



Insuring against the unknown

After the Christchurch earthquakes of 2010 and 2011 a review of the Earthquake Commission was proposed - it was timely to review how the EQC had performed in the aftermath of these disasters.

The review got underway last year, with Treasury making a number of recommendations and the public making submissions on these.

The Government's response to these had not yet been made when the Kaikoura earthquakes struck last month.

The EQC review must now be seen in the light of both sets of earthquakes and events that have occurred since 2010.

New Zealand's EQC is a unique institution, differing from disaster arrangements in other countries.

Funded by levies on fire insurance, it provides a capped amount of catastrophe insurance in addition to the private insurance held by homeowners. This 'dual insurance' approach keeps total premiums more affordable than would otherwise be the case, with the result that New Zealand homeowners have much higher rates of insurance against catastrophe than other countries.

This level of security is a major benefit of the scheme, which the EQC review will no doubt confirm.

The review will also address areas for improvement.

One problem evident after the Christchurch earthquakes was the difficulty in separating the overlap between house and land damage.

The review suggests that EQC cover should be extended to include land (siteworks and the main access to the house) as well as the house.

But some submitters said land damage, especially in difficult or hilly terrain, could use up the funds available at the expense of the main purpose of the EQC scheme - providing cover for house damage.

Another recommendation is that EQC should no longer provide partial coverage for home contents. Submitters agreed with this recommendation, again on the basis that this would help focus the use of limited funds on the EQC's main purpose of house cover.

Other recommendations include raising the cap on EQC coverage from \$100,000 to \$200,000 to help reduce problems between EQC and private insurers on over-cap claims. This recommendation will no doubt be dealt with on the basis of the scheme's affordability and publicly acceptable level of premiums.

One problem arising from the Christchurch earthquakes was the confusion and stress experienced by claimants required to make separate EQC claims and private insurance claims around assessments and inspections. This duplication of effort - a product of the dual insurance approach - added to the trauma of those coping with the after-effects of the earthquakes.

The review suggests resolving this by making insurers the sole point of contact for claimants - all claims would be lodged with the relevant private insurers, who would pass claims on to EQC for further processing or complete some or all of the remaining management on EQC's behalf.

This idea was supported by those submitting on the review. Some suggested a dispute resolution system would be needed to resolve any disagreement between EQC and the private insurer on how the treatment of a claim should be managed.

A key issue not covered in the EQC review is the effect of changes in insurance practice since the Christchurch earthquakes - the move from 'full replacement' to 'sum insured' coverage for residential homes.

This move was prompted by the Christchurch earthquakes and by the risk borne by the insurance industry of providing full replacement in the case of disaster, without knowing the full extent of the risk involved.

The change to 'sum insured' means homeowners must now determine the level of risk and insure to the relevant sum.

This change has transferred some risk from insurers to homeowners.

It has increased insurance costs for some homeowners and has resulted in some homeowners becoming underinsured through failing to take responsibility to insure at full replacement level.

This threatens the banking and finance system that holds the house as security over the mortgage (banks say this threat could be managed by a publicly-held property register or other information system to make transparent the levels of property insurance cover held by individual homeowners).

But the risk of homeowners of becoming underinsured also undermines the private insurance side of the New Zealand's 'dual insurance' system.

This, along with issues arising from the recent Kaikoura earthquakes, is another of the new issues that will need to be taken account of in the EQC review that seeks to provide the best possible protection to New Zealanders in cases of disaster.

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