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Public Inquiry into the Earthquake Commission
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ICNZ submission to Public Inquiry into the Earthquake Commission

We appreciate the opportunity to contribute to the Public Inquiry into the Earthquake Commission (EQC). We welcome the Inquiry and its focus on ensuring that lessons are learnt from recent events and that EQC has the appropriate policies and operating structures in place for improved operational practices in the future.

In this submission we outline ICNZ's perspectives on the lessons that have been learned from the response to recent disasters and what would be the most appropriate approach to settling claims under the *Earthquake Commission Act 1993* (EQC Act) in future. It also touches on wider issues associated with ensuring the EQC Act remains fit for purpose.

This submission is in two parts:

- Part 1 provides overarching comments on relevant issues
- Part 2 provides more detailed feedback that responds to the matters identified in the Inquiry's Terms of Reference

Summary

The Canterbury Earthquake Sequence caused significant loss of life and widespread damage to land (including liquefaction), housing and infrastructure across the region. The scale and complexity of the Canterbury Earthquake Sequence and its effects created a range of challenges, including for the EQC and insurers. It also illuminated the inherent problems with a model that provides for multiple agencies (private insurers and EQC) to manage claims from a single customer. These issues complicated and delayed the settlement of some claims beyond acceptable timeframes, resulting in adverse outcomes for individual customers, delaying recovery and likely increasing the overall costs.

A better model for settling claims, whereby insurers acted as agents of EQC to settle claims, was identified and utilised effectively in the response to the 2016 Kaikōura earthquake. ICNZ supports the adoption of a model for settlement of EQC claims that takes the lessons from Canterbury and Kaikōura, is designed from a customer's perspective and enables the effective and seamless resolution by insurers of their customers claims. EQC recently approached insurers to work on co-designing a future response model and ICNZ and its relevant members will be participating in this process over coming months.

The EQC regime served New Zealand well for many decades and without significant questions until 2010. The experiences from the Canterbury and Kaikōura earthquakes have demonstrated the benefits of this framework as well as highlighting its shortcomings. It is critical for the future that the EQC regime is fit for purpose in terms of not only claims management, but also in the way that it manages natural disaster risks for New Zealand and New Zealanders. The nature of the EQC regime has changed materially since 1993 and looking forward the increased appreciation of existing risks and the evolution of new risks requires a response. We recognise there are issues beyond the scope of operational processes and handling claims that are worthy of exploration at this time as part of ensuring EQC and the EQC Act remain fit for purpose.

Part 1 – Overarching comments

In this Part of the submission we provide overarching comments on the issues being considered by the Inquiry and wider issues relevant to the future of the EQC Act.

The Canterbury Earthquake Sequence

Between September 2010 and the end of 2011, five major earthquakes and more than 11,200 aftershocks shook the residents of Christchurch and surrounding towns. Those earthquakes, collectively known as the Canterbury Earthquake Sequence, claimed 186 lives, did enormous damage to land, buildings and infrastructure across the region and were the biggest insured event in New Zealand history.

Insurance provided by private insurers and EQC met a significant proportion of the financial costs of the earthquakes and this has played a pivotal role in the recovery of the Canterbury region. More than 650,000 insurance claims have been made as a result of the earthquakes, with approximately 168,000 of these having been made with private insurers. To date, private insurers have paid to domestic and commercial customers more than NZ$21 billion (approximately $11 billion of which was for domestic claims). EQC expects to spend between $10–11 billion managing and paying claims for Canterbury, with $3.5 – 4 billion of that recovered from international reinsurers.[1]

The complex and ongoing nature of the Canterbury Earthquake Sequence combined with the scale of damage to property and to the land itself, created inherent challenges for repairing and rebuilding property and the resolution of insurance claims. Each major earthquake event caused more damage, meaning further assessments were needed. The extent of land damage created uncertainty as to how to repair or rebuild homes and to whether some land could be rebuilt on at all. The prolonged uncertainty around the use of significant areas of land in Christchurch ultimately delayed the recovery and the settlement of insurance claims. Decisions and approaches by various government agencies (including EQC) and by landowners, all impacted the settlement of insurance claims by both EQC and insurers. Overall there ended up being a series of events that delayed progress being made (e.g. waiting for aftershocks to abate, land categorisation and zoning decisions, waiting for legal certainty to be established on critical issues etc).

Prior to 2010 EQC had been small in terms of staff and focussed on managing the Natural Disaster Fund, and its associated reinsurance programme, and dealing with small numbers of claims from weather events and smaller earthquakes with predominately under cap claims.[2] Following the September 2010 Darfield earthquake EQC had to scale up its systems, capacity and capability very quickly to become a massive claims delivery service. This required securing technical skills that were in limited supply in New Zealand. Many of the subsequent issues with the settlement of EQC claims ultimately resulted from staff not having the skills and experience to undertake the roles required, or to oversee providers to do it, or from EQC having undeveloped processes and systems through which to undertake its role.

Lessons from settling EQC claims in Canterbury and Kaikōura

The scale and complexity of the Canterbury Earthquake Sequence and its effects created a range of challenges as outlined above and in greater detail in Part 2 of this submission. It also illuminated the

[1] https://www.eqc.govt.nz/news/international-reinsurers-continue-to-provide-cover-to-eqc

[2] Claims under the statutory caps of $100,000 for residential buildings and $20,000 for contents (all GST exclusive).

inherent problems with a model that provides for multiple agencies (private insurers and EQC) to manage claims from a single customer. These issues complicated and delayed the settlement of claims beyond acceptable timeframes, resulting in adverse outcomes for individual customers, delaying recovery and likely increasing the overall costs. What became clear is that a single party managing the claim, the customer's chosen insurer, would simplify the process, avoid a range of issues and result in a better outcome for customers.

Giving this, and following trial approaches in Canterbury, immediately following the Kaikōura earthquake in November 2016, ICNZ and EQC developed a Memorandum of Understanding ('Kaikōura MoU') to enable private insurers to act as EQC's agents to lodge, assess, and settle all claims. This approach was more similar to arrangements commonly in place around the world between insurers and reinsurers, who ultimately pay most losses from natural catastrophes for both private insurers and EQC. The arrangements provided in the Kaikōura MoU meant customers had one point of contact and responsibility for their claim, being their chosen insurer, who was able to identify the most damaged properties from the outset and navigate all customers through the claims process from beginning to end.

Whilst recognising the relative scale of the two events, insurers consider that customers benefited from a more efficient and effective recovery from the Kaikōura event, with a large proportion of residential claims settled within twelve months. Lessons that were learned from the Kaikōura event and the operation of the Kaikōura MoU should also be applied to further improve future responses (specifics outlined below in Part 2 of this submission).

