ICNZ Insurance Council of New Zealand

Wellington City Council's Planning for Growth Series

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Points to be covered

- The Role of Insurance and Reinsurance
- The value of insurance for the recovery of Christchurch
- The value of insurance for the recovery of Kaikoura
- How the insurance sector has changed following these disasters
- Under-insurance
- Insurance and Resilience

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Role of Insurance

- protects individuals, communities and institutions from unexpected events
- the risks are transferred to insurers for a price; <u>the transfer of risk does not reduce the risk</u>
- supports the economy
  - by reducing business uncertainty, encourages increased investment and reduces the capital business needs to operate
  - enables higher risk/return activities to support growth
  - feeds long-term, diversified investment of premiums that supports capital growth in wider economy
- saves taxpayers/government provisioning for catastrophic events
- signals through premiums the need for other risk mitigation measures
- is a major sector employer in its own right

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Role of Re-insurance

» Spreading risks so the many support the few applies in just the same way to insurers

» insurers share the risks they take on with global reinsurers who “insure the insurers”

» Lloyds report New Zealand is one of the riskiest countries in the world

» As much as 80% of catastrophe losses are borne by reinsurers

» It is critical we remain attractive to reinsurers

EQ Canterbury international comparison

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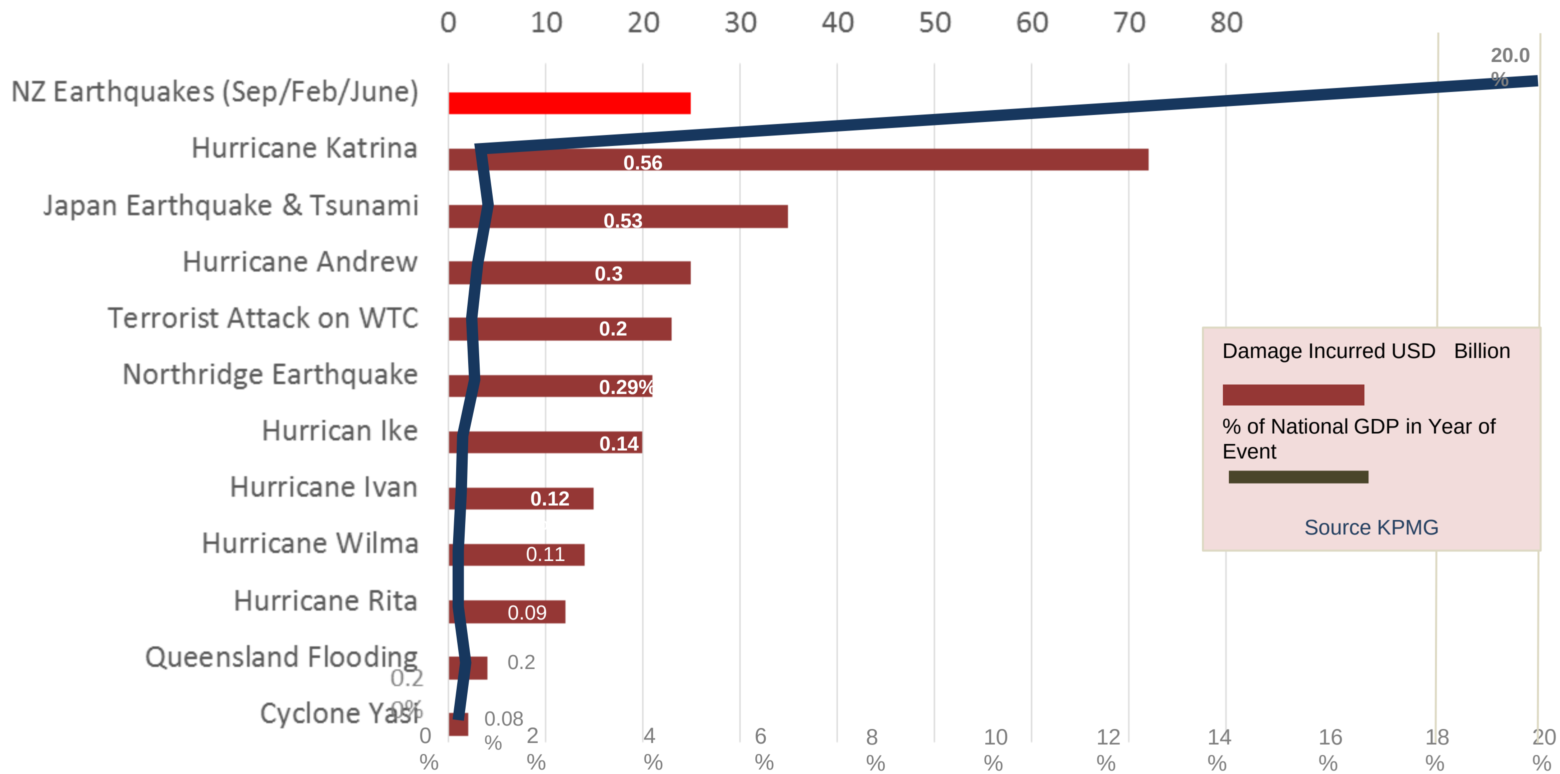
Insured losses **US$ Billion**



