



14 September 2020

Via email: [REDACTED]

Reference: OIA-2019/20-0337

Dear [REDACTED]

**Official Information Act request relating to 2010-11 Earthquakes - Information held by CERA**

I refer to your Official Information Act 1982 (the Act) request received on 27 January 2020. You requested:

- 2.1 *Any reports, memos, letters, notes, advice, emails or other documents relating to the apportionment by EQC or private insurers of residential property damage across the different earthquakes in the Canterbury Earthquake sequence (CES) of 2010/11 that were created between 22 February 2011 and 31 December 2012.*
- 2.2 *Any reports, memos, letters, notes, advice, emails or other documents relating to discussions with insurance companies or EQC regarding proposals to speed up the repair/rebuild of residential properties in Canterbury following the CES that were created between 22 February 2011 and 31 December 2012.*
- 2.3 *Any reports, memos, letters, notes, advice, emails or other documents relating to a meeting that was held in the office of The Honourable Mr Brownlee on 5 March 2012 between EQC and a number of private insurers including any action points arising out of that meeting.*
- 2.4 *Any reports, memos, letters, notes, advice, emails or other documents relating to differences between EQC and private insurers in their damage assessments, repair and costing methodologies for the repair of residential building that were damaged as a result of the CES created between 22 February 2011 and 31 December 2012.*

I note the Department of the Prime Minister and Cabinet (DPMC) wrote to you on 7 April 2020 to advise that information was able to be released to you but due to the ongoing COVID-19 response, there would be a delay in providing that information. I apologise for that delay and am now in a position to supply the information we hold, as set out in the attached table.

Some information has been withheld from the documents as noted. The relevant grounds under which information has been withheld are:

- section 9(2)(a), to protect the privacy of individuals, and
- section 9(2)(ba)(i), to protect the future supply of information provided under an obligation of confidence.

In making my decision, I have taken the public interest considerations in section 9(1) of the Act into account. I note further, that no documents were considered sensitive to the extent that they required withholding in full, however, only extracts from the weekly updates to Minister Brownlee have been provided, as the vast majority of the information contained in them did not fall within the scope of your request.

For completeness, I note that consideration was given to partially transferring your request to EQC as they are likely to hold some information that DPMC does not, however in consulting with them on the matter, EQC advised that they were responding to essentially the same request from you. I did not therefore consider a transfer necessary.

You have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the Act.

This response will be published on DPMC's website during our regular publication cycle. Typically, information is released monthly, or as otherwise determined. Your personal information including name and contact details will be removed for publication.

Yours sincerely



Clare Ward  
**Executive Director**  
**Strategy, Governance and Engagement Group**

Item	Date	Document Title	Status
1	17/05/2011	Residential Insurance scenario notes (email and notes)	Released in full.
2	17/01/2012	Statistical analysis of the cost of the Christchurch earthquakes	Released relevant information in full except direct contact details of individuals.
3	31/01/2012	Engagement with reinsurers (M/12/0214)	Released in full, except direct contact details of individuals.
4	1/02/2012	Review of Disaster Insurance Arrangements: Initial Scoping of Options	Released in full.
5	2/02/2012	Insurance coordination group weekly meeting	Some information withheld as not relevant to request. Released relevant information in full.
6	15/02/2012	Schedule of actual or potential issues and impediments to the residential rebuild	Some information withheld as not relevant to request. Released relevant information in full.
7	17/02/2012	CERA & Treasury Canterbury related insurance work programme, 2012	Released relevant information in full except direct contact details of individuals.
8	5/03/2012	Agenda – DRAFT: Solving roadblocks to residential claims settlement	Released in full.
9	5/03/2012	Notes for Briefing of Minister on Friday 2 March 2012	Released in full.
10	7/03/2012	Canterbury Earthquake Insurance-Related Workstreams - CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.
11	7/03/2012	Summary of key points and actions from CE's meeting with Minister Brownlee on 5 March 2012	Released in full.
12	8/03/2012	Canterbury Regulatory and Consenting Working Party – Notes of Meeting	Some information withheld as not relevant to request. Released relevant information in full.
13	9/03/2012	Record of meeting - Private Insurer / EQC Claims Apportionment Working Group	Some information withheld as not relevant to request. Released relevant information in full.
14	16/03/2012	Summary of key points and actions from CERA and CE's weekly meeting 1	Released in full.
15	16/03/2012	CERA and Chief Executives' Weekly Meeting	Released in full.
16	22/03/2012	Report from Regulatory and Consenting Working Group to CE's weekly meeting	Some information withheld as not relevant to request. Released relevant information in full.
17	23/03/2012	Memo: Insurance Council (ICNZ) AGM General Discussion on the Canterbury Earthquake	Some information withheld as not relevant to request. Released relevant information in full.
18	23/03/2012	Summary of key points and actions from CERA and CE's weekly meeting 2	Released in full.
19	29/03/2012	Working draft for discussion – Apportionment: Summary of process steps, options and issues	Released in full.
20	5/04/2012	Note from meeting CERA/Swiss Re	Some information withheld as not relevant to request. Released relevant information in full.

Item	Date	Document Title	Status
21	19/04/2012	Draft Discussion Paper: Proposal for handling customers where there are unapportioned losses between events	Released in full.
22	20/04/2012	Summary of key points and actions from CERA and CE's weekly meeting 6	Some information withheld as not relevant to request. Released relevant information in full.
23	24/04/2012	Update on residential insurance claim settlement process (M/12/0353)	Some information withheld as not relevant to request. Released relevant information in full except direct contact details of individuals.
24	26/04/2012	CERA & CE's weekly meetings collated action points and status as at 26 April 2012	Some information withheld as not relevant to request. Released relevant information in full.
25	3/05/2012	Minutes - EQC/ICNZ Claims Apportionment Working Group	Released in full.
26	4/05/2012	Summary of key points and actions from CERA and CE's weekly meeting 8	Some information withheld as not relevant to request. Released relevant information in full.
27	14/05/2012	Aide Memoire: EQC Board Meeting Notes	Some information withheld as not relevant to request. Released relevant information in full except direct contact details of individuals.
28	17/05/2012	Apportionment working group	Released in full.
29	22/05/2012	Road map for agreeing total damage and apportionment: residential properties with actual or potential insurer involvement	Released in full.
30	8/06/2012	Summary of key points and actions from CERA and CE's weekly meeting 13	Some information withheld as not relevant to request. Released relevant information in full.
31	15/06/2012	Summary of key points and actions from CERA and CE's weekly meeting 14	Some information withheld as not relevant to request. Released relevant information in full.
32	6/07/2012	Residential insurance claim settlement – industry working groups	Released in full.
33	13/07/2012	Summary of key points and actions from CERA and CE's weekly meeting 18	Some information withheld as not relevant to request. Released relevant information in full.
34	28/08/2012	Memo - Insurance - Steve Wakefield	Some information withheld as not relevant to request. Released relevant information in full.
35	14/09/2012	Insurance Advisory Service (M/12-13/102)	Released relevant information in full except direct contact details of individuals.
36	11/10/2012	Insurance Advisory Service (M/12-13/128)	Released relevant information in full except direct contact details of individuals.
37	30/10/2012	Canterbury Earthquake Insurance-Related Workstreams – CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.
38	7/11/2012	Canterbury Earthquake Insurance-Related Workstreams – CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.

Item	Date	Document Title	Status
39	14/11/2012	Canterbury Earthquake Insurance-Related Workstreams – CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.
40	15/11/2012	Residential claims settlement - stocktake of progress and options for acceleration	Released in full.
41	15/11/2012	Residential Claim Settlement: Barriers and Progress	Released in full.
42	16/11/2012	File Note	Released in part. Some information withheld to maintain an obligation of confidentiality.
43	21/11/2012	Canterbury Earthquake Insurance-Related Workstreams – CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.
44	26/11/2012	Canterbury Earthquake Recovery Authority - Programme Concept Paper	Some information withheld as not relevant to request. Released relevant information in full.
45	28/11/2012	Canterbury Earthquake Insurance-Related Workstreams – CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.
46	4/12/2012	Canterbury Earthquake Insurance-Related Workstreams – CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.
47	10/12/2012	Canterbury residential insurance claim settlements – update on progress (M/12-13/212)	Released relevant information in full except direct contact details of individuals.
48	12/12/2012	Canterbury Earthquake Insurance-Related Workstreams – CERA and Treasury	Some information withheld as not relevant to request. Released relevant information in full.
49	Various	Extracts from weekly updates to Minister: 12 October 2011 27 January 2012 24 February 2012 3 May 2012 17 May 2012 8 June 2012 12 July 2012 19 July 2012 9 August 2012 7 September 2012 14 September 2012 12 October 2012	Released relevant information in full.

**From:** [James Hay](#)  
**To:** [Angela Mellish](#); [Rosalind Plimmer](#)  
**Cc:** [Bronwyn Arthur](#)  
**Subject:** FW: Residential Insurance scenario notes as at 16 May 2011  
**Date:** Tuesday, 17 May 2011 4:33:08 pm  
**Attachments:** [Residential Insurance scenario notes as at 16 May 2011.doc](#)

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FYI - just my notes. interested in discussing where we take this.

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From: James Hay [James.Hay@dpmc.govt.nz]  
Sent: Tuesday, 17 May 2011 4:31 p.m.  
To: James Hay  
Subject: Residential Insurance scenario notes as at 16 May 2011

Please consider the environment before printing this e-mail.

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Please consider the environment before printing this email and its attachments.  
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**Residential Insurance scenario notes as at 16 May 2011**

Land remediation	
<p>1. House written-off, land bad</p>	<p>EQC land payment capped at maximum of pre-quake market value for EQC insured part of the damaged section OR the cost to reinstate the land to its pre-quake condition (if this is less)</p> <p>EQC do not see "thin crust" as a major issue – the T &amp; T advice appears to be (assuming house is a write off) the engineering solution will cost less than the EQC payment cap</p> <p>Remaining issue here is EQC only remediate part of a section so amenity value may not be fully reinstated</p> <p>Big unresolved issue is who ends up owning the land? Have not asked EQC their view on this. As they pay out for only part of the land owners or insurers could claim residual interest but as it may well be a liability may want to quit but still insist on some payment from CERA or CCC.</p>
<p>2. House repairable, land bad</p>	<p><i>Sub category (a) – no other imminent risk</i> Here the cost to EQC of demolishing or removing a repairable cost to effect land remediation is seen as likely to exceed EQC land value cap. This means insured party gets:</p> <ul style="list-style-type: none"> <li>• Land value cap payout from EQC and</li> <li>• Cost of repair of house (not replacement) from EQC and private insurer (if over EQC \$100k cap for buildings)</li> </ul> <p>This means no physical remediation by EQC and leaves insured out of pocket for difference between the total of the two items above and the replacement of the house elsewhere</p> <p><i>Sub category (b) – imminent risk such as rockfall (but not flooding)</i> EQC still exploring whether, if there is a further imminent risk to the property, the insured can claim a further loss of up to \$100k from EQC that could be used for remediation (or payout?). Note:</p> <ul style="list-style-type: none"> <li>• this additional \$100k relates to the dwelling, not the land and EQC cover for dwelling excludes flood damage</li> <li>• most private insurers do not compensate for imminent damage so there would be no private contribution in this scenario</li> </ul> <p>Land ownership issue applies here as well</p>
Dwelling cover scenarios	

1. Cash settlements for total loss of dwelling	Many private policies will only pay indemnity for those wanting cash rather than to rebuild. Insurers are looking to discuss this with their reinsurers to see if cash payments at replacement value could be paid as they understand the Minister favours empowering insured parties to make choices rather being obliged to rebuild. Uncertain of reinsurers will support such an approach
2. Rebuild	Where an insured party wants to rebuild on an alternative site in New Zealand insurers are looking reasonably confident of funding this at replacement rather than indemnity level irrespective of strict policy. Like for like policy here is important – don't want to establish betterment precedents but likely to be realistic
3. Repair	<p>This is seen as the hardest area. Real concern about impact of government action in closing areas or acquiring land. Not sure if they are distinguishing adequately between decisions of EQC under its Act and those government or local government might make outside the existing EQC framework. Unique EQC model where a government agency takes land risk throwing up novel questions.</p> <p>Timeline to resolution of issues will be a significant factor in decision making.</p> <p>Will look to do greater repair to lift building performance instead of agree to demolition and replacement that might be required for land remediation.</p> <p>Looking at cash out options for repair amounts</p>
4. New or increased risks	<p>May look to repair or rebuild and go back on risk but exclude cover for flooding in some areas – not common in NZ (although EQC does it) but not unusual in Australia.</p> <p>For rockfall awaiting mapping and geotech information as these will drive cover decisions – issue here is an undamaged or repair house that has risk they will not issue new cover for – may be imminent risk for EQC but may fall short of that</p>
5 Involuntarily uninsured	Unlikely to be much of an issue for residential as insurers recommended policy holders maintained reduced cover to keep EQC cover in play. May be an issue in some commercial cases
6. Construction risk and cover renewal	Generally issuing this cover where they have approved rebuild or replacement – can't really do otherwise. New cover on completion likely in most cases but may contain exclusions for new risks and will be re-priced.