Future models for settling claims under the EQC Act

In considering the best approach for the future we have considered lessons from recent events (Canterbury and Kaikōura earthquakes in particular) and what is ultimately best for owners of residential buildings in New Zealand who hold insurance policies for those buildings and for the residents of those buildings.

The insurance response after an event should place the homeowner at the heart of recovery efforts. This response has been complicated for certain natural disaster events[3] because the response involves both EQC (for its obligations under the EQC Act) and private insurers (for their obligations under the insurance policy their customers have chosen to protect their property). Customers have a direct and ongoing relationship with their insurers, who hold the details of the property insured, whereas EQC has no direct relationship with homeowners prior to any loss and homeowners would not normally have any knowledge or understanding of the EQC Act that governs their entitlements.

ICNZ supports the adoption of a model for managing and settling claims under the EQC Act that is designed from a customer's perspective and enables the effective and seamless resolution of claims. EQC recently approached insurers to work on co-designing a future response model and ICNZ and its relevant members will be participating in this over coming months. We will be pursuing a future model that:

- enables insurers to settle their customers' claims, including those aspects covered by the EQC Act, investigating and paying out claims for their customers directly for all aspects;
- is certain so that customers know what to expect and insurers and EQC can prepare in advance and react immediately following an event;

[3]Earthquake, tsunami, volcano, geothermal activity, landslips and floods.

- reduces duplication and double handling to reduce costs, so as to support the affordability of insurance and limit the costs of the EQC scheme to levy payers (i.e. homeowners) and the taxpayer; and
- provides for EQC to compensate private insurers for the claims handling expenses and payments they make under the EQC Act and for the appropriate auditing of insurers in regard to their EQC Act related activities.

Ensuring the EQC regime remains fit for purpose

New Zealand is highly susceptible to natural disaster damage from earthquakes and other geological activity and from weather events (storms, flooding etc). Fortunately, New Zealand also has one of the highest levels of insurance penetration in the world, with EQC (and ACC) playing key roles in this. The continuing support of international reinsurance capital is also critical and it is noteworthy that with the depletion of the Natural Disaster Fund, EQC claims from any major event will be met by reinsurers, largely the same ones providing cover to private sector insurers. High levels of insurance cover in New Zealand benefit society by sharing the risk and reducing the cost that individuals, businesses, local and central government would otherwise have to meet. This in turn sets the level of public insurance cover provided by EQC because EQC's cover applies when private insurance cover is in place.

The existence and design of the EQC Act and access to global reinsurers both underpin the provision of private insurance cover in New Zealand for natural disaster related losses for residential buildings. Given New Zealand's high risk of natural disasters, EQC taking the first $100,000/$150,000[4] of residential property damage in relevant natural disasters[5] reduces private insurers' exposure to such events and thereby helps enable them to offer all perils insurance coverage to homeowners (functioning effectively as an integrated top-up cover for natural disaster risk), which is positive for New Zealanders but unusual internationally. EQC is funded by a levy on relevant insurance products that is collected for EQC by private insurers.

While the EQC's statutory functions are set out in section 5 of the EQC Act, the Act does not have a purpose section that sets out the specific objectives of the regime. We note however that the EQC Review in 2012 outlined the following objectives:

- support the contribution of a well-functioning insurance industry to economic growth opportunities in New Zealand
- minimise the fiscal risk to the Crown associated with private property damage in natural disasters
- support an efficient approach to the overall management of natural disaster risk and recovery
- minimise the potential for property owners to experience socially unacceptable distress and loss in the event of a natural disaster.[6]

The EQC Act regime has served New Zealand well for decades and the experiences from the Canterbury and Kaikōura earthquakes have demonstrated the benefits of this framework. They have also demonstrated its shortcomings in terms of claims management in particular as discussed elsewhere in this submission. It is critical for the future that the EQC regime is fit for purpose in terms of not only claims management but also in the way that it manages natural disaster risks for New Zealand and New Zealanders and how it interacts with the provision of insurance for residential dwellings by private insurers.

[4] From 1 July 2019.
[5] Earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami.
[6] New Zealand's Future Natural Disaster Insurance Scheme: Proposed Changes to the EQC Act 1993, Discussion Document, The Treasury, July 2015, page 13.

The nature of the EQC regime has changed materially since 1993 as a consequence of inaction. At that time the cover of $100,000 + GST for a residential building potentially allowed the full rebuild of a modest home and would have met significant repair costs for many homes. The cover for $20,000 of contents was also likely to be sufficient to meet many contents claims following relevant natural disasters. Over time the government's level of underwriting has reduced significantly as it has not been adjusted for the inflation of building costs and so now represents just a proportion of repair costs for even a modest home. Even with the upcoming increase from July 2019 to $150,000 + GST, the first since 1993, the private insurance market now meets a much greater proportion of the potential costs from a natural disaster such as an earthquake than would have been the case in 1993.

This has reduced the fiscal risk to the Crown and more recently through more granular pricing of risk by private insurers has enabled clear signals to be given to New Zealanders about the risks their property faces. It has also enabled New Zealanders who have been paying more as a consequence of less granular pricing of the risks they face to potentially benefit from price reductions. Any moves to substantially increase the EQC cap would reverse these benefits and place a lot more risk on the taxpayer, in effect onto all New Zealanders.

Looking to the future, an increasing focus on hazards, such as the risks posed by increased frequency of flooding, rising sea-levels due to climate change and earthquake risk, is likely to put pressure on insurance affordability, particularly in higher risk areas, unless risks are mitigated or reduced. Insurers are moving towards pricing that takes greater account of the risks for specific homes, particularly natural disaster risks. The price point reflects the risk, so policyholders pay a fair premium according to the risk of loss they bring to the pool of premiums. This supports long term insurance sustainability and sends a price signal to encourage resilience and risk reduction, however, it does mean increased prices for customers with higher risk properties and lower prices for those with lower risks.

Government in turn needs to consider investment in risk-reduction and community resilience, the role of risk sharing measures such as EQC, as well as the ad-hoc post-event interventions that tend to be undertaken (e.g. grants to affected business and homeowners) and how within all this to manage affordability, adverse selection and moral hazard issues. It is important that EQC can focus its efforts and avoid inefficient or inappropriate overlap with private insurers or other parts of government. Given this ICNZ considers in broad terms that EQC's future focus should be on:

- providing a level of cover for natural disaster damage to residential dwellings to support the provision of comprehensive private insurance for residential dwellings in New Zealand;
- providing cover for land damage;
- effectively managing the way the cover is provided for residential dwellings through the Natural Disaster Fund and reinsurance as appropriate; and
- conducting research and education related to understanding and reducing risks for residential dwellings and communities.