% of National GDP for Year of Event

Commercial Claims Critical to Recovery

Canterbury settlements included the largest insurance pay-outs in New Zealand's history - the Port of Lyttelton (NZ$438 million), the Canterbury District Health Board (NZ$320 million) and Housing New Zealand (NZ$320 million), University of Canterbury (NZ140 million), Christchurch City Council ($895 million)

Commercial insurers also paid out about NZ$1 billion in business interruption. Funds vital for keeping pay-packets full and keeping people in the city.

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Canterbury Insurance Contribution

Insurers

	No. of Claims	$ Paid
Domestic	142,485	$11.2 billion
Commercial	26,174	$10.9 billion
Total	168,665	$22.1 billion

EQC

$12 billion

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Kaikoura Snapshot

Losses insured in NZ

	No. of Claims	$ Paid
Domestic	45,000	$730 million
Commercial	4,500	$1.5 billion
Total	49,500	$2.2 billion

BUT, losses insured outside NZ $2.5 billion

Well over half of all losses were in Wellington and over 90% of these were commercial losses

Failure of new buildings

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Risk rating property

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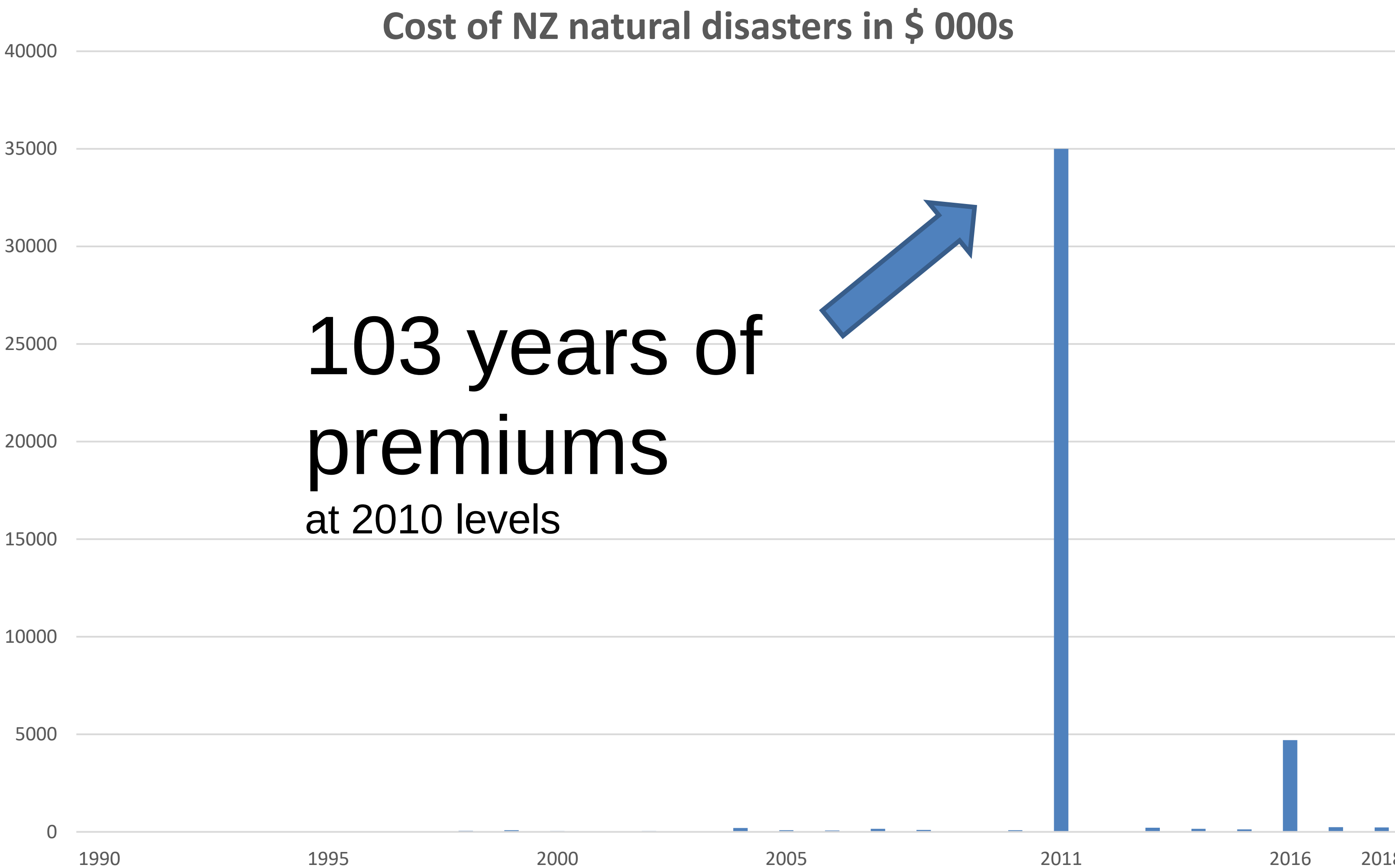
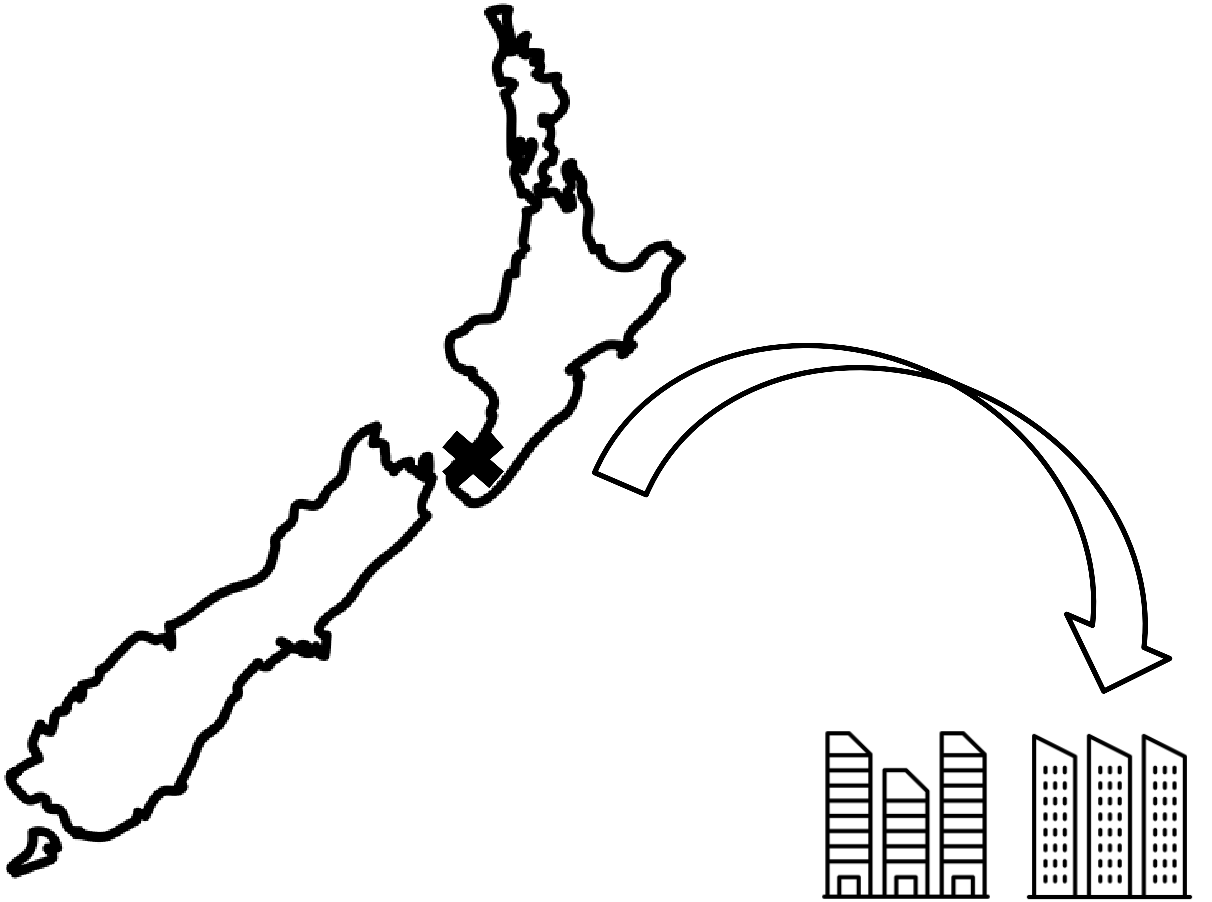
Insured losses
V
Premium Collected