	<p>Some commercial insurers have written this cover without confirming a domestic insurer will take the risk of the replaced or repaired building.</p> <p>Dispute with EQC over whether contract works cover is a cost of repair or separate cost to policy holder. This has been an issue the Minister has been pushing for resolution</p>

#### Other notes

- EQC believe the reinstatement issue may ultimately only impact a small number of the 12,000 “over [EQC] cap” properties. At say 500 houses this would be a maximum amount in dispute of \$50m assuming all 22 February damage to those houses was at least \$100k
- The interpretation of the law comes down to when does the EQC \$100k dwelling cover reinstate for the purposes of subsequent events – on payment of any monies in respect of a claim made or on making of the claim. The insurers argue the latter.
- For affected properties this will mean that there is up to \$100k of their claim that will not be paid by either EQC or the private insurer until the Declaratory Judgment is obtained – maybe 3 months from filing of proceedings (to happen soon).
- May have an interim solution where insurers pay on promise of EQC to refund if it loses?
- Where EQC cover has reinstated EQC have to assess or reassess houses and apportion losses per event
- On assessments EQC and private insurers still not fully aligned so some double assessments happening. EQC looking at being ahead of end of June target for full assessments on the 12,000 overcap properties
- Insurers will go through scenarios this Friday so meeting with them next Tuesday in Christchurch.
- These notes reflect conversations with IAG and EQC only.

# Statistical analysis of the cost of the Christchurch earthquakes

**David Baird**

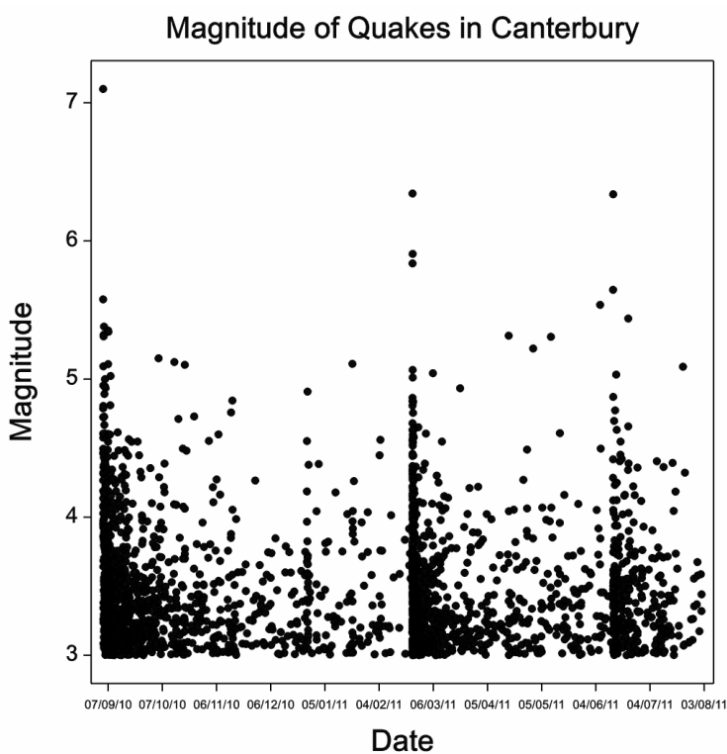
Statistical Consultant, VSN NZ, Christchurch.

s9(2)(a)

**George Hooper**

Recovery Liaison, NZ Earthquake Commission, Christchurch

s9(2)(a)



**Acknowledgements:**

The authors wish to acknowledge the significant contribution made by many EQC staff during the conduct of the survey and work. In particular we acknowledge the contributions made by Sandy Taylor and Bonnie Ward of the Processing Group, John Stapley and Robyn Curtis from the Settlements Team and Michelle McDonough of the Costing Team. Without their efforts and the combined efforts of the pod staff who undertook the assessments this work would not have been completed as expeditiously and accurately as has been the case.

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**Note: All values in the report are exclusive of GST.**

## Summary

This study undertaken for the NZ Earthquake Commission involved a doubly stratified survey of 800 residential properties across greater Christchurch, stratified according to geographic proximity and expected damage. The sample properties were then fully assessed and the earthquake damage to each property estimated. The EQC liability on that property was then further assessed based on individual claim data and the insurance settlement rules that applied, taking into account both claim status and existing insurance provisions.

The work was undertaken in two stages. In the first report based on work undertaken prior to the June 13 earthquake the data presented covered the cumulative damage and expected EQC liability arising as a result of all earthquake events from September 2010 through to the time of the property assessments, which occurred during May/June 2011.

On the basis of this analysis, the total estimated cost (Exclusive of GST and other attributable management costs) of the residential rebuild in greater Christchurch is \$8.5 billion of which EQC has liability for \$6 billion and other insurers' liability for \$2.5 billion. Only 9% of residential properties did not make a claim for any earthquake event, and 2% of properties were uninsured, these predominantly being in the more expensive hill and north west suburbs.

Further analysis examined the apportionment of damage and EQC liability between the two main events of 4<sup>th</sup> September 2010 and 22<sup>nd</sup> February 2011, and all other events combined. This was done through a combination of approaches. The apportionment of damage based on previous damage assessments gave the damage occurring in the February 22 event as 63% of the total. Different patterns of damage between the events were seen around the 12 zones used in this study.

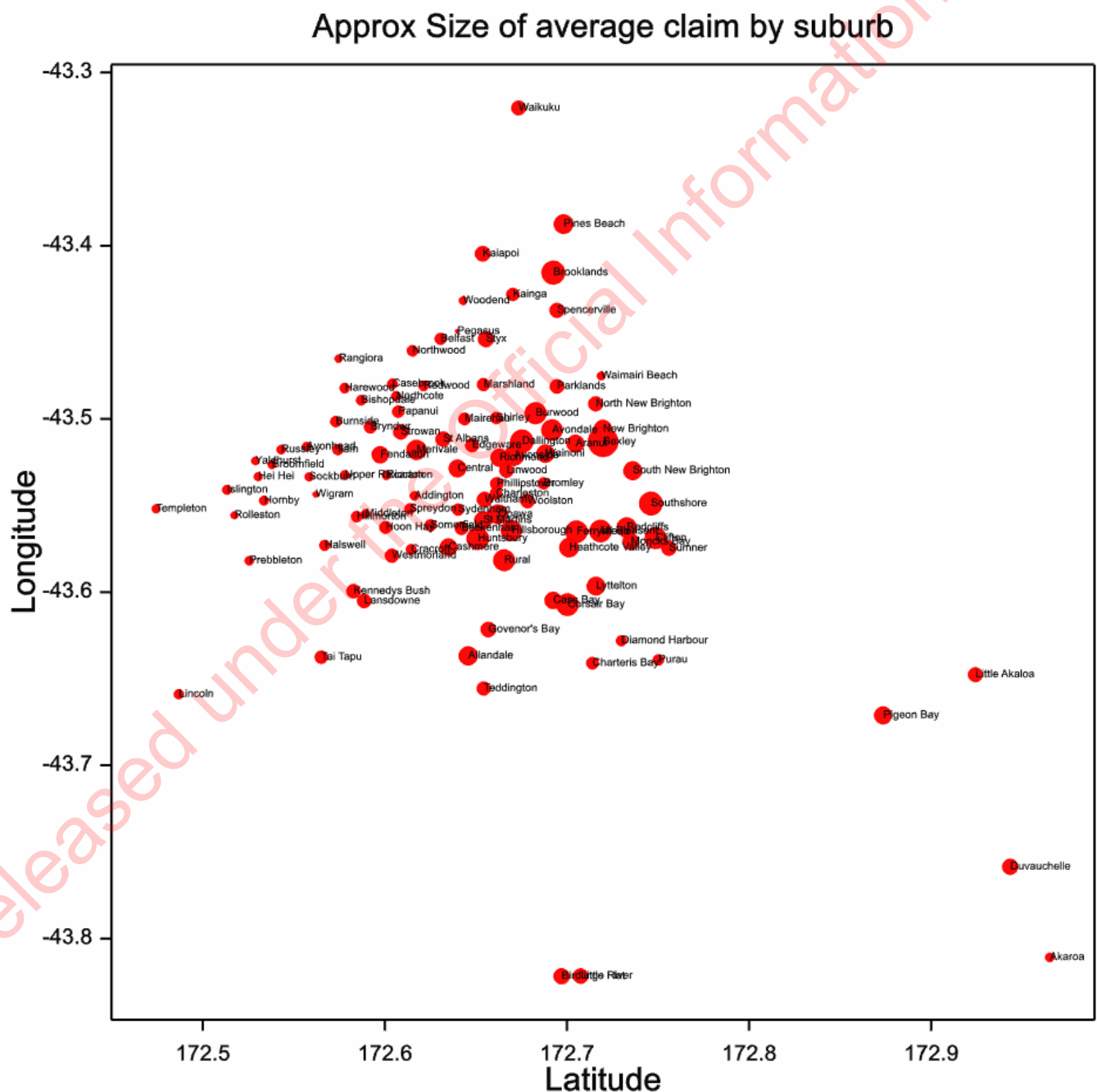
As a result of the June 13 earthquake all 723 valid properties in the February survey were contacted to confirm whether an additional claim was required and a reappraisal of the February survey data undertaken. From this it was estimated that 8% of houses in Christchurch had extra liability giving a total extra damage due to June of \$224 million. Apportionment of this damage between the events attributed 27 percent of the damage to September, 68 percent to February and 5 percent to June.

The report itself brings the two pieces of work together into a single document. No attempt has been made to consolidate the different analysis undertaken into a formal research framework. It should thus be read as a statement of record outlining methodology and assumptions used in deriving the findings reported.

## Survey Design

The data from the rapid assessment survey was used as the basis of this survey. The error rate in the provided database was high but the records were cleaned as much as possible, with invalid streets and suburbs being corrected, and 16000+ duplicate records being removed. The results from this were analysed. The below graphic gives the average expected claim by suburb.

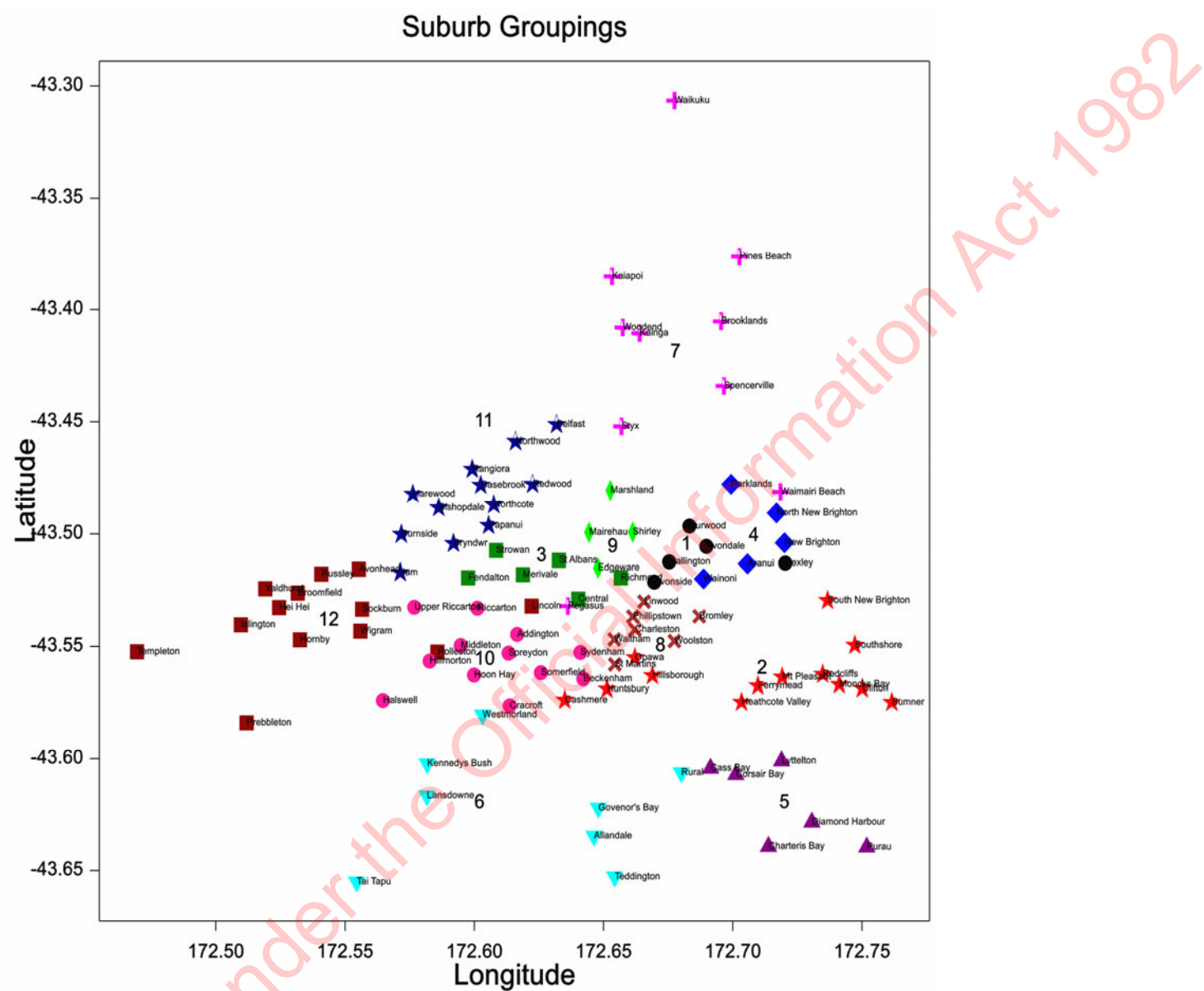
**Figure 1. Expected average size of claim by suburb. The area of the circles are proportional to the size of the claim.**



REPORT OF INVESTIGATIONS

These results were used to cluster the suburbs into 12 zones, using geographical proximity and expected damage in each suburb.