ICNZ recognises there are wider matters that go beyond the scope of the Inquiry's Terms of Reference, as discussed briefly above, which we consider are worthy of exploration at this time as part of ensuring the EQC Act remains fit for purpose. Any changes would need to be based on clear and practical objectives and explored very carefully. We are also mindful that any fundamental changes to the interface with private insurance risks unintended consequences.

Part 2 - Responding to the Inquiry's Terms of Reference

In this part of the submission we provide more detailed feedback that responds specifically to the matters identified in the Inquiry's Terms of Reference.

Canterbury operational practice experiences

The Commission's operational practices both before and after the Canterbury earthquake events, including the Commission's performance in scaling up appropriate resourcing to deal with these significant events

Prior to the Canterbury Earthquake Sequence EQC was small in terms of staff and focussed on managing the Natural Disaster Fund and dealing with small numbers of claims from weather events and smaller earthquakes.

Many of the claims involving EQC were resolved under cap because damage was modest and/or the $100,000 cap went substantially further in earlier years due to lower building costs. The overlap and duplication with private insurers in terms of settling claims was therefore relatively limited. Examples of this include claims made in relation to the 2007 Gisborne Earthquake. EQC's process for managing claims had not been stress-tested by a major event and was generally considered to work.

EQC had to scale up significantly to respond to the September 2010 Darfield Earthquake and the scale increased further after the February 2011 event. It went from generally an average of 5,000-8,000 claims per annum to ~469,000 individual claims for damage to 168,000 residential buildings. It also went from 22 staff in 2010 to a peak of over 1,800 staff in 2013.[7]

EQC did not have appropriate policies and procedures in place to deal with an event of this scale. It had to recruit and then train significant numbers of people at short notice from around New Zealand and beyond (particularly Australia). The consequence was many staff and contractors were not experienced in insurance assessment or building. EQC's systems and quality assurance unsurprisingly struggled to keep up with this level of growth.

EQC's claims management system at the time was also antiquated (version 4 of Guidewire's ClaimsCentre) and it continued to use this until 2017 when it was replaced as it was no longer supported. Amongst other things this complicated EQC's ability to input claims information and limited EQC's ability to interact with insurers on over cap claims.

Weaknesses in EQC's approach and practices that led to delays or other problems included:

Staffing/resourcing:

- Access to a sufficient volume of staff led to a lack of staff capacity and capability.
- Staff recruited often had little or no claims management experience and relied on EQC induction and training.
- Loss adjustors had little or no previous claims damage assessment experience.
- Loss adjustors also came in for set periods as they were not Christchurch or even New Zealand based, so there was no consistency of claims assessment for a customer.
- Insufficient skills or expertise led to lower quality or incomplete assessments, which were inadequate to progress claim resolutions and led to a need to reassess properties multiple times.

[7] EQC staff numbers from page 7 of EQC Annual Report 2013-14.

- Insufficient investment in, and a lack of focus on, staff culture and values.
- Some senior staff insufficiently skilled/experienced to handle the scale and complexity of claims.

Operational processes

- IT systems that didn't work effectively (e.g. tablet systems that didn't upload data requiring multiple visits to properties, adding delays and costs).
- Linear/siloed processes within EQC, with teams of staff trained in individual elements of claims management. Claims passed through several teams rather than creating a case management process, which is more customer focused and time efficient. This meant a claim would work its way through a queue in one team and then go to the back of the queue when passed through to the next team (for insurers this meant that you may have had line of sight when in that team but then lost when it moves to the next team and you need to engage with someone new). Insurers needed EQC to pass over cap claims to them, but often there were long delays from EQC assessment to insurers due to the linear/queue processes.
- Lack of information for customers on the progress of their claim.
- Different dispute resolution processes for customers. Insurers are bound by the Fair Insurance Code and therefore deal with complaints in accordance with this. EQC did not have an established disputes process, nor an independent body such as the Insurance & Financial Services Ombudsman Scheme (IFSO) or Financial Services Complaints Ltd (FSCL).
- A lack of developed protocols for managing claims with private insurers. Ultimately six protocols were developed by private insurers for interacting with EQC, although only one was signed.[8]
- Perceived differences in re-instatement standards between the EQC Act wording and typical insurance contracts and EQC's erroneous repair to pre-earthquake standard or "like for like" also had the effect of damage not being adequately scoped and meant that many claims an insurer would consider as over cap were settled as under cap.
- Lack of integrated and efficient data exchange with insurers. As EQC has no customer records it relied on insurers to validate cover for under cap claims. Insurers relied on EQC to advise that it had received a claim and provide an estimate of damage.
- Record management and data quality was a significant weakness (i.e. EQC could not accurately report how many claims it had) and these issues continued through to 2018.[9]

Organisational culture and relationships

- An overly cautious and litigious approach with a legal focus on most issues slowed and complicated the resolution of many issues that arose.
- Under cap claims sometimes resulted in litigation with insurers being named as second defendants. Insurers would often however have no knowledge of the damage or the dispute. EQC was unwilling to engage with insurers on these claims.
- The need for EQC to often seek approval from its board for what would be dealt with as operational decisions by insurers, which slowed the progress of many specific issues.

[8] EQC/Insurer Agreement – Protocol 1, Handing Over Reinstatements Which Were Incorrectly Assessed as Under or Over Cap, November 2011.

[9] Refer to the Report of the Independent Ministerial Advisor Christine Stevenson to the Minister Responsible for the Earthquake Commission – April 2018.

- Misalignment between the Fletcher Hubs and EQC's operational management in terms of data and customer management (e.g. Fletcher's undertook damage scope assessments but were not responsible for interpreting how the EQC Act responded).
- Limited visibility of management accountabilities and responsibilities. Insurers by default established relationships with EQC personnel to navigate customer outcomes.
- Apparent misalignment between EQC senior management and EQC's operational management. ICNZ saw examples where messages and decisions were often misunderstood or did not filter down to field managers.
- Strong cultural differences between EQC and private insurers in terms of customer management. There sometimes appeared to be a lack of urgency from EQC in progressing key issues such as over cap claims identification, joint claim assessment reviews, development of the multi-unit building (MUB) programme. This often resulted in claims being escalated to the media, Ministers or insurers in an attempt to seek resolution. Vulnerable customers were also not identified and prioritised, with insurers often escalating the claim as urgent.