The problem



How we got to where we are

- NZ is a high risk country; Wellington one of the highest risks
- Risk to property is created by
  - where we choose to build
  - how we choose to build
- There are 4 ways to manage risk –
  - **Avoid** it - **Transfer** it (insurance)
  - **Control** it - **Accept** it (BCs must fully insure – UTA)
- We have built on soft soil/reclaimed land and our building codes don’t sufficiently address the property risk, so Avoid and Control is poor
- We rely heavily on Transfer; better understanding of risk affects capital availability and pricing of that risk

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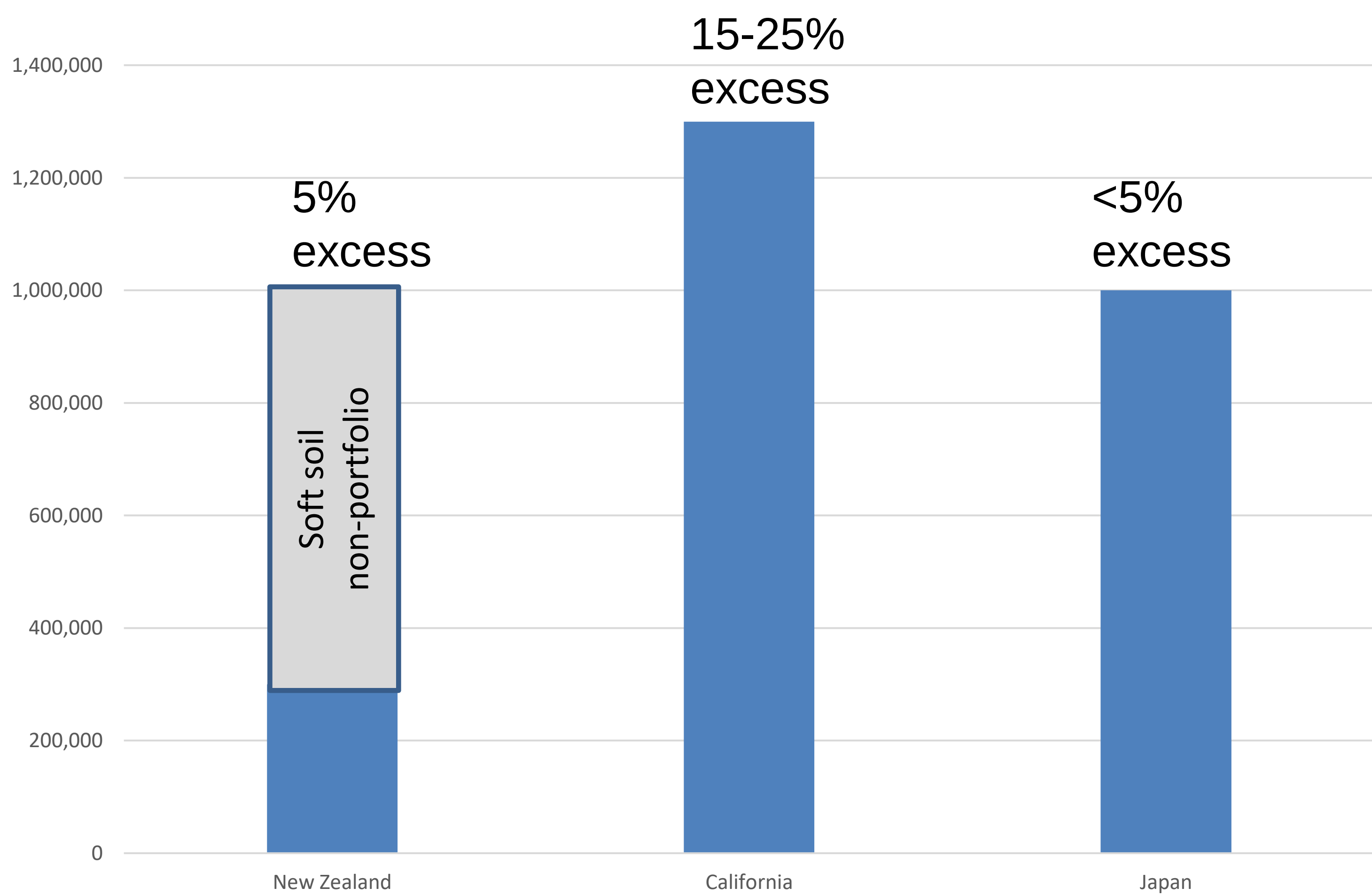
How we compare

Premium on $100m sum insured



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Christchurch has de-risked

- All the old stock destroyed
- CBD not built on reclaimed land, though soft soil issues
- New builds significantly strengthened incorporating best practise:
  - base isolation (a few, but should be more)
  - steel braced framing with seismic joints easily replaced in a quake
  - laminated timber frames (ductility)
  - 2012-15 builds were to “above standard”
  - deep piling
  - surface soil removal, fill with compacted material/ground strengthening
- Height restrictions on new builds lowers risk
- Does not lead insurers’ reinsurance purchase, but Wellington does for some, so impacts pricing and capacity offered
- Issues though may arise with unrepaired “as is where is” properties, poorly repaired houses and an emerging trend to lower the higher standards adopted 2012-2015

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Being more resilient

Reduce risk (Avoid and Control)	• Make new buildings more resilient e.g. base isolators, deep piles • Change building code (NBS) to increase resilience, not just life risk • Invest in low cost retrofits to make current stock more resilient • Look at where we build • Invest in infrastructure
Retain more risk with owner (Accept)	• More resilient buildings can retain more risk and pay less in premums • Higher risk buildings will reduce deductible premiums with higher deductibles • Amend Unit Titles Act to allow owners to have more flexibility to retain more risk
Reduces costs (Transfer)	• Remove the fire service levy from insurance - this is uncapped on commercial property and increases as property values increase
Act proportionaly to the problem	• Note this is only an issue for a relatively small number of Wellington apartment dwellers – targeted response to the actual problem

Wellington Mayoral Taskforce

- Did not quantify the affordability problem and thus the proportionality of any response
- Did have a strong risk Transfer focus, though sensibly proposed Control, Avoid or Accept recommendations
- Advocated for a very large increase in the EQC cap and extending it to all commercial property
- Appropriately to support future growth sought urgent upgrading of the National Seismic Hazard Model, consistent compliance with non-structural building elements, provide better risk information and use it to inform land use decisions, and review building regulation to ensure more resilient structures, and constrain development in inherently risky areas.