ Society of Actuaries
NZ Law Society
NZ Society for Earthquake Engineering
NZ Geotechnical Society

Firms in Related Fields

Tonkin+Taylor (engineers)
Corelogic (property information)
Fastway Resolution (conflict settlement)

Government

Ombudsman
Human Rights Commission
Christchurch City Council
Environment Canterbury