Figure 2. Grouping of suburbs into 12 zones based on expected damage.



Note the locations of outlying towns, such as Rolleston & Lincoln, were incorrect in the database, and were manually assigned to the appropriate zones. The zones that each suburb were allocated to are given in Appendix 1.

The properties in the database were then allocated to a stratum based on their recorded suburbs and damage assessment. The tabulation of the database by zone and damage category is given in Table 1.

Table 1. Total number of properties in each zone by damage category strata.

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	693	2808	2810	1011	1045	2005	10372
Hill	1762	4289	4901	1163	1473	1132	14720
NWCentral	1922	7420	5038	1107	721	1046	17254
Beach	1460	5981	3943	1072	434	687	13577
Bays	583	858	778	177	98	84	2578
South	225	736	388	56	46	28	1479
North	1670	3242	1106	237	284	403	6942
ECentral	1975	8251	3982	641	276	535	15660
NCentral	722	4114	1759	185	60	67	6907
SWCentral	5992	16405	4445	378	155	181	27556
NWest	5824	18126	4648	393	122	97	29210
West	6016	10409	2093	91	22	10	18641
Mean	28844	82639	35891	6511	4736	6275	164896

These results provide a census of the properties in Christchurch, and the frequencies will be used as the weights when estimating the total costs from the survey.

A doubly stratified survey of 800 properties, stratified on zone and the rapid assessment damage category, was constructed. The number of samples in each zone proportional to the number of properties in that zone. Within each zone the number of properties in each damage category was chosen proportional to the expected size of the claim for that category, subject to a minimum of two samples in each category. Thus the serious-rebuild categories were over-sampled as they were expected to contribute most to the total cost.

Table 2. Frequencies of samples in the survey by zone and damage category.

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Total
River	4	10	18	10	14	22	78
Hill	6	14	32	12	20	14	98
NWCentral	6	24	32	10	10	14	96
Beach	4	20	24	10	6	8	72
Bays	2	4	4	4	4	2	20
South	2	4	4	4	4	2	20
North	6	10	6	4	4	6	36
ECentral	6	28	26	6	4	6	76
NCentral	4	12	12	4	4	4	40
SWCentral	14	40	32	4	4	4	98
NWest	14	40	30	4	4	4	96
West	14	30	14	4	4	4	70
Total	82	236	234	76	82	90	800

The survey was carried out in two batches to simplify the administrative details. The results following are based on the full 800 properties.

**Limitations of this analysis**

The results from this survey will be compromised in part by the accuracy of the estimate of the total number of properties in Christchurch. There will be a certain proportion of properties that have been omitted from the rapid assessment database. Also there is a bias in the data, as large body corporate properties have not been able to be adequately sampled (3 out of 4 could not be estimated), and they will be under-represented in the sampling as a single address may hold multiple units. This assessment also does not take into account subsequent damage after May (for example the June 13 earthquake). Also, just as the rapid assessment database had many duplicates, it probably also missed a number of properties. An assessment of the missing properties in the rapid assessment database can be made by using the Christchurch City Council Database provided by Tonkin & Taylor.

A lower estimate of the missing properties was made by tabulating the properties in the database that were in 12 zones that had no rapid assessment ID. The numbers are given in Table 3, and are broken down into those with at least one claim, and the corresponding percentage with no claim. The estimated percentage of those in the rapid assessment database with no claim (from Table 21) is also given as a comparison. It can be seen that the no claim rate amongst the excluded properties is 7 times higher than those included. This is probably due to most of those properties being left out being empty sections or commercial properties. The 19703 properties with a claim represents that a minimum of 10.7% of the properties in Christchurch were missed from the rapid assessment database. This figure is close to the figure of 16000 that were duplicates in the rapid assessment database and perhaps many of these properties were not duplicates but were some of these missing properties that had wrong addresses recorded. The best estimate of the excluded number of houses in each zone is to adjust the number of houses in each zone to have the same percentage of no claims as in the main database. These estimates are given in the final column of Table 3. These 21784 estimated missing properties will have the average amount in their zones used for their value in the total estimates, as they cannot be assigned to a damage category. Thus, allowing for these houses will inflate the estimates obtained in earlier drafts by approximately 13%. It is not fully possible to take account the error associated with the estimation of the number of missing houses in the standard errors and confidence limits, but the error of in the number of no claims can be taken into account by allowing this to vary from a binomial distribution with mean of 9.3% and standard deviation of 1.3% (roughly equivalent to having 500 samples). This extra uncertainty has been included in the confidence limits but is a minor effect (< 2%).

**Table 3. Properties missed from the rapid assessment database by zone.**

Zone	Total	With a claim	No Claim %	Survey No Claim %	Estimated
River	1353	545	59.7	3.9	567
Hill	2952	767	74.0	8.4	838
NWCentral	9089	1455	84.0	14.9	1710
Beach	2287	547	76.1	2.3	560
Bays	818	331	59.5	0.0	331
South	3206	1403	56.2	0.0	1403
North	6493	2797	56.9	5.0	2943
ECentral	5553	842	84.8	6.5	901
NCentral	1409	414	70.6	12.5	473
SWCentral	8548	1478	82.7	9.7	1637
NWest	12053	4174	65.4	12.1	4747
West	11413	4950	56.6	12.8	5674
<b>Total</b>	<b>65174</b>	<b>19703</b>	<b>69.8</b>	<b>9.3</b>	<b>21784</b>

**Estimates from February 22 Survey of residential properties.**

The completed samples (732) from the full survey of 800 were used in this analysis. There were 68 properties that were not completed, 15 with invalid addresses, 46 with their owners not being found or declining to be part of the survey, 4 with unsafe access, 3 being body corporate properties. The frequency of valid returns by zone and damage category is given in Table 4.

**Table 4. Frequency of valid survey returns by zone and damage category.**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Total
River	4	10	16	8	14	21	73
Hill	5	12	27	11	17	13	85
NWCentral	6	24	28	9	9	12	88
Beach	3	19	22	11	6	6	67
Bays	2	4	4	4	3	2	19
South	2	4	4	4	3	2	19
North	6	9	6	4	3	6	34
ECentral	6	25	22	4	4	6	67
NCentral	4	9	10	4	3	3	33
SWCentral	14	37	31	4	4	4	94
NWest	13	39	29	4	4	3	92
West	12	26	12	4	3	4	61
<b>Total</b>	<b>77</b>	<b>218</b>	<b>211</b>	<b>71</b>	<b>73</b>	<b>82</b>	<b>732</b>

**Total Damage**

Table 5 gives the observed means for each of the strata. There are at least two properties in each cell, so estimation of missing categories is unneeded, as in the first draft of this report.

Note, to allow for the presence of commercial properties in the full census, commercial properties found in the survey had a value of zero allocated to them, as did empty sections, properties with no insurance and properties which had made no EQC claim.

**Table 5. Mean cost of building damage (\$ no GST) by zone and damage category.**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	259926	83997	148288	70718	172570	213518	145836
Hill	15498	29514	96860	158393	188657	289810	96384
NWCentral	7358	20105	55765	58107	135300	168592	45351
Beach	17268	36471	64139	80652	130578	223098	58381
Bays	9835	15039	40695	74533	286677	77198	38041
South	22634	18983	54903	62739	121554	144661	36188
North	44979	71600	41351	130765	221442	104066	70411
ECentral	68970	45640	70720	99534	132651	127879	61509
NCentral	17704	28010	43713	112426	212067	172938	36198
SWCentral	19969	15157	36268	82070	116841	119553	21784
NWest	7555	17003	25438	38069	177655	156795	17880
West	10186	11917	18400	24646	35139	65958	12205
<b>Mean</b>	<b>24499</b>	<b>26155</b>	<b>61308</b>	<b>90157</b>	<b>168690</b>	<b>200122</b>	<b>46758</b>

Note the means are weighted by the strata weights in Table 1.

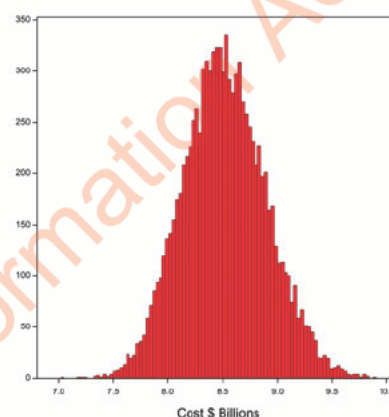
## REPORT OF INVESTIGATIONS

Of note in Table 5 is the very high costs for all assessed damage categories in the River zone (apart from the low value for the properties assessed as serious). The low result in the serious category is caused by some of the properties being commercial properties and so there was zero residential cost associated with them. 80% of the properties surveyed in the River zone had costs over \$99,000.

Multiplying the results in Table 4 by the frequencies in Table 1 and totalling these figures then gives the total expected costs for the properties in Christchurch.

The estimate of total costs (- GST) for residential housing is **\$8.517 billion**.

**Figure 3. Bootstrap distribution of total costs**



The statistical technique of bootstrapping was used to estimate the error in this total. Bootstrapping redraws simulated surveys, using sampling with replacement, from the observed survey results. Repeating this process, a distribution of results is built up that reflects the variation in the survey. A histogram of full bootstrap distribution is provided in Figure 3. From this distribution the standard error and confidence limits can be calculated for the total. These are:

Standard error of estimate \$0.381 billion

80% Confidence limits \$ 8.030 – 9.016 billion.

95% Confidence limits \$ 7.808 – 9.289 billion.

## EQC liability

The component of the total costs that EQC was liable for using was calculated for each property in the survey, and these results are given in Table 6.

**Table 6. Mean value of the EQC component of costs (no GST).**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
<b>River</b>	98989	60847	72239	61744	111647	112709	81713
<b>Hill</b>	15383	29326	65725	91166	93018	111934	57388
<b>NWCentral</b>	7271	19926	43510	57946	87439	85657	34648
<b>Beach</b>	17152	29314	42735	74334	84210	101765	40879
<b>Bays</b>	9662	14865	40364	70586	133000	77111	31728
<b>South</b>	22503	18778	54570	54621	85079	116264	33999
<b>North</b>	32440	45158	32414	87569	114767	67725	45674
<b>ECentral</b>	40562	40662	51455	51735	91161	70271	45749
<b>NCentral</b>	17610	25915	42086	80216	143163	118800	32539
<b>SWCentral</b>	13570	14955	35012	62827	58928	73753	19179
<b>NWest</b>	7447	13984	25236	37215	78722	92454	15315
<b>West</b>	10113	11809	18155	24603	34901	56699	12088
<b>Mean</b>	16570	22467	44331	67148	96299	98433	32970

## REPORT OF INVESTIGATIONS

The results in Table 6 give an estimate of the total EQC costs for residential housing of \$ 6.035 billion.

The bootstrap standard errors and confidence limits for this are:

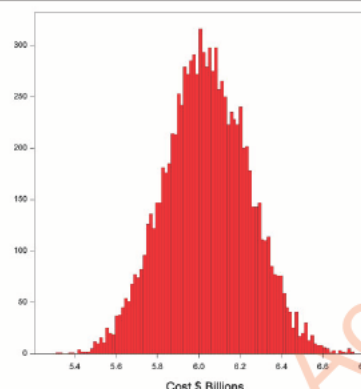
Standard error of estimate \$ 0.205 billion

80% Confidence limits \$ 5.773 – 6.302 billion

95% Confidence limits \$ 5.634 – 6.443 billion

If a single cap of \$99,000 had applied to all events the total liability would have been \$5.363 billion (a saving of \$672 million) and if a new cap of \$99,000 had applied to each event then the total liability would have been \$7.119 billion (an extra \$1.077 billion).

**Figure 4. Bootstrap distribution of EQC costs**



## Other Insurers Costs

The remainder of the rebuilding costs (the non EQC component) which will be covered by other insurer's was calculated and the total for this calculated. These results are given in Table 7.

**Table 7. Mean value of building damage covered by other insurers (no GST).**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	160936	23150	76049	8974	60923	100808	64123
Hill	116	188	31135	67227	95639	177876	38996
NWCentral	87	179	12255	162	47861	82934	10703
Beach	116	7157	21404	6317	46369	121333	17502
Bays	173	174	331	3946	153678	87	6313
South	131	205	332	8118	36475	28396	2189
North	12539	26441	8937	43196	106675	36341	24737
ECentral	28408	4978	19266	47799	41490	57608	15760
NCentral	94	2096	1627	32211	68905	54138	3659
SWCentral	6398	202	1255	19243	57913	45801	2605
NWest	107	3019	202	855	98933	64342	2565
West	73	108	245	43	238	9259	117
Mean	7929	3689	16977	23009	72391	101689	13788

The estimate of other insurer's liability for total rebuilding costs for residential housing is \$ 2.482 billion.