Other

- Significant delays in addressing land damage issues (described further below).
- EQC was unable to give clear, accurate assessments of the number of over caps likely to be transferred to private insurers (e.g. EQC advised insurers in 2016 there would be another 300 transferred, but insurers have had around 2,500 transferred since then). This has had major ongoing implications on insurers' ability to plan.

The Commission's customers' experience of its operational practices and claims outcomes

ICNZ recognises the value of claimants providing their experiences to the Inquiry and supports its efforts to engage with claimants in Canterbury and beyond. We note also that inquiries have already been undertaken into EQC's operations in response to the Canterbury earthquakes including by the Auditor-General in 2013 and 2015 and the Independent Ministerial Advisor's report in 2018.

ICNZ recognises the challenges for EQC and others in responding to the Canterbury Earthquake Sequence. Insurers nonetheless have some observations in relation to customers' experience of EQC's operational practices and claims outcomes:

- The need for EQC to repeat assessments due to technical failings or other issues (e.g. insufficiently skilled assessors) created additional and unnecessary hassle, stress and delay for many customers.
- Shortcomings in monitoring the quality of repairs undertaken has led to thousands of substandard and/or failed repairs (e.g. in relation to foundations or re-levelling).
- Unreasonable delays in transferring over cap claims to private insurers has led to poor outcomes for consumers. The ongoing process of re-repairs and the absence of full and final settlements by EQC means that insurers continue to receive over cap claims over eight years after the largest earthquakes.
- EQC was later to join the Residential Advisory Service (in 2014) compared with private insurers who signed up in May 2013, this also missed opportunities for alignment and integration associated with having all relevant parties in the room.
- EQC was slow to engage with insurers to agree and sign up to an agreed approach to multi-unit and shared properties. The first MoU between insurers was in April 2013. From August 2014, insurers worked together to agree a draft Canterbury Earthquake Shared Property

Process – Insurer Contract (SPP) which sets out obligations for insurers and appoints a lead insurer to act on behalf of other insurers with respect to the repair and rebuild of shared properties, which was in successful operation by mid-February 2015 for any sites not involving EQC. In February 2015, EQC re-engaged with insurers, but it was not until August 2015 that insurers were able to agree amended terms with EQC.

- EQC's land damage assessments and policy responses took years to develop, meaning customers with Increased Flooding Vulnerability (IFV) and Increased Liquefaction Vulnerability (ILV) land damage were not able to progress their claims with private insurers (discussed further below).
- The perceived differences in repair standard between private insurers "as new" and EQC's erroneous repair to pre-earthquake standard or "like for like" complicated claims settlement and adversely impacted customers (it ultimately took representative action by homeowners in the High Court for EQC to concede the extent of its reinstatement obligations in 2016).
- Under the EQC Act there is no ability for the EQC to finalise and close claims in the same sense that insurers are able to. Claims therefore retain an ability to be repeatedly revisited and re-opened by the customer. With the knowledge of this, EQC staff took an approach in contentious situations and for the sake of expediency of carrying out work (assessments, repairs etc.) that was "good enough", telling customers that they could come back if they found more damage or were not satisfied. An impact of this is that claims are still going over cap eight years after the events often with no previous awareness by the insurers, which gives uncertainty of future liability to insurers and provides a less than satisfactory customer experience. "Good enough" repairs or assessments also often result in difficulty or inability to assess the original damage and repair strategy, putting the insurer and customer in contentious situations.

While many customers' claims were settled within reasonable timeframes, for those where there was significant delay and/or a lack of transparency this can lead to a loss of confidence in the process that in turn can lead to the involvement of other parties, often furthering complicating and slowing the process.

The interplay between the Commission and the other insurers with regard to operational practices including, as relevant to the performance of the Commission, the experiences of those other insurers:

Overall, the nature of the shared claims model further complicated and delayed the settlement of claims, resulting in worse outcomes for many homeowners.

The inherent challenges associated with the complexity of the Canterbury Earthquake Sequence and its impacts affected the interplay between the Commission and private insurers. Relevant aspects included:

- The extent of land damage created uncertainty generally and this was not resolved until after the government-led drilling programme determined land classifications. This prolonged uncertainty around the use of significant areas of land at all, or the implications for determining whether a property could be repaired or needed to be rebuilt, delayed the settlement of insurance claims.
- Each major earthquake event caused more damage, meaning further assessments were needed and more costs needed to be apportioned between insurers and EQC for each event

(noting that multiple events required apportionment).[10] The High Court made a declaratory judgment[11] in mid-2011 that cover under the EQC Act renewed after each event so long as the property remained insured, meaning that for some homeowners their properties were repaired by EQC even though the costs exceeded the $100,000 cap in the EQC Act.

- Actions and prioritisation by the Canterbury Earthquake Recovery Authority (CERA), councils and landowners impacted the settlement of insurance claims by both EQC and insurers. For example, decisions on which elements of the rebuild to prioritise influenced the ability for some homes to be remediated and some remediation work was not undertaken by homeowners that impacted on the ability of other neighbouring properties to be remediated. For example, if council-owned or privately-owned retaining walls effecting other properties were not fixed by owners, this affected the ability of property owners to gain consent to fix their property.
- Settling claims for multi-unit buildings with multiple owners, multiple insurers, sometimes uninsured parties and with varying damage and cross-lease claims under the Unit Titles Act 2010, all involving one property, is inherently complex.
- The involvement of 'claims advocates' and 'public adjusters' as intermediaries was a significant complication in the settlement of claims by both EQC and private insurers and sometimes led to worse outcomes for customers. In some cases these advocates raised unreasonable expectations by steering customers into seeking cash settlements for sums greater than actual repair costs (to fund their services through contingency fees), which distorts the nature of claims settlement, which is to remediate the loss. In others there were issues with opposing repair strategies, the intermediary taking on large workloads that could not be managed and thereby becoming a cause of delay, and a lack of knowledge of New Zealand law by overseas intermediaries. As part of promoting their own services these intermediaries also engaged in anti-insurance company rhetoric (e.g. "delay, deny, defend") which had the effect of undermining public confidence in the good faith of their private insurers and EQC.

Notwithstanding the inherent challenges and scale of the damage, private insurers experienced issues with the interplay with the EQC with regard to operational practices, which created problems for insurers and their customers. As EQC was responsible for the first $100,000 of damage it always had to look first at properties, and unless it was clear initially that the cost to repair damage exceeded the EQC cap, private insurers had to wait for EQC to undertake its investigations and progress the claim either to resolution or to when it became over cap. Private insurers could progress claims to some extent but could only begin repair work or settlement negotiations once EQC had declared a claim over cap and agreed with the insurer's assessment.

Slow and insufficient assessments by EQC (due to a lack of resources, technical problems and a need to redo assessments (sometimes 3 times) etc.) and the number of earthquakes meant that in many cases damage could not be correctly attributed to specific earthquake events, which is a critical factor for reinsurance. Issues with apportionment of claims and the determination of whether the statutory cap has been exceeded continue to this day with ongoing impacts for customers and/or insurers.

[10] For example, the earthquakes on 4 September 2010, 26 December 2010, 22 February 2011, 13 June 2011 and 23 December 2011.
[11] EARTHQUAKE COMMISSION HC WN CIV-2011-485-1137 [2 September 2011].

As noted above, slow resolution of land remediation claims delayed settlements for over cap building claims. At the time of the earthquakes it was understood that an increase in liquefaction vulnerability reduced the utility of the land as a building platform and this placed ILV as damage.

Rather than using the Liquefaction Potential Index "LPI" Method", to identify increased liquefaction vulnerability, EQC instead commissioned Tonkin & Taylor to embark on what ultimately turned into a prolonged project to develop the Liquefaction severity number "LSN Method". This involved extensive ground testing of various repair methods using explosive charges and equipment to simulate earthquake effects. The time it took to develop and implement the LSN method ended up causing years of delay. This led to insurers being forced to repair and rebuild homes on damaged land, without the EQC meeting its statutory responsibilities for land damage.

Land in TC3[12] required geotechnical assessment and this needed to occur before the claim could be considered for reinstatement as it informed repair strategy. Insurers initially worked with EQC to form part of a joint area-wide geotechnical drilling programme. But as this was not on an individual site basis and with conflicting priorities, insurers determined they were better placed to respond by starting their own geotechnical assessment programmes, which did not start until late 2012. Many customers did not understand that the area-wide drilling by EQC was not sufficient to inform a site-specific repair strategy and this led to confusion for customers in terms of the ability for their claim to proceed given they were told drilling was complete in their street or area.

EQC created land categories ranging from slumping and cracking through to ILV and IFV. EQC shared the categorisation of land damage with insurers but ILV information for affected customers was only advised in the second half of 2013. Insurers were unclear how EQC would settle ILV claims, how payments would be calculated and the extent and type of remediation that EQC would consider. Insurers faced considerable pressure from TC3 customers to advance their claims and therefore insurers took Deed of Land Claim Assignments so that they might reinstate damage for their customers and have EQC contribute its land damage later.

The transfer of claims from EQC to insurers created multiple-handling because private insurers then had to commission their own technical reports and assessments due to insufficient quality or scope of EQC's assessments or EQC being unwilling to share these with private insurers. Homeowners also often commissioned their own reports, meaning multiple expert reports were frequently attached to a single property. This, along with different interpretations of the loss, increased the potential for disputes and delays and increased overall costs.

Perceived differences in repair standards between the EQC Act and insurer policy wordings, and no common agreement with EQC on repair methodology, led to delays. For example, EQC appeared to treat their obligation to repair the house to the condition it was prior to the earthquake instead of when new. Specific examples of this included electrical wiring. Consistency/alignment in future, or cover following the private insurers wording, would negate the possibility for disagreement between lawyers about wording like "as new" vs "as when new" versus "substantially the same as but no better than when new" etc. Legal proceedings against both EQC and insurers added expense for homeowners in trying to resolve claims against two separate entities, often with different views of the claim response.

A lack of co-ordination in regard to contracting and use of scarce resources (e.g. land drilling contractors) also delayed claims settlements and remediation works. EQC withdrew from a planned joint venture to undertake geotechnical drilling (noted above), resulting in insurers and EQC

[12] TC3 is where liquefaction damage is considered possible in a future large earthquake.

undertaking simultaneous drilling programmes, reducing economies of scale and adding to costs as the parties were competing for limited resources.

Some specific operational issues that arose included:

- There were delays in reaching agreement with EQC about damage assessments/repair strategies due to some of the difficulties previously outlined, including perceived differences in repair standards, poor initial assessments by EQC, and delays in EQC re-assessing properties.
- No process for sharing workload of claims assessment between EQC and insurers. EQC was resistant to do this and was also reluctant to accept insurers' assessments that properties were over cap, even though private insurers had no incentives for this to be the case.
- No policies for managing over cap claims until Protocol 1 was entered into in November 2011.
- EQC failed to obtain a privacy waiver to allow it to share its claims information with private insurers. While most insurers had their own privacy waiver from the customer, which was sufficient to require EQC to disclose their information to the insurer, EQC would not recognise the efficacy of the customer's privacy waiver to their insurer.
- Sharing information on claims did not work due to a lack of systems at EQC to facilitate this. This was further complicated by EQC being overly conservative after a data breach occurred in March 2013, with no data transfer by email for months afterwards.
- The entire over cap process of handing claims to insurers created anything but a seamless, co-ordinated approach for customers leading to greater delays, frustration and an overall poor experience and outcome for the customer and insurer.
- EQC continued to understate the level of potential over cap claims being held by it, which has had ongoing impacts on insurers and their planning. EQC are continuing to transfer claims to private insurers 8 years after the first 2010 earthquake. Between the 3rd quarter of 2013 and the end of 2017, 5,692 over cap claims were transferred to private insurers from EQC. An additional 738 over caps were transferred from EQC in 2018.

Comparative experiences:

The benefits and shortcomings of the Commission's different approaches to claims outcomes such as cash settlement versus repair and rebuild

We note that EQC's approach to cash settlement versus repair and rebuild is relevant only to under cap claims or potential under cap claims, as EQC pays cash settlements for straight over caps. Also, as noted elsewhere, subsequent to the Canterbury earthquakes EQC has largely utilised cash-settlements to settle claims.

Cash settlements by EQC have advantages including:

- giving customers choice and flexibility;
- cash settlement injects funds into the community more quickly for a speedier recovery;
- cash settlement is based on documented cost of repair calculations, so it provides the homeowner with a detailed account of what is required of a builder; and
- cash settlement reassures the reinsurance sector because their liabilities are settled with certainty as soon as possible and efficiency of recovery is important for ongoing reinsurance support.