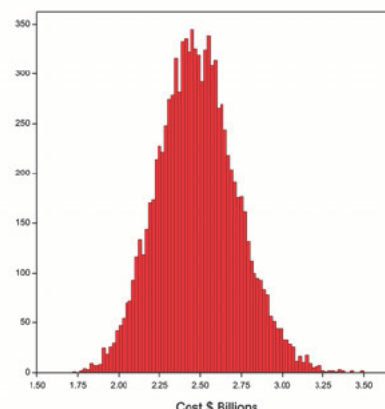
**Figure 5. Bootstrap distribution of total costs for other insurers**

The bootstrap standard errors and confidence limits for this are:

Standard error of estimate \$ 0.243 billion.

80% Confidence limits \$ 2.175 – 2.800 billion.

95% Confidence limits \$ 2.023 – 2.986 billion.



## Estimates of Proportions of properties in 8 damage ranges

The EQC component of costs for properties was broken down into 8 price ranges, \$0 - 10000, \$10,000 - 25,000, \$25,000 - 50,000, \$50,000 - 75,000, \$75,000 - 98,000, \$99,000-100,000, 100,000-125,000 and \$125,000+ and the distribution of properties falling into these ranges was estimated from the survey. The number and proportions of properties in the 8 price ranges is given in Table 8. The standard errors and confidence limits for this were again calculated by bootstrapping.

**Table 8. Distribution of property costs by price range (range given in 1000's of dollars).**

Range	Number of properties	Percentage
0-10	61990	33.2 %
10-25	61072	32.7 %
25-50	23029	12.3 %
50-75	6883	3.7 %
75-99	4809	2.6 %
99-100	17040	9.1 %
100-125	7159	3.8 %
125+	4698	2.5 %

(Total properties = 186680)

**Table 9. Confidence Limits for estimates of proportions in each price range.**

Range \$K	Percentage	Standard Deviation	80% Confidence Interval		95% Confidence Interval	
			Lower	Upper	Lower	Upper
0-10	33.2 %	2.0 %	30.6	35.7 %	29.2	36.9 %
10-25	32.7 %	1.9 %	30.3	35.3 %	29.0	36.6 %
25-50	12.3 %	1.3 %	10.6	14.0 %	9.8	15.0 %
50-75	3.7 %	0.7 %	2.9	4.6 %	2.5	5.1 %
75-99	2.6 %	0.5 %	2.0	3.3 %	1.6	3.6 %
99-100	9.1 %	0.9 %	8.0	10.2 %	7.5	10.9 %
100-125	3.8 %	0.5 %	3.2	4.5 %	2.8	4.9 %
125+	2.5 %	0.5 %	1.9	3.2 %	1.6	3.5 %

Note, the \$99-100,000 group is large as the \$113850 (inc. GST) cap gives \$99,000 – GST, causing many properties over a single cap to end up in this group.

The mean of cost of the EQC liability for each property in each of the 8 price ranges was calculated and these results are given in Table 10.

**Table 10. Mean cost of EQC liability in each price range.**

Range	Mean Cost \$
0-10	2,757
10-25	17,048
25-50	34,014
50-75	61,061
75-99	87,074
99-100	99,063
100-125	107,661
125+	146,748

**Apportioning the EQC liability between events**

The EQC liability is an accumulation of multiple events. The estimators apportioned the damage over all these events to these individual events. This information along with the rules using the cap of \$99,000 (-GST) for any one event gives the following breakdown of the total EQC liability. The breakdown is only for the main two events 4<sup>th</sup> September 2010 and 22<sup>nd</sup> February 2011, and all other events have been combined in an 'Other' category. Of the 732 valid samples, there were 16 samples with missing proportions and 23 where the proportions were not consistent with the total EQC liability. This inconsistency was in the form where the apportionment of damage gave an allocation to a single event over the \$99,000 cap, for example a total EQC liability of \$194,000 was apportioned 90% and 10% to the September 4 and February 22 events respectively. In these cases, the proportions were adjusted to consistent with the \$99,000 single event cap.

**Table 11. EQC liability apportioned to September 4 (average per property).**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	47408	17285	31176	8536	55963	65066	35341
Hill	1397	6553	12130	24764	31619	36663	14055
NWCentral	1851	7701	14108	17886	50896	50383	13966
Beach	1109	7378	12875	13282	42350	35996	11333
Bays	5310	5206	3065	31751	56916	28115	9118
South	13453	6537	27872	34027	10040	56157	15276
North	25035	32933	22063	48250	99000	56790	33912
ECentral	20475	12152	16790	20998	17948	29424	15435
NCentral	1880	2925	14933	42522	83383	51719	8107
SWCentral	9725	5738	12725	5021	39826	54461	8234
NWest	2110	5893	13238	11459	64097	70682	6841
West	7269	8298	5746	16710	19815	50239	7757
Mean	8477	8393	14759	18381	46173	49822	12849

**Table 12. EQC liability apportioned to February 22 (average per property).**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	63433	43562	41064	54410	48083	52426	47439
Hill	13986	21539	53516	68653	65026	74922	43461
NWCentral	5420	10395	28485	41462	36213	38677	19910
Beach	15152	20229	28859	57914	48755	65769	28381
Bays	4352	9659	37298	38835	76084	48161	22583
South	9050	12241	26698	20594	69395	60107	18548
North	2022	9710	6648	26141	23650	21870	9210
ECentral	19740	26544	32274	30737	77699	40848	28705
NCentral	15730	18479	27044	17779	59780	67081	21184
SWCentral	3845	8867	22678	57806	18744	18465	10793
NWest	5259	7658	11331	25756	14626	21772	8084
West	1428	3511	11488	7242	15086	8613	3769
Mean	7686	13038	28845	48023	50827	51314	19466

Table 13. EQC liability apportioned to all other events (average per property).

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	0	0	0	238	7601	1563	1091
Hill	0	1235	80	0	113	349	424
NWCentral	0	1830	918	4374	330	0	1349
Beach	891	2211	1662	3139	1477	0	1848
Bays	0	0	0	0	0	834	27
South	0	0	0	0	5645	0	176
North	5383	2515	3703	13178	0	0	3509
ECentral	347	2554	2391	0	0	0	1997
NCentral	0	4510	109	19914	0	0	3248
SWCentral	0	349	44	0	358	827	222
NWest	78	433	1176	0	0	0	471
West	1417	0	921	651	0	0	564
Mean	692	1131	918	2352	1965	597	1060

These results give the following breakdown to the three events

Table 14. EQC Liability apportioned to earthquake events (in billions of dollars GST exclusive).

Event	Total Cost	%	Standard Error	80% Confidence limits		90% Confidence limits	
				Lower	Upper	Lower	Upper
September 4	2.413	39.5	0.128	2.248	2.581	2.167	2.671
February 22	3.497	57.2	0.144	3.314	3.685	3.219	3.783
Other	0.199	3.3	0.038	0.151	0.248	0.129	0.279
Total	6.109	100.0					

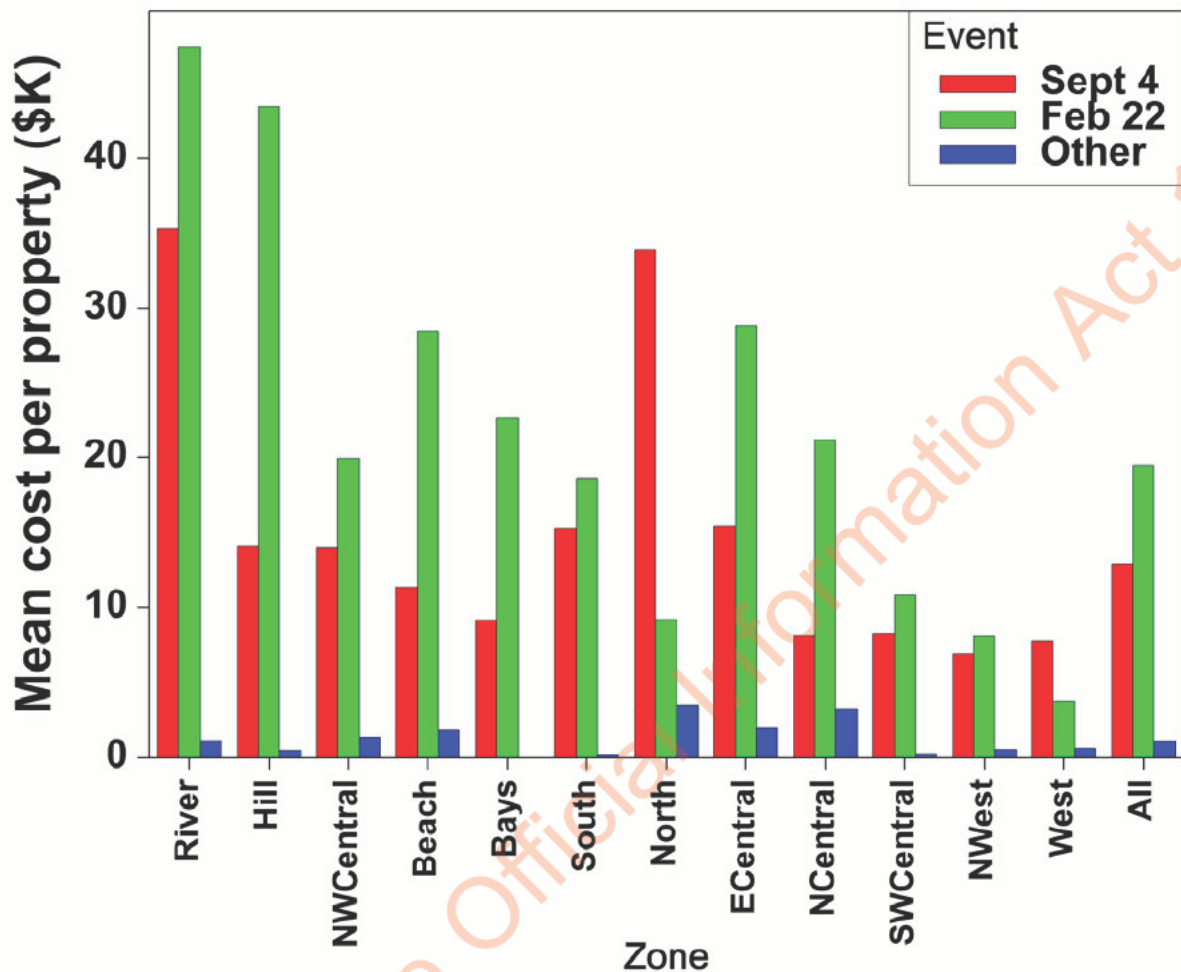
Note that the total of the 3 events (6.109) is slightly different to the total calculated using the total liability for each property (6.035) due to the missing proportions on some properties.

The mean cost per event was also broken down by zone and these results are given in Table 15 and Figure 6. Note the mean percentage in Table 15 differs slightly to that in Table 14 due to some missing values in the data.

Table 15. Mean cost per property apportioned to events, broken down by event and zone.

Zone	Sept 4	Feb 22	Other	Total	% Sept 4	% Feb 22	% Other
River	35341	47439	1091	83872	42.1	56.6	1.3
Hill	14055	43461	424	57940	24.3	75.0	0.7
NWCentral	13966	19910	1349	35225	39.6	56.5	3.8
Beach	11333	28381	1848	41561	27.3	68.3	4.4
Bays	9118	22583	27	31728	28.7	71.2	0.1
South	15276	18548	176	33999	44.9	54.6	0.5
North	33912	9210	3509	46631	72.7	19.8	7.5
ECentral	15435	28705	1997	46138	33.5	62.2	4.3
NCentral	8107	21184	3248	32539	24.9	65.1	10.0
SWCentral	8234	10793	222	19249	42.8	56.1	1.2
NWest	6841	8084	471	15396	44.4	52.5	3.1
West	7757	3769	564	12089	64.2	31.2	4.7
Mean	12849	19466	1060	33375	38.5	58.3	3.2