Cash settlements can however involve challenges in certain situations:

- If building and other trade resources are not available then it can be challenging for customers to undertake repair or rebuild (though a lack of building resources can be a fundamental issue following a large event regardless of which claims settlement method is employed and will likely require a co-ordinated response involving the building industry, government, insurers and others and the establishment of project management offices (PMOs) etc.).
- Vulnerable customers are generally not well positioned to manage their own repairs and so different processes need to be available for them.
- Cash settlements can give rise to the issue of settled but unrepaired properties that amongst other things, creates uncertainties for future insurability. Issues arose where EQC cash settled properties that were over cap and customers then spent the money on things other than repair, meaning there was a gap when insurers came to cash-settle or to complete the repair work. A particular issue early on in the Canterbury response was over the phone settlements for modest sums (e.g. under $15,000) that were undertaken without assessment. This was ultimately managed by some insurers through an assignment system so that monies could be assigned directly to insurers for over caps. We note this would not arise if the future model for managing claims outlined below was adopted.

The Commission's application of learnings from its Canterbury experience to subsequent events

Whilst some Canterbury claims still remain unresolved, EQC has applied many of the lessons from the Canterbury experience to subsequent events. Most notably through the implementation of the Kaikōura MoU with private insurers (see further below).

We note some specific points in regard to the four other natural disaster events identified in the Inquiry's Terms of Reference:

- The 2013 Seddon and Cook Strait earthquakes:
    - EQC applied some of the lessons from Canterbury to dealing with claims from these earthquakes, in particular it moved to cash settling claims.
    - We note there were very few over cap claims from Seddon (9 from over 12,000 total claims[13]) and so there was limited overlap with private insurers.
- The Eketahuna earthquake in 2014. ICNZ understands the claims were generally under cap and so there was limited interface with private insurers.
- The Edgecumbe flooding in April 2017:
    - EQC's scope of cover for this event was generally limited to damage to land. Uncertainties were however created in relation to some claims as EQC cover differs for flood (land only) vs. landslip (up to $100,000 for damage to buildings as well) and there were some residential buildings where the cause was open to interpretation.
    - The above noted uncertainty along with limited staffing (e.g. 3 EQC case managers) caused bottlenecks in resolving claims and remediating homes, which received negative media attention in July 2017.[14]
    - Insurers were very active in engaging with EQC as there had been significant delays with EQC resolving land damage after floods in Whanganui in 2015.

[13] https://www.eqc.govt.nz/news/eqc-passes-half-way-mark-for-settlement-of-cook-strait-claims
[14] https://www.radionz.co.nz/national/programmes/checkpoint/audio/201851660/eqc-blamed-for-edgecumbe-insurance-delays

- EQC was involved with cleaning underneath homes (e.g. silt removal) of both insured and uninsured properties. Removing silt from uninsured properties goes beyond EQC's statutory responsibilities and also increases moral hazard for the future.
- There was generally good communication and constructive interaction with insurers in Edgecumbe, however, there were some issues with sequencing where house repair moved ahead of land repair (e.g. removing sediment under houses).

The key process differences between the operational processes used in Canterbury and the Kaikōura pilot approach, taking into account the different economic impact of the events

While the November 2016 Kaikōura earthquake resulted in significantly less damage than the Canterbury Earthquake Sequence it is still the second most costly natural disaster in New Zealand history.

Immediately after the Kaikōura earthquake ICNZ and its members and EQC began working on a memorandum of understanding (MoU) whereby insurers would act as agents of EQC, assessing and managing claims for all homeowners insured by private insurers, including any under cap portion. This was agreed and announced on 16 December 2018.

The key purpose of adopting the Kaikōura MoU was to achieve a better claims experience for customers making claims under the EQC Act, including settling claims faster. Key elements of the model provided for in the Kaikōura MoU were:

- insurers acted as agents of EQC pursuant to paragraph 7(5) of Schedule 3 of the EQC Act and section 73(1)(d) of the Crown Entities Act 2004;
- insurers investigated and paid out claims for their customers directly;
- EQC then reimbursed private insurers for the under cap portion of all the claims they managed;
- it provided for audit of insurers by EQC or its reinsurers for their work in relation to under cap claims under the EQC Act; and
- an MoU Steering Group and Kaikōura Operations Group were formed to oversee interactions and resolve issues that arose (a Communications group and IT group were also formed).

The Kaikōura model worked much more efficiently and resulted in faster resolution of claims for customers than had occurred in Canterbury. One year on from the event, 83% of all property claims relating to the Kaikōura earthquake had been fully settled. In contrast, 3 years on from the Canterbury earthquakes, only 34% of earthquake-related property claims to private insurers in Canterbury had been fully settled and many more over cap claims were still waiting with EQC to be transferred on. In the two years since the Kaikōura earthquake 99.8% of all domestic claims were resolved. EQC noted evidence of benefits for customers included "Comparatively high customer satisfaction results for those customers who were very satisfied or satisfied, comparatively low dissatisfied or very dissatisfied customers, as illustrated in the graph below."[15]

The main reasons (other than scale of damage and the different nature of the earthquake) why the Kaikōura model was more efficient and resulted in faster resolution of claims for customers included:

- reduced duplication of effort with private insurers managing claims on behalf of EQC;
- good quality and timely damage assessments;

[15] EQC, Strategic review of the Kaikoura agency response, Part 1: Analysis, January 2019, page 5.

- move to sum insured policies by private insurers due to feedback from reinsurers, which also removed the motivation for claims advocates to be involved as not open-ended;
- EQC's move to cash settlements as a primary outcome; and
- aligned goals and collaboration between EQC and private insurers, the early implementation of multiple steering and operational governance groups that hit the ground running rather than being created retrospectively to deal with existing problems as occurred in Canterbury.

ICNZ continues to believe that a model that takes the lessons from the Kaikōura agency model and improves upon it will be the best approach for managing insurance claims for all natural disasters involving EQC moving forward because:

- Customers choose their insurer and their policy, so it makes sense that their chosen insurer deals with the entirety of their claim in the event of a natural disaster. Insurers operate in a competitive market, so are highly incentivised to manage claims efficiently and responsively for their customers and to protect their brands.
- Customers get to work with a single party (their chosen insurer) and have a single point of contact and accountability. The Kaikōura model showed the benefits of avoiding duplication of resources and processes.
- Customers have existing relationships with their insurers and insurers already have information on their customers and the relevant property insured.
- Under changes to the EQC Act that come into effect from 1 July 2019, insurers will be responsible for managing and settling all contents claims. Insurers are therefore highly likely to be addressing claims for contents damage in homes that suffer damage.

Notwithstanding the positives of the Kaikōura model vis-à-vis the Canterbury claims experience, there were a number of specific issues experienced with implementing it effectively, including:

- until the MoU was finalised a month after the event there was some uncertainty about responsibility in leading claims management for customers (i.e. EQC or private insurers), which amongst other things created confusion for customers amongst whether to lodge claims with their private insurer, EQC or both;
- issues sharing data and privacy concerns (i.e. sharing full claims files with EQC that could contain non-EQC claim information, e.g. EQC exempt items or temporary accommodation) notwithstanding that private insurers were acting as agents;
- difficulties with claims where there was pre-existing damage from earlier EQC claims which had not been rectified (e.g. from the 2013 Seddon earthquake), which created the risk of multiple payments for the same damage at the expense of the taxpayer;
- an initial lack of guidelines and training, so some uncertainty about EQC's policy on certain things led to indecision regarding settlements, though this has been largely addressed and realistically there will always be situations that can't be covered off prospectively;
- difficulties in recovering fees on claims management and payment costs, including:
    - a relatively pedantic approach by EQC led to fee claims being rejected (i.e. if a claim number was a digit out etc.);
    - the process was quite inflexible and manually intensive;
    - confusion regarding fees for multi-unit properties; and
- EQC took several months to accept the use of the external dispute schemes (e.g. IFSO) to resolve customer complaints and when it did agree, it insisted that the schemes had to apply

EQC's interpretation of the EQC Act. This differs from the schemes' ability to make binding determinations on insurers about the interpretation of private insurers policy documents.

- Delays in the reimbursement of claims expenses under the agency model for Kaikoura meant private insurers unnecessarily carried large amounts paid to customers in advance of recovery from EQC (one insurer indicated for example that this was up to $10m at one point). The issue was that prior to reimbursing insurers, EQC were looking to ensure 100% matching of data (i.e. EQC claim number/number of affected dwellings etc.) before payment would be made, notwithstanding the fact that the claim had already been settled and paid to the client. This was also despite each bordereau[16] claim being internally audited on a sample basis as per EQC requirements in advance of submitting to EQC for payment. In contrast, dealing with reinsurers, these delays have not been experienced with reinsurers promptly paying upon receipt of invoice, noting reinsurers have the ability to retrospectively audit the settlement.

The process also identified some of the inherent challenges with the agency approach under the Kaikōura MoU:

- Whilst the intent was to move towards a reinsurance type model, agency and the way it was applied resulted in a more master/servant type approach, reflected in a lack of trust in insurers by EQC when reviewing claims (compared with reinsurers who audit, but otherwise assume insurers acting reasonably).
- Fees are agreed at the start of the process, at a time when it was difficult to assess how much would be appropriate (it's not always apparent early on how complex the issues will be, e.g. liquefaction in Canterbury), which leads to potential under resourcing later. Note that this was less of an issue for insurers using external loss adjusters who passed on the actual cost of adjusters.
- The Kaikōura MoU excluded land claims. In future events, if the land forming the building footprint is also damaged, the response model could only work efficiently if land and building claims are being settled together, because land repair methodology will drive home repair scopes and costings for cash settlements.

Future strategies:

Operational practices that have now been put in place by the Commission, or which are being implemented, to help ensure improved experiences and outcomes

The Kaikōura MoU lapsed after one year on 13 December 2017. ICNZ and insurers sought an extension of this MoU from late 2017 but EQC did not want to pursue this at that time. EQC and insurers have recently commenced engaging to put in place a high-level interim agreement in case a large natural disaster occurs in advance of more permanent arrangements being put in place. As noted above EQC has also approached insurers to work on co-designing a future response model. ICNZ and its relevant members will be participating in this over coming months. We will be pursuing a future model that delivers the good outcomes for customers, the elements of which are detailed below.

Separately a management trial for the removal of silt and debris under dwellings for EQC land claims is to be tested in future flooding events. The Chief Executives of eight relevant insurers and EQC signed this agreement in November 2018 to trial arrangements for the insurers to undertake the clearance of debris from beneath houses after a flood event on behalf of EQC. It recognises this has efficiencies

[16] The term bordereau is used to describe lists or reports of losses required under the reinsurance contract from the reinsured to the reinsurer.

and ensures better integration with work on remediating flood damaged houses, which is not covered by the EQC Act. This agreement was effective from 1 December 2018, however, it has yet to be operationalised as a land clearance standard and agency agreement are yet to be developed by EQC that would enable to insurers to give effect to the high-level agreement. Once implemented it will be reviewed after being trialled in actual flood events before settling on more permanent arrangements.

We also note that should Government decide to undertake this sort of silt and debris clearance under and around homes on an area-wide basis for all types of home insurers, as it did in Edgecumbe, insurers could be contracted to undertake this alongside work for their own customers, noting this sort of approach does however increase moral hazard.

Any further improvements that can be made for any future events.

The current legislative response model involves a cumbersome duplication of effort that contributes to delay and multiple contact points for homeowners. ICNZ has supported adopting practices such as insurers acting to settle EQC claims that have helped to ensure improved experiences and outcomes for customers for natural disaster events since the Canterbury earthquakes.

Insurers maintain substantial claims teams and supporting systems for "business as usual events" and so can scale-up more easily. Insurers manage and settle more than 1.2 million claims a year, with staff working around the clock processing claims. Utilising these resources and expanding them is much more straightforward and makes more sense than staffing EQC to be ready for a disaster when it's unclear when those resources may be called upon.

EQC has an intrinsic problem in that its regular level of claims is too few to be managed efficiently (i.e. a lack of scale), particularly with the need to meet increasing expectations of conduct and claims management, and it is also far too small to manage the number of claims following a catastrophic event. EQC always will have a significant scale-up issue as the gap between business as usual for EQC and the level of response required for a major or catastrophic event is so large. This dynamic would be extremely challenging for any organisation to manage as getting the right skills and expertise, training, institutional knowledge and setting culture takes time.

EQC may seek to have a contractual relationship in place with private loss adjustors to ensure they are trained in the EQC Act and can respond on EQC's behalf. This would however only serve to duplicate private insurers' arrangements and would still result in inefficiencies after an event as insurers will be present managing contents claims. There is no economic or efficiency gain from EQC maintaining a residual claims management capacity in any form. The only rationale for this would be to give the Government of the day comfort that it had some residual claims handling capacity should this be required. If indeed Government had need for this, it could contract other entities, possibly including insurers, to carry out the work. Insurers also have active existing relationships with claims adjusters, building suppliers, quantity surveyors, engineers, geotech engineers etc. all-around New Zealand enabling a rapid claims assessment response.

Insurers are continuously making substantial investments in improving their systems to improve customers outcomes in order to meet increasing community expectations, changes to ICNZ's Fair Insurance Code, which already includes claims settlement related timeframes, and upcoming conduct and culture focussed regulation for insurers and other financial services entities. Insurers are also well-equipped to meet the transparency and reporting requirements of settling claims under the EQC Act as insurers act in a similar way with regard to their reinsurers in all their claims worldwide. They are accustomed to reporting progress and being accountable to reinsurers and could reflect this approach with EQC also.