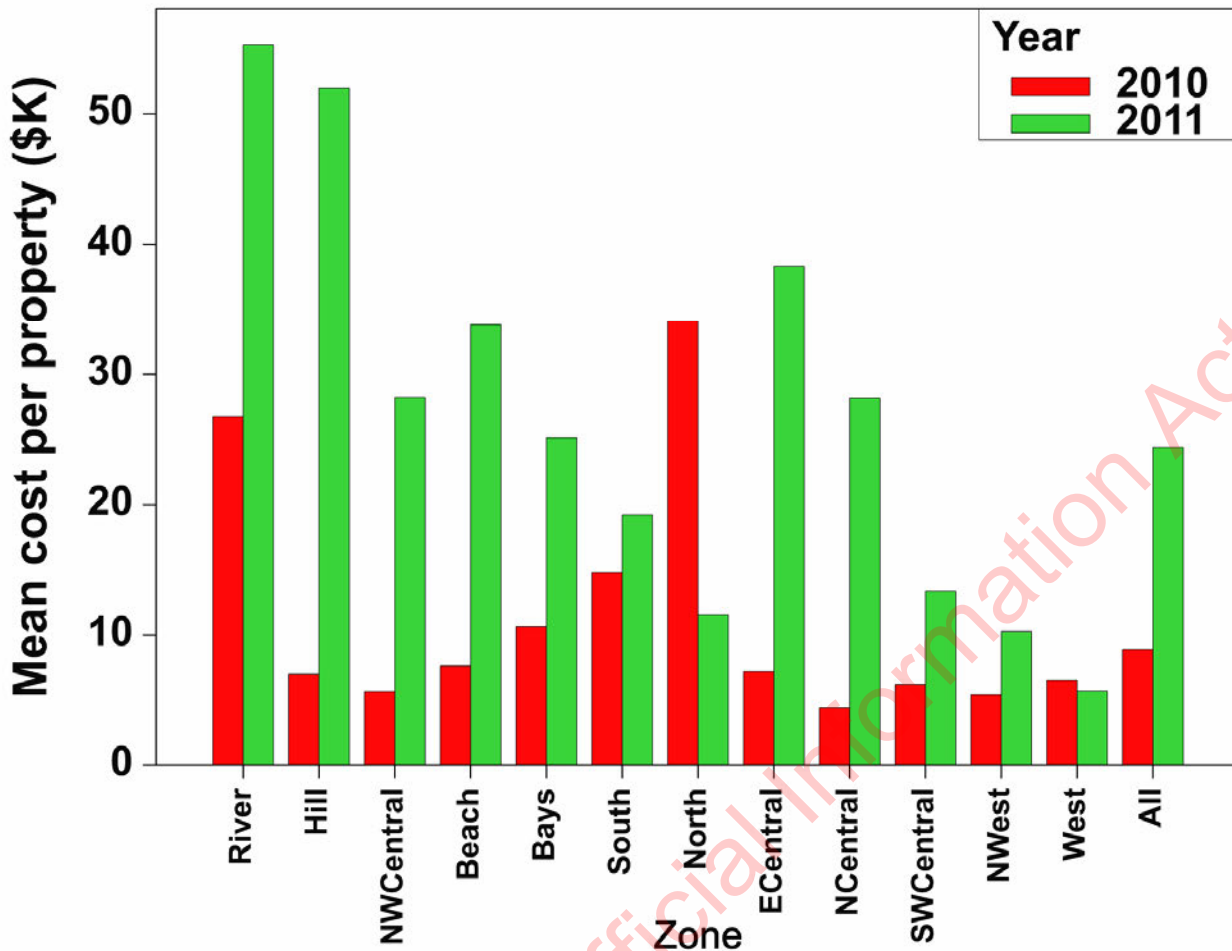
Figure 6. Mean cost per property using assessor apportionment, broken down by event and zone.



Using the EQC records on the houses that had been assessed and settled in 2010 and 2011, the EQC claim figures were also broken down by this method. These results are given in Table 16 and Figure 7. This breakdown gives a much heavier weighting towards the February 22 earthquake with smaller amounts in the previous year.

Table 16. The settlement break down between 2010 and 2011 events.

Zone	2010	2011	Total	% 2010	% 2011
River	26736	55260	81996	32.6	67.4
Hill	6945	51948	58893	11.8	88.2
NWCentral	5611	28233	33844	16.6	83.4
Beach	7568	33812	41380	18.3	81.7
Bays	10660	25129	35789	29.8	70.2
South	14794	19206	33999	43.5	56.5
North	34092	11546	45638	74.7	25.3
ECentral	7140	38316	45456	15.7	84.3
NCentral	4360	28179	32539	13.4	86.6
SWCentral	6138	13366	19504	31.5	68.5
NWest	5358	10280	15638	34.3	65.7
West	6449	5639	12088	53.4	46.6
All	8811	24414	33225	26.5	73.5

**Figure 7. Mean damage property using previous settlements, broken down by event and year.**

The estimated figure for the 2010 settlement process was a total of \$1.693 billion (with a standard error of 0.111 and a 95% confidence interval of \$1.478 – 1.918 billion).

The estimated figure for the 2011 settlement process was a total of \$4.338 billion (with a standard error of 0.184 and a 95% confidence interval of \$4.037 – 4.758 billion).

Note the sum of these two years settlements (\$6.031 billion) differs slightly to the total of 6.035 due to a few missing values in this data.

Thus based on the settlement figures a much higher percentage of the damage occurred in 2011 (73.5%) than that based on the apportionment estimation of the assessors (57.2%) and the previous survey (61.3%).

**September 4 2010 survey**

An earlier survey, begun after the September 4 event was halfway finished when the February 22 event occurred. This survey was stopped, but the completed records have been summarized. The survey was designed as a stratified survey with sampling in each strata proportional to expected claim size. The Canterbury region was divided into 6 zones, North, East, West, South and Central, and Christchurch City. Christchurch was then divided into 10 zones based on clustering adjacent suburbs with similar levels of damage (these zones are shown in Figure 8 – two pages forward). A number of residences outside Christchurch, but listed under Christchurch (e.g. on Banks Peninsular), had to be reallocated to the correct Canterbury zone. The number of samples per batch of 200 within each of the 15 zones were based on an optimal sampling strategy which uses the number of claims in the zone and the standard deviations between the expected building costs for the claims in that zone. The optimal allocation for each batch is given in the Table 17 below. Four batches of 200 were planned to be done but only 2 were completed. There were 22053 claims that did not have enough address information to allow them to be allocated to a zone. Also 11700 claims had already been settled and the actual sum paid out for these were used in the estimates.

**Table 17. Sampling statistics for 2010 survey**

Canterbury Zone	Chch Zone	Count	Mean	Std Dev.	Samples	Average Claim
Christchurch	1	8764	11008	28613	25	30970
Christchurch	2	2806	7793	23470	7	42077
Christchurch	3	4804	2545	10120	5	31182
Christchurch	4	10455	1395	4266	5	7363
Christchurch	5	14201	2485	9317	13	11496
Christchurch	6	7191	9236	24667	18	18910
Christchurch	7	14647	4118	13921	20	27373
Christchurch	8	16684	2609	9748	16	21745
Christchurch	9	6430	12554	25805	16	24374
Christchurch	10	17445	3779	13835	24	14138
Central		7985	5656	16971	13	23205
North	-	9614	8011	19813	18	27073
South	-	3446	1997	5978	5	11554
West	-	1556	3541	10921	5	19880
East	-	7275	4946	14666	10	6251
Unknown		22053				19135

The samples within each zone were selected with probability according to the expected size of the building pay out. Thus, large claims are thus over represented, as these will contribute most to the overall claim total.

These zones used in this survey are different to that used in the February 22 survey. Also this survey used the claims as the sampling frame, so that houses with no claim were not included in the survey.

## REPORT OF INVESTIGATIONS

The estimate of EQC liability from a prior survey for all of Canterbury from the September 4 event was \$2.440 billion (-GST) (\$ 2.806 billion inc. GST). This survey included more properties than the current survey, but going back to that survey and reducing the population to the same region covered in this survey (from 118432 to 106753 claims) gives an estimate of the cost of September event of **\$2.333 billion** (with standard error of 0.195). The figures from the two surveys (2.333 vs. 2.413) then agree within \$ 0.080 billion, well within the standard error of the difference (\$ 0.237 billion). Allocating the claims to the 12 zones used in the 2011 survey gave the average value per claim (not per house) as given in Table 18.

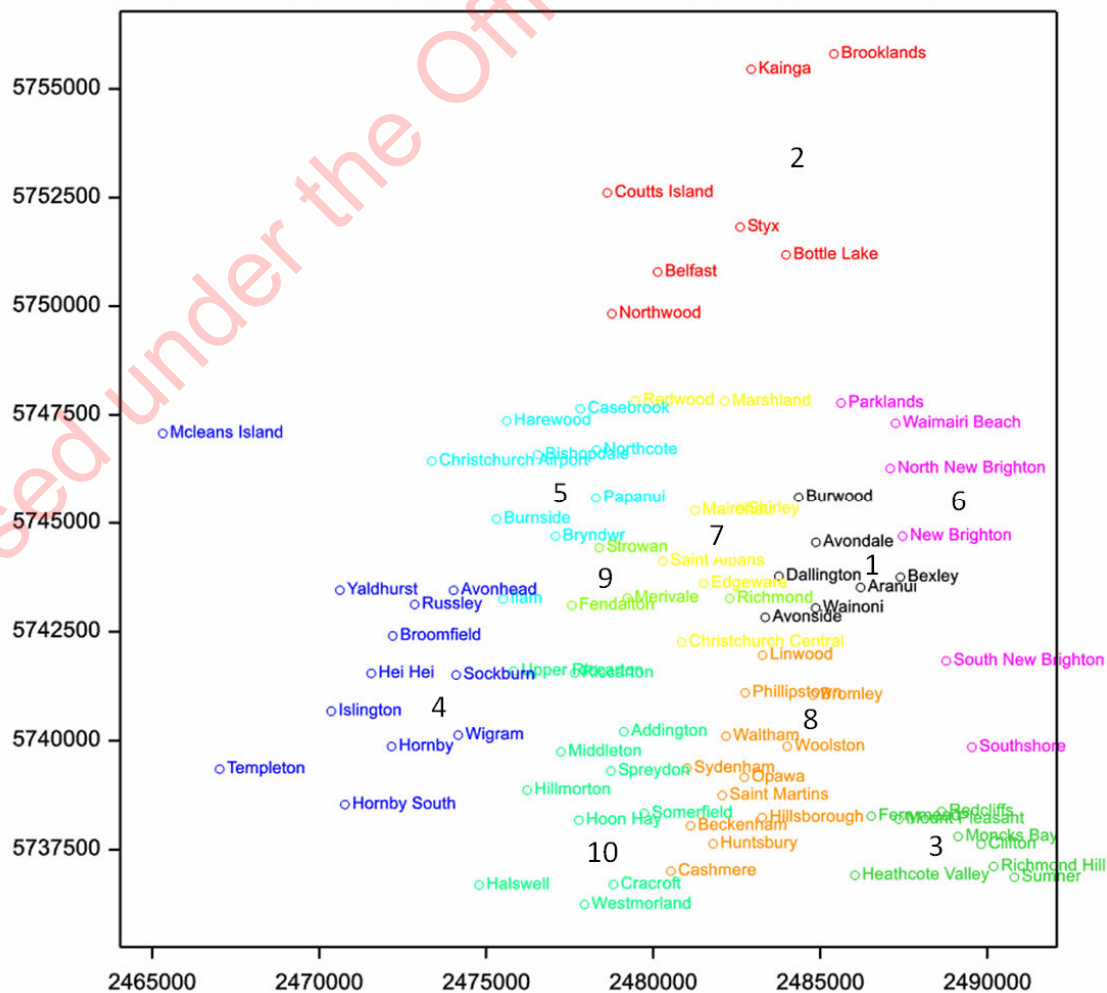
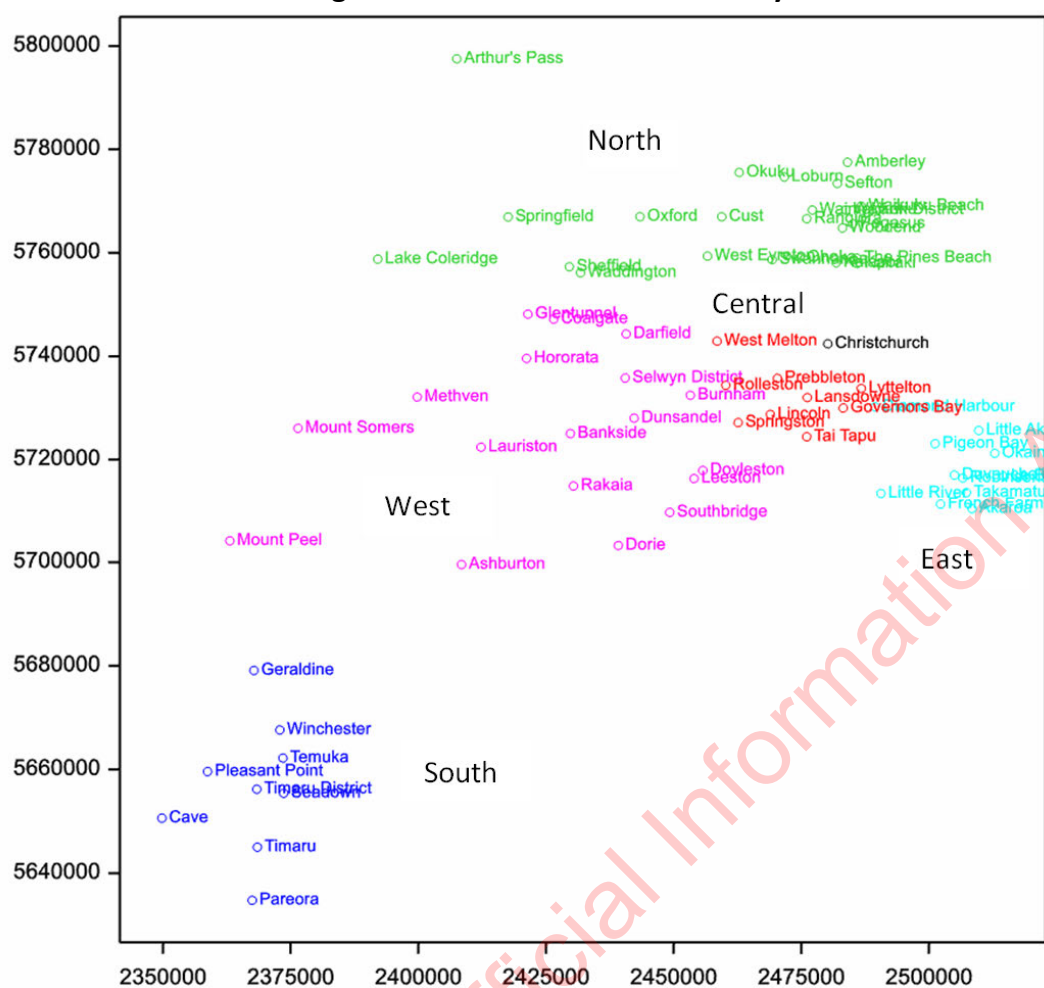
**Table 18. Mean value per claim from the 2010 survey for the 12 zones used in the 2011 survey**

Zone	Mean value per claim (\$)
River	32,299
Hill	23,399
NWCentral	23,561
Beach	16,076
Bays	19,228
South	16,731
North	35,907
ECentral	19,020
NCentral	23,250
SWCentral	13,498
NWest	14,489
West	6,267

Note: this is a mean per claim, not a mean per property.

Using the two survey results, and ignoring the very small other event category, suggests that the February 22 earthquake accounted for  $\$6.025 - 2.333 = 3.702$  billion = 61.3% of the damage, which is lower than the settlement data (73.5%), closer to the assessors allocation (57.2%) and damage percentage (63% - see page 20)

**Figure 8. Zones used in 2010 survey.**



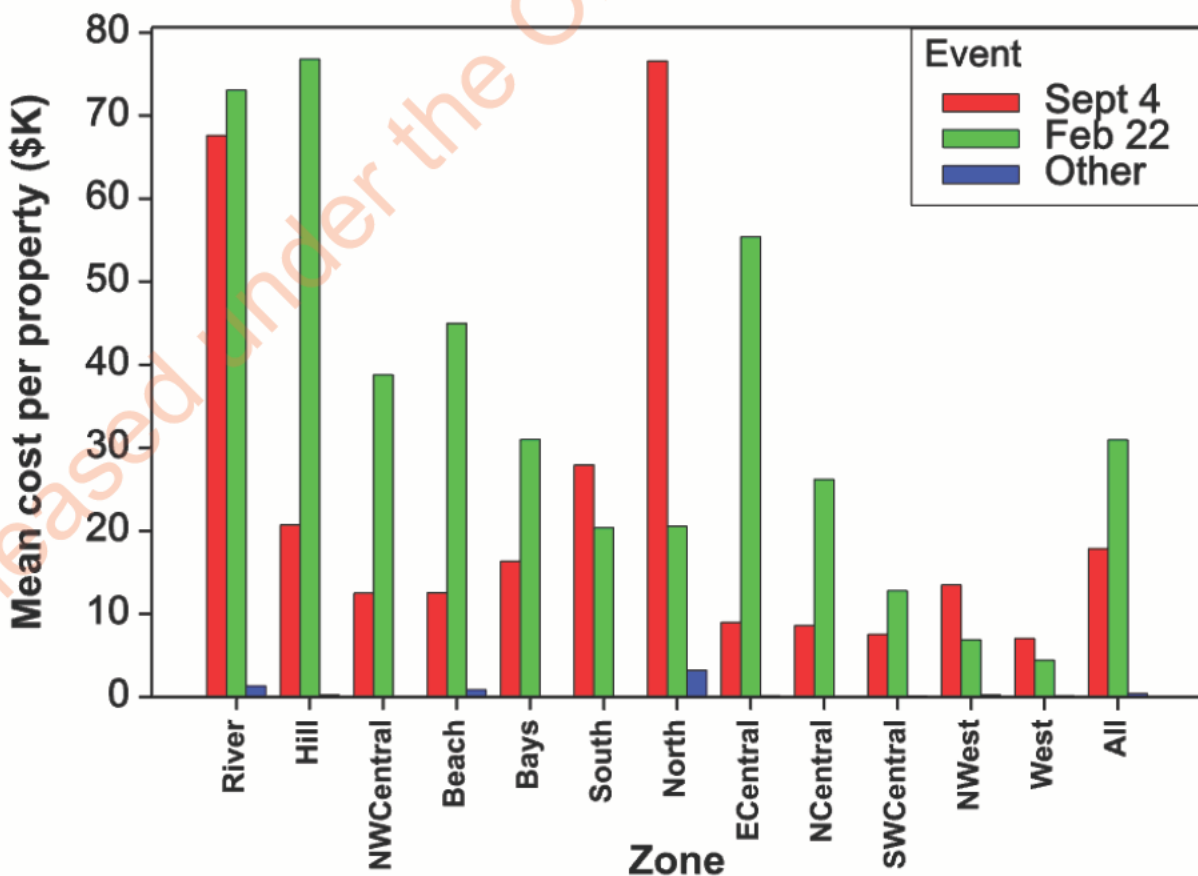
**Proportion of total damage allocated to the events**

The estimates of total damage allocated to the three events was also provided in the data. The means of this over the properties in each zone has been calculated and these results are in Table 19. This also shows a higher proportion of damage occurring in the February 22 event (62.9%) than in the September 4 event. These results are graphed in Figure 9.

Table 19. The total damage break down between events.

Zone	Sept 4	Feb 22	Other	Total	% Sept 4	% Feb 22	% Other
River	67618	73076	1315	142010	47.6	51.5	0.9
Hill	20729	76808	228	97765	21.2	78.6	0.2
NWCentral	12499	38786	70	51355	24.3	75.5	0.1
Beach	12556	44998	845	58398	21.5	77.1	1.4
Bays	16352	31002	0	47353	34.5	65.5	0.0
South	27918	20373	0	48291	57.8	42.2	0.0
North	76576	20565	3232	100372	76.3	20.5	3.2
ECentral	8970	55395	149	64514	13.9	85.9	0.2
NCentral	8581	26205	0	34787	24.7	75.3	0.0
SWCentral	7530	12793	124	20448	36.8	62.6	0.6
NWest	13506	6889	239	20634	65.5	33.4	1.2
West	7053	4441	128	11622	60.7	38.2	1.1
All	17835	30968	408	49211	36.2	62.9	0.8

Figure 9. Mean damage property using previous assessments, broken down by event and zone.



**Uninsured houses**

The proportion of uninsured houses in the study area was assessed using the data from the survey. A number of the uninsured homes had significant damage. The percentage of uninsured homes by damage category and zone is given in Table 20. It is estimated that 2% (3738) houses were insured (with a standard error of 0.6% and a 95% confidence limit of 0.9 – 3.2%). The two zones with the highest percentage of uninsured houses are the expensive north-west and hill suburbs (NWCentral & Hill zones)

**Table 20. Percentage of houses uninsured.**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	0.0	0.0	6.3	12.5	7.1	0.0	3.6
Hill	20.0	8.3	0.0	0.0	0.0	0.0	4.8
NWCentral	16.7	4.2	0.0	0.0	0.0	0.0	3.7
Beach	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North	0.0	0.0	0.0	0.0	0.0	16.7	1.0
ECentral	0.0	0.0	4.6	0.0	0.0	0.0	1.2
NCentral	0.0	0.0	0.0	25.0	0.0	0.0	0.7
SWCentral	0.0	2.7	0.0	0.0	0.0	0.0	1.6
NWest	0.0	2.6	0.0	0.0	0.0	0.0	1.6
West	0.0	3.9	0.0	25.0	0.0	0.0	2.3
Mean	2.3	2.4	1.0	3.0	1.6	1.1	2.0

**Properties with No Claims**

The proportion of properties that made no EQC claim in the study area was assessed using the data from the survey. Some of these homes had no insurance and many had no damage, but some were assessed to have a level of damage, but still neglected to make a claim. The percentage of properties with no claim by damage category and zone is given in Table 21. It is estimated that only 9.3% (17431) properties made no claim (with a standard error of 1.3% and a 95% confidence limit of 6.8 – 12.1%).

**Table 21. Percentage of Properties with no EQC claim.**

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Mean
River	0.0	10.0	0.0	12.5	0.0	0.0	3.9
Hill	40.0	8.3	3.7	0.0	0.0	0.0	8.4
NWCentral	33.3	20.8	3.6	11.1	11.1	0.0	14.9
Beach	0.0	5.3	0.0	0.0	0.0	0.0	2.3
Bays	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South	0.0	0.0	0.0	0.0	0.0	0.0	0.0
North	16.7	0.0	0.0	0.0	0.0	16.7	5.0
ECentral	33.3	0.0	9.1	0.0	0.0	0.0	6.5
NCentral	50.0	11.1	0.0	25.0	0.0	0.0	12.5
SWCentral	28.6	5.4	0.0	0.0	25.0	25.0	9.7
NWest	23.1	10.3	6.9	0.0	0.0	0.0	12.1
West	16.7	11.5	8.3	0.0	0.0	0.0	12.8
Mean	23.2	8.4	3.4	4.5	2.5	1.8	9.3

**Estimation of extra EQC liability due to June 13 earthquake**

All 723 valid properties in the February survey were contacted to confirm whether an additional claim was required. From this it was estimated that 8% of houses in Christchurch had extra liability. Those properties that registered a June claim (87 properties) were then revisited and reassessed for damage. 77 out of the 87 properties had additional EQC liability (Table 1). The highest percentages occurring in the South, Hill, Beach, Bay ECentral and NCentral zones (see Appendix 1 for the suburbs in each zone).

**Table 1. Percentages of properties with extra EQC liability by zone and damage class.**

<b>Zone</b>	<b>None</b>	<b>Minor</b>	<b>Moderate</b>	<b>Serious</b>	<b>Severe</b>	<b>Rebuild</b>	<b>Margin</b>
<b>River</b>	0.00	10.00	12.50	25.00	14.29	0.00	9.97
<b>Hill</b>	20.00	16.67	7.41	27.27	17.65	15.38	14.82
<b>NWCentral</b>	0.00	8.33	7.14	0.00	22.22	8.33	7.10
<b>Beach</b>	0.00	10.53	18.18	27.27	16.67	33.33	14.29
<b>Bays</b>	0.00	0.00	25.00	50.00	0.00	50.00	12.61
<b>South</b>	0.00	50.00	0.00	25.00	0.00	0.00	25.83
<b>North</b>	16.67	0.00	16.67	0.00	0.00	0.00	6.66
<b>ECentral</b>	16.67	12.00	9.09	0.00	25.00	33.33	12.32
<b>NCentral</b>	0.00	11.11	20.00	50.00	33.33	0.00	13.34
<b>SWCentral</b>	0.00	2.70	12.90	25.00	0.00	0.00	4.03
<b>NWest</b>	0.00	2.56	0.00	0.00	25.00	0.00	1.70
<b>West</b>	8.33	3.85	16.67	25.00	33.33	0.00	6.87
<b>Margin</b>	5.07	6.49	10.60	18.04	16.23	11.33	8.06

Note the percentage of properties damaged is largest in the serious to severe categories, indicating that, in the main, June damage happened to already damaged properties. The rebuild category showed a lesser increase as many of these properties were already written off.

The settlement figure was completely reassessed for these 77 properties and the EQC liability determined.

Changes in the results from the May assessment can be due to a number of factors: -

1. Extra damage from June
2. The new multi-cap allowance introduced by the declaratory judgement (the previous May results were before this was in force).
3. A change in the loss adjustors and estimators assessing the damage (so that the assessment of earlier damage was different).
4. The cost of emergency works after the June event.
5. The change from a paper based assessment to the Comet assessment system (this was found in other work to increase the estimated costs of repairs in lightly damaged properties and to decrease the estimates for heavily damaged properties).
6. And further, where there was a major discrepancy identified between earlier estimates and the Comet estimates, the assessed loss was amended using expert opinions.

The derived average extra liability per property is given in Table 2. These were highest in the Hill, Beach, ECentral and River zones.

Table 2. Average Extra EQC liability by zone and damage class.

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Margin
River	0	2031	1621	19030	5976	0	3446
Hill	1888	8455	4418	14725	8118	3263	6387
NWCentral	0	2130	1622	-975	23617	936	2371
Beach	0	2658	6241	17964	4133	9359	5007
Bays	0	0	1757	4454	0	1276	878
South	0	3799	0	299	0	0	1902
North	2202	0	1038	0	0	0	695
ECentral	232	4525	4630	0	25642	10778	4411
NCentral	0	54	132	10154	2421	0	359
SWCentral	0	2758	3306	903	0	0	2188
NWest	0	125	0	-1258	25250	0	166
West	660	48	573	2034	2776	0	317
Margin	396	1961	2677	8794	10006	2705	2372

Some values are negative as reassessments in June were in some cases lower than the May assessments due to different assessors doing the work and changing to the Comet system.

The estimated total extra liability arising from this re-assessment is \$ 421 million with a standard error of \$89 million and a 95% confidence limit of \$282 – 630 million.

Table 3 gives the extra liability assigned to the June 13<sup>th</sup> event. These estimates were derived from interrogation of the loss calculations and are, in the main, due to the extra damage in June, not including emergency work costs or reassessment of earlier damage.

Table 3. The component of the settlement apportioned to the June 13 event

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Margin
River	0	1991	0	19024	973	0	2491
Hill	1793	0	5242	3074	7595	2793	3178
NWCentral	0	2108	764	2866	11816	0	1807
Beach	0	0	3324	10932	3938	0	1954
Bays	0	0	1383	3307	0	1718	700
South	0	3657	0	167	0	0	1826
North	1173	0	968	0	0	0	436
ECentral	0	4369	4687	0	21015	0	3864
NCentral	0	216	11	2952	0	0	211
SWCentral	0	2703	3018	859	0	0	2108
NWest	0	187	0	0	0	0	116
West	660	35	515	2203	1376	0	303
Margin	315	1319	2172	6046	5968	527	1619

Thus an extra liability of \$289 million (95% confidence interval \$ 163 – 444 million) can be allocated directly to the June event.

Of the extra \$421 million assessed liability, only \$289 million extra was due to the part of the settlement apportioned to June. The other \$132 million must be due the other factors such as recosting the previous damage and allowing for multiple caps. It is expected that roughly \$40-50 million of this is due to emergency works.

## REPORT OF INVESTIGATIONS

If you examine the change in damage estimates between May and June, then you obtain the results in Table 4.

Table 4. The apportionment of damage to the June event.

Zone	None	Minor	Moderate	Serious	Severe	Rebuild	Margin
River	0	342	1233	8605	824	0	1349
Hill	0	605	1529	3469	6304	657	1641
NWCentral	0	1343	264	3794	13457	3730	1687
Beach	0	405	13	15365	4809	3886	1746
Bays	0	0	0	5021	0	0	345
South	0	584	0	298	0	0	302
North	3836	0	3235	0	0	0	1438
ECentral	0	4370	1589	0	22708	4966	3276
NCentral	0	542	17	13062	55102	0	1156
SWCentral	0	1499	587	598	0	0	995
NWest	0	114	0	517	59703	0	327
West	759	83	52	4940	9386	0	332
Margin	380	995	696	5776	8235	1589	1242

This gives a total extra damage due to June of \$224 million (95% confidence limit of \$133 – 337 million). This is actually \$65 million less than the extra liability assigned to June, and the reasons for this need to be further explored, although the field assessments of damage were revised by the settlements team in their apportionment of the settlement calculations.

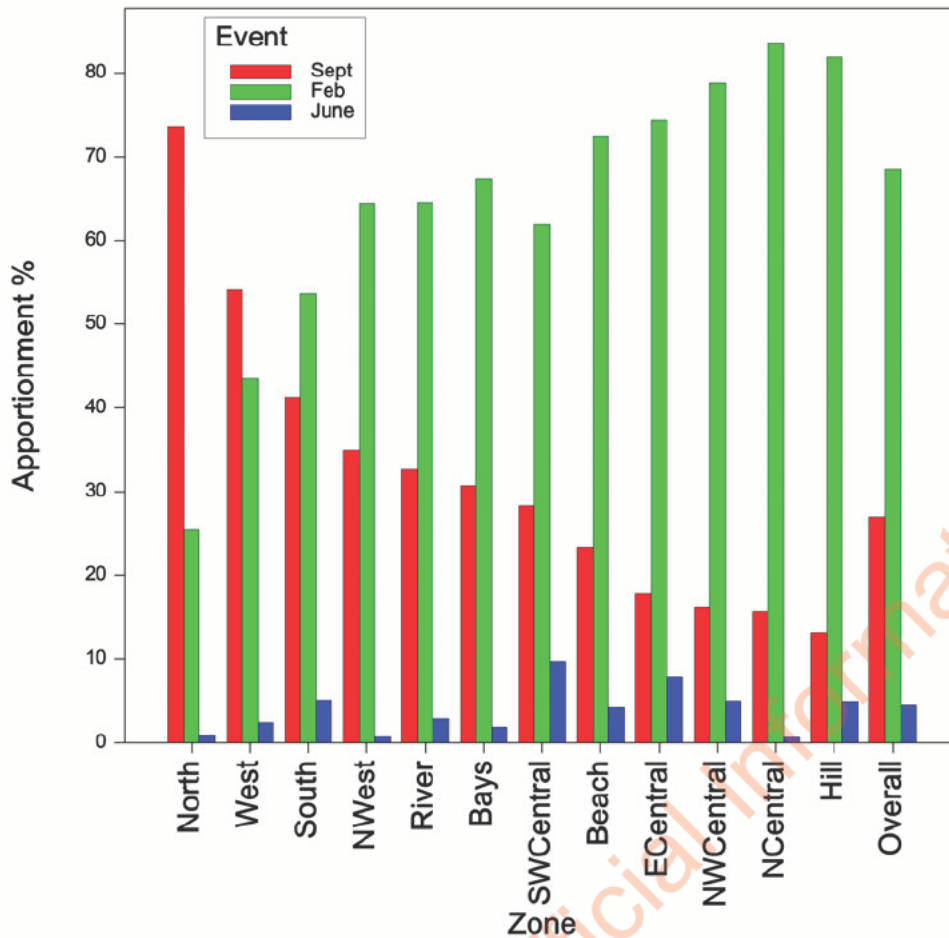
To apportion the relative damage between the three events, individual settlement figures were calculated for each event (September, February and June). These were “meaned” by zone and are presented in Table 5, and graphed in Figure 1.

Table 5. Apportionment of settlement between 3 major events (percentage of Total Settlement).

Zone	Sept	Feb	June
Bays	31	67	2
Beach	23	72	4
ECentral	18	74	8
Hill	13	82	5
NCentral	16	84	1
North	74	25	1
NWCentral	16	79	5
NWest	35	64	1
River	33	64	3
South	41	54	5
SWCentral	28	62	10
West	54	43	2
Overall	27	68	5

# REPORT OF INVESTIGATIONS

Figure 1. Apportionment of Settlements between September, February and June events by Zone



Note, the zones have been sorted into decreasing order of the September percentage, and this order is slightly different to that in Figure 2 (although it shows strong similarities).

Table 6 gives the damage estimates apportioned to the 3 main events (September, February, June) and all other events assigned to the combined category 'Other'.

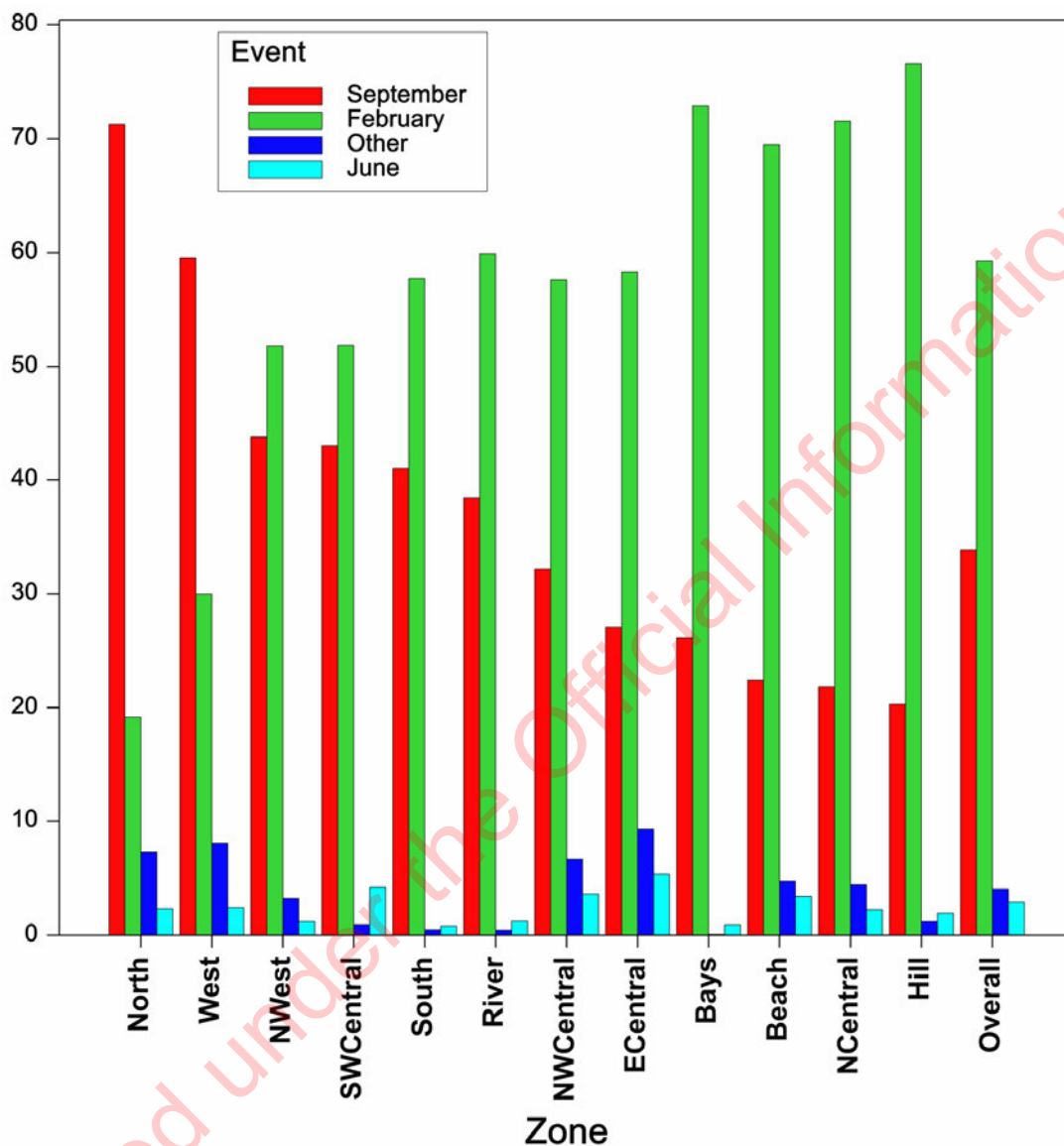
Table 6. Apportionment of Damage over events by zone (by \$ value and percentage)

Zone	Sept	Feb	Other	June	Total	Sept	Feb	Other	June
River	34616	53953	401	1107	90077	38.4	59.9	0.4	1.2
Hill	14967	56463	880	1425	73735	20.3	76.6	1.2	1.9
NWCentral	13570	24330	2810	1521	42231	32.1	57.6	6.7	3.6
Beach	11155	34559	2348	1690	49752	22.4	69.5	4.7	3.4
Bays	9585	26720	27	339	36671	26.1	72.9	0.1	0.9
South	15246	21475	176	302	37199	41.0	57.7	0.5	0.8
North	33605	9043	3417	1102	47167	71.2	19.2	7.2	2.3
ECentral	16403	35378	5630	3253	60664	27.0	58.3	9.3	5.4
NCentral	7586	24890	1536	784	34796	21.8	71.5	4.4	2.3
SWCentral	10166	12269	222	991	23648	43.0	51.9	0.9	4.2
NWest	6945	8230	511	189	15875	43.7	51.8	3.2	1.2
West	7585	3821	1025	311	12742	59.5	30.0	8.0	2.4
Margin	13215	23159	1580	1126	39080	33.8	59.3	4.0	2.9

## REPORT OF INVESTIGATIONS

These results show a similar pattern to the settlement apportionment, although the percentages apportioned to June (on average 2.9%) are lower than that for the settlement (5%). This is because, as a relatively small event, all of the June damage contributes to the EQC liability, whereas a good proportion (about 30%) of the September and February damage is over the cap and does not contribute to the EQC liability.

**Figure 2. Apportionment of Damage by field assessors over all events**



Note, the zones have been sorted into decreasing order of the September percentage.

**Appendix 1.****Table 25. Suburbs in each zone.**

Zone	Suburbs in Zone
<b>1 River</b>	Avondale, Avonside, Bexley, Burwood, Dallington
<b>2 Hill</b>	Cashmere, Clifton, Ferryroad, Heathcote Valley, Hillsborough, Huntsbury, Moncks Bay, Mt Pleasant, Opawa, Redcliffs, South New Brighton, Southshore, Sumner
<b>3 NWCentral</b>	Central, Fendalton, Merivale, Richmond, St Albans, Strowan
<b>4 Beach</b>	Aranui, New Brighton, North New Brighton, Parklands, Wainoni
<b>5 Bays</b>	Cass Bay, Charteris Bay, Corsair Bay, Diamond Harbour, Lyttelton, Purau
<b>6 South</b>	Akaroa, Allandale, Birdlings Flat, Duvauchelle, Governor's Bay, Kennedys Bush, Lansdowne, Little Akaloa, Little River, Pigeon Bay, Rural, Tai Tapu, Teddington, Westmorland
<b>7 North</b>	Brooklands, Kaiapoi, Kainga, Pegasus, Pines Beach, Spencerville, Styx, Waikuku, Waimairi Beach, Woodend
<b>8 ECentral</b>	Bromley, Charleston, Linwood, Phillipstown, St Martins, Waltham, Woolston
<b>9 NCentral</b>	Edgware, Mairehau, Marshland, Shirley
<b>10 SWCentral</b>	Addington, Beckenham, Cracroft, Halswell, Hillmorton, Hoon Hay, Middleton, Riccarton, Somerfield, Spreydon, Sydenham, Upper Riccarton
<b>11 NWest</b>	Belfast, Bishopdale, Bryndwr, Burnside, Casebrook, Harewood, Ilam, Northcote, Northwood, Papanui, Rangiora, Redwood
<b>12 West</b>	Avonhead, Broomfield, Hei Hei, Hornby, Islington, Lincoln, Prebbleton, Rolleston, Russley, Sockburn, Templeton, Wigram, Yaldhurst

To: **Hon Gerry Brownlee**  
**Minister for Canterbury Earthquake**  
**Recovery**



IN-CONFIDENCE, COMMERCIALY SENSITIVE

## Engagement with reinsurers

Date	31 January 2012	Priority	High
Report No	M/12/0214	File Reference	

### Action Sought

		Deadline
Hon Gerry Brownlee Minister for Canterbury Earthquake Recovery	Note that CERA has been invited to attend a meeting with reinsurers in Sydney to discuss claims resolution.	01 February 2012
Hon Gerry Brownlee Minister for Canterbury Earthquake Recovery	Note that CERA proposes to accept the invitation and report back to you on the outcome.	01 February 2012
Hon Gerry Brownlee Minister for Canterbury Earthquake Recovery	Note that we will report to you by 10 February with an insurance work programme for 2012.	01 February 2012

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
James Hay	General Manager, Shared Services and Projects	03 354 2611	<input checked="" type="checkbox"/>
Alison O'Connell	Senior Advisor	03 354 2647	

### Minister's office comments

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Withdrawn <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Referred to
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<b>Comments</b>
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## Engagement with reinsurers

### Purpose

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- 1 Swiss Re has contacted CERA with some claim settlement concerns and has invited us to an exploratory meeting to discuss these with claims management staff of Swiss Re, Munich Re and General Re on Friday 3 February.
- 2 The purpose of the meeting is to better understand the claims issues from the reinsurers' perspective and explore possible options for resolution. We do not intend to use the meeting to negotiate any outcomes.
- 3 This note:
  - 3.1 Informs you on the background to the meeting, the proposed subjects to be covered at that meeting and our approach to these discussions; and
  - 3.2 Seeks your agreement to attend the meeting.
- 4 Separately, we are working with Treasury and Russell McVeagh to provide you with a briefing within the next two weeks on insurance-related issues and our recommendations for an insurance work programme for 2012.

### Background

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- 5 Swiss Re (Peter Newall - Managing Director, Products, Claims, Accounting & Liability Management) wrote to James Hay on 29 December 2011 with a number of detailed questions about residential claims settlement procedures and asked whether CERA could intervene or mediate within the insurance industry to resolve claim disputes.
- 6 The overarching concern appears that the costs of the claim settlement process are increasing, overall estimates of liability remain uncertain and subject to ongoing upward revision and claim settlement is being delayed because of: uncertainty over the Crown's position on claims assigned from Red Zone properties; duplication of claims effort; disputes and differences in assessment between insurers and EQC leading to complexity and legal costs; confusion in land repair responsibilities; and, perceived ambiguity on allowed TC3 foundation designs.
- 7 The note was summarised as:  
*"We believe a key pre-condition to securing the optimal future reinsurance support for New Zealand is a demonstrable effort from CERA to keep claims costs as low as possible, while still meeting policy obligations. If you are able to address these issues we believe that this will be viewed in a positive light by the industry".*
- 8 While some issues (e.g. TC3 foundations) are being addressed by existing processes, the claims settlement delays and resulting uncertainty in total exposure remain a concern. As Attachment A to this note shows, the overall complexity of the process does appear to be adding cost into the system and introducing delays, but we do not (yet) have clear sight into the industry dynamics of cause and possible solution.

- 9 Our own analysis agrees with Treasury estimates that reinsurers will pay a significant proportion of the total insured cost, with local insurers contributing a smaller proportion than the global norm. Therefore, although local insurers manage the claims process, the largest reinsurers have a strong interest in claim settlement efficiency and should be expected to be influential in the process.

## Comment

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- 10 We are interested to understand the extent to which Swiss Re's views reflect the wider reinsurance industry. To address this, Mr Newall arranged a meeting in Sydney on Friday 3rd February with senior claims management people from Munich Re (John McWilliams) and General Re (Edmund Fernandez) as well as Peter Newall. CERA has been invited to attend that meeting.
- 11 The meeting is intended to be exploratory. We consider that it is a good opportunity to understand the reinsurers' views more thoroughly and to hear their proposed solutions. We do not intend to use the meeting to negotiate any outcomes.
- 12 From our discussions with insurers and EQC over the last week, we believe the most significant issue to resolve is the differences between EQC and insurers in damage quantification and event apportionment. Attachment A sets out our current understanding of this issue and some options to address. We do not propose to share these options at this Swiss Re meeting. Instead, we will:
- 12.1 Seek participants' input on the key issues
  - 12.2 Ascertain the extent to which concerns and proposed approach are common across these representative reinsurers;
  - 12.3 Discuss the mandate reinsurers believe they have to influence the claims management process;
  - 12.4 Seek reinsurers' views on possible roles for CERA, if any, in resolution; and,
  - 12.5 if appropriate, probe further into options the participants appear to favour to tease out details of how they would see them working.
- 13 We consider that it would be valuable for CERA to participate in this meeting as part of the Crown's overall engagement with the reinsurance industry to better understand the detail of the Canterbury issues from the reinsurers' perspective, and to continue to look for opportunities for the Crown to provide information and data to the insurance industry. Treasury have reviewed this note and support CERA attending the proposed meeting.

## Next Steps

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- 14 The information gathered in this meeting, together with ongoing work and discussions with local insurers, will inform a briefing note to you on a recommended insurance work programme for 2012 (by 10 February).

## Recommendations

15 It is recommended that you:

- 1 **Note** that CERA has been invited to attend a meeting with reinsurers in Sydney to discuss claims resolution.
- 2 **Note** that CERA proposes to accept the invitation and will report back to you on the outcome.
- 3 **Note** that we are aiming to provide you with a briefing note and recommended insurance work programme for 2012 by 10 February.
- 4 **Advise** if you have any comments on this report by 1 February 2012

YES / NO

YES / NO

YES / NO

1-1

James Hay  
General Manager, Shared Services  
and Projects

NOTED / APPROVED / NOT APPROVED

Hon Gerry Brownlee  
Minister for Canterbury Earthquake Recovery

Date: 30 / 01 / 2011

Attachment A - Concerns on claim settlement delays

## Attachment A

### Concerns on claim settlement delays

A1.1 In the past week, we have held meetings with AMI, Vero, IAG, Lumley and EQC to understand more about the causes of claim delays. AMI has written a paper on "EQC issues". The emerging picture confirms:

- a. Examples of serious points of difference between insurers and EQC on **damage quantification**. The examples given are that EQC assess damage lower than the insurers (sometimes of the order of magnitude \$50,000 vs. \$250,000). Thus the problem does not appear to be driven by the Insurers looking to cut claim amounts.
- b. In addition, the Insurers and EQC differ on the **assessment of event apportionment** - what proportion of the damage occurred as a result of each earthquake which gave rise to a claim. This is required as a result of the declaratory judgement, as the EQC cap applies each time, and apportionment will have consequences for each reinsurance program of EQC and each insurer as at each event.
- c. Taken together, these two differences mean that the scopes of work for cases which are neither clearly under-cap nor clearly over-cap are being delayed. We have contradictory information on how many cases are affected. EQC suggest around 200; the insurers suggest around half of all their cases, and cite this as their first priority issue (or second if the first is ongoing seismicity).
- d. EQC jointly assesses a small number of claims each week with each insurer. We have contradictory information on whether these reassessments tend to agree with the EQC or insurer original assessment. Further, we understand there are a number of protocols to deal with various differences or disputes between EQC and insurers in development within the industry, led by ICNZ. One of these is for event apportionment. However, we do not expect there to be one solution agreed across the industry.
- e. We also have been given several reasons why the assessments are so different between EQC and insurer, for example, in use of engineers; quality of assessors; customer promise; as well as mistakes.
- f. The incentives to resolve the differences are mixed. It is probable that EQC can meet a large part of its target to complete repairs between \$50,000 and \$100,000 by June 2013 and 80% of all repairs by end 2014 without hastening the progress of case-by-case dispute resolution with insurers. However, insurers say they are obliged to offer a better customer service than case-by-case resolution can give, and want more certainty in order to secure their rebuild resources.

A1.2 We (with Treasury) have developed a preliminary set of options for how to tackle the delays caused by differences in quantification and event apportionment:

1. Leave the industry to resolve: on the basis that the case-by-case assessments and ICNZ-led protocols will result in a solution within a timetable suitable for seismic activity and resources.
2. Put pressure on EQC/insurers by:
  - a. Helping a group of claimants to push for a fair, quicker settlement of their own claims (but how would we choose a group?).
  - b. Encourage the reinsurers to make their preference for quick settlement known.
3. Use the Red Zone settlement process, where the Crown is claimant, to trial a solution. However, the situation in the Red Zone may complicate rather than help resolution.
4. Direct a solution, such as start work on the basis of the insurance company's assessment and "wash up" differences later, once the actual cost is known.

A1.3 Our preferred position at this stage is to monitor the progress of resolution within the industry, but explore whether options 2b or 4 have merit. Both of these options need information from reinsurers.

# Review of Disaster Insurance Arrangements:

## Initial Scoping of Options

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## EXECUTIVE SUMMARY

The Government has announced its intention to review disaster insurance arrangements to ascertain whether change from existing policy settings is desirable. During the initial scoping phase of the review, Treasury needs to form a judgement about whether to focus the review on the existing EQC model or open the review to a broader consideration of alternative options for future Government intervention in disaster insurance markets. In line with this need, the purpose of this paper is to:

- Revisit the rationale for Government intervention in disaster insurance markets.
- Propose a set of Government objectives with regard to natural disaster insurance.
- Identify the range of options for intervention in disaster insurance markets.
- Narrow down the range of plausible options for investigation in the review.

### Rationale

This paper proposes that there is a rationale for Government intervention in disaster insurance markets due to a combination of insurance market dysfunction and political economy risks that can impose significant costs on society as a whole. The Government therefore has a legitimate interest in reducing these costs, not least because of the potential impact they may have on the Crown's own balance sheet.

### Objectives

The paper proposes the following Government

- Minimising the potential for socially-unacceptable distress and loss in the event of a natural disaster.
- Minimising the fiscal risk to the Government associated with private property damage in natural disasters.
- Promoting the economic efficiency of disaster insurance arrangements.

### Recommendation

We recommend the Government focus the review on the existing primary insurance (EQC) model rather than expand the review to explore the benefits of alternative options. There are three main reasons for this argument:

- There is not an obviously strong case to *move away* from the existing primary insurance model.
- There is a reasonably strong case to *retain* the existing model, based primarily on the experience New Zealand has built up running the EQC scheme over the past twenty years, including through the Canterbury quakes.
- Considerations of *speed* and *certainty for market participants* are also relevant given the unsettled conditions in insurance markets and the lack of an obvious case for significant change to the existing model. A tightly-scoped review of the EQC scheme will create less uncertainty in insurance markets than a broader (and necessarily lengthier) review of different types of insurance arrangements.

## PURPOSE

### Context

The present form of national disaster insurance in New Zealand was established by the Earthquake Commission Act in 1993. The 2010-2011 Canterbury earthquake sequence represents the first major test of the EQC model since its inception. In light of the lessons learned from the earthquakes, the Government has announced its intention to review disaster insurance arrangements to ascertain whether change from existing policy settings is desirable. During the initial scoping phase of the review, Treasury needs to form a judgement about whether to focus the review on the existing EQC model or open the review to a broader consideration of alternative options for future Government intervention in disaster insurance markets.

### Objectives

The objectives of this paper are to:

- Revisit the rationale for Government intervention in disaster insurance markets.
- Propose a set of Government objectives with regard to natural disaster insurance.
- Identify the range of options for intervention in disaster insurance markets.
- Narrow down the range of plausible options for investigation in the review.

### Scope

The review will cover the management of natural disaster risk associated with private property. The review is not expected to cover:

- The Crown's overall approach to natural disaster risk.
- The management of disaster risk associated with central government or local authority property.

### Structure

This note is divided into four main parts.

*Part One* provides a brief introduction to the practice of disaster risk management, outlines the role of insurance in disaster risk management, and outlines the objectives and key features of the current EQC scheme.

*Part Two* explores the rationale for Government intervention in disaster insurance markets.

*Part Three* proposes a set of Government objectives with regard to natural disaster insurance.

*Part Four* explores the range of options for Government intervention in disaster insurance markets and identifies a preferred option for taking forward in the review.

## PART ONE: UNDERSTANDING THE EQC

This Part provides an introduction to the practice of disaster risk management, outlines the role of insurance in disaster risk management, and outlines the objectives and key features of the current EQC scheme.

### Approaches to the management of disaster risk

At its core, risk management is about making a conscious decision to accept, avoid, mitigate or transfer risk. There are a number of mechanisms available to the Government and to property-owners to manage the risks they face from natural disasters