ICNZ supports the development and adoption of a future model for settling natural disaster claims for insured residential dwellings that is designed from a customer's perspective, enables the effective and swift resolution of claims and has the following main elements:

- Enables insurers to settle their customers' claims, including those aspects covered by the EQC Act - investigating and paying out claims for their customers directly for all aspects. This would enable a better overall customer experience as all relevant claims are dealt with by one entity and the customer deals with one company from point of sale to resolution of their claim.
- Is certain so that customers know what to expect and insurers and EQC can prepare in advance and react immediately following an event (avoids immediate post-event uncertainty and the need to spend the immediate post-event period developing or tailoring an equivalent to the Kaikōura MoU). Clear legislative expectations would enable insurers and EQC to work on education in advance and deliver clear and consistent communications immediately post-event (i.e. that claims are made directly to insurers) that would align with normal customer experiences.
- Is efficient so as to support the affordability of insurance in New Zealand and reduce the costs of the EQC scheme to levy payers (i.e. customers) and the taxpayer (through reduced duplication and efficient processes).
- Provides for EQC to reimburse private insurers efficiently for the claims settlement activity and payments they make under the EQC Act, and for the appropriate assurance arrangements for auditing insurers in regard to their EQC Act work that are proportionate and efficient and do not delay claims settlements for customers. This can and should draw from the experience and approach of reinsurers in auditing insurers.
- Clarifies that conduct regulation and duties apply (e.g. proposed conduct regulation and the Fair Insurance Code) to claims as well as complaint procedures if necessary (e.g. coverage by external dispute resolution schemes).

If in contrast EQC retains a claims function for claims for insured residential buildings and the approach to individual natural disasters is only determined after they occur, then insurers will not be able to confidently predict or invest in preparing to manage EQC Act claims. EQC will also have to carry the costs of a claims system and supporting system processes at a level that allows it to meet increasing expectations in terms of claims management and conduct as well as new regulatory requirements in relation to financial services and insurer conduct, should these be applied equally to EQC in order to provide a consistent level of customer protection, which we consider would be appropriate.

All potential options need to be considered in determining what is the appropriate response model. These should include not only a refined version of the Kaikōura MoU response model but other models, such as EQC functioning more like a reinsurer in regard to the extent of cover provided under the EQC Act or even having EQC cover apply to the private insurer policy the customer has purchased.

A future response model will also need to provide for technical matters such as information sharing. Implementation of systems to facilitate effective/efficient claims information transfer between EQC and private insurers will be required. These will need to address specific issues such as whether a residential building with damage has suffered damage in a previous event that has been cash settled (this was for instance an issue for the Kaikōura response given the cash-settling of claims from the 2013 Seddon and Cook Strait earthquakes). Statutory changes have been made in the recently passed *Earthquake Commission Amendment Bill* to facilitate information sharing but it will be necessary to implement IT systems that enable efficient and appropriate information transfer and sharing and then

to operationalise and test these. Collection and retention of claims related information by insurers and EQC (e.g. what information needs to be collected, shared etc) will need to be determined.

Beyond the response model itself there are a number of other changes to the EQC Act that have been identified in previous reviews or otherwise that need to be explored. These include improved clarity around matters such as the interface between land claims and residential building claims, cover of appurtenant structures, cover for extra costs (e.g. relocation costs), better defining perils, and whether cover provided under the EQC Act should follow the cover provided to customers under their private insurers policy (so as to align cover with customers' expectations and understanding and to simplify the claims settlement process). There are also other technical legislative issues to be resolved such as technical tax issues associated with insurers acting for EQC.

It is critical to ensure that the lessons of Canterbury are incorporated and potential legal uncertainties are limited wherever possible in the application of the EQC Act as legal proceeding and the uncertainty they create can significantly delay the resolution of claims, particularly where the resolution of a potentially widespread issue or legal question is being sought.

A substantive area requiring reform is the potentially inequitable outcomes for residential owners in buildings that have a predominant commercial use. There are a range of different buildings with residential dwellings that can be covered under the EQC Act, including a singular building with several dwellings within it (such as an apartment block), a mixed-usage building (such as a residential flat above a commercial warehouse), or two or more dwellings that are connected by party walls or other common structural elements (such as connected cross-lease flats).

The EQC Act provides cover for residential dwellings up to the cap, however, under the Act, the extent to which it covers a mixed-use building depends on how much of that building is residential. If a building is more than 50 per cent residential, EQC will cover damage anywhere in the building. If it's less than 50 per cent residential, EQC only covers damage in the residential areas.

For owners of residential units this distinction can be significant in some situations and results in outcomes for owners of apartments vis-à-vis owners of standalone homes that could be seen as inequitable. This arises where there is damage to shared commercial/residential elements of a building (e.g. structure, staircases etc) rather than to the residential dwellings themselves. Multi-story apartment buildings pose similar risks to multi-story commercial buildings in regard to earthquakes and are insured under similar policies, which commonly have a 5% or 10% excess as compared with domestic excesses that are commonly under 1% of the sum insured. Where EQC cover is not available then unit owners would need to meet this excess themselves.

As discussed briefly in Part 1 of this submission, beyond claims settlement and related technical issues, there is also the broader question of ensuring the role of EQC remains fit for purpose in terms of supporting the provision of insurance for natural disasters in New Zealand.

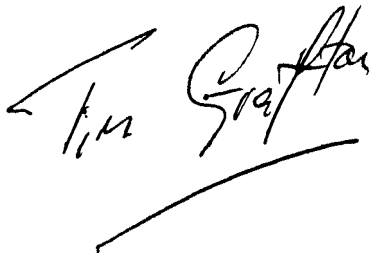
ICNZ is also mindful that in the response and recovery following a major natural disaster there are a wide range of matters that need to be addressed through successful co-ordination between the community, businesses and central and local government and we welcome the recently updated National Disaster Resilience Strategy. In this area our members have also identified the successful use in Australia of a Taskforce model for the recovery phase. This model brings all key recovery agencies together, including insurers to coordinate, plan and execute a recovery plan for the affected community.

A final point is to emphasise the importance for New Zealand of undertaking risk reduction and adaptation measures, as well as continuing risk transfer through insurance and the EQC regime. It is also important that appropriate price signals with regard to risk are sent to customers.

Conclusion

Thank you again for the opportunity to provide this submission to the Inquiry. If you have any questions, please contact our Regulatory Affairs Manager on (04) 914 2224 or by emailing andrew@icnz.org.nz.

Yours sincerely,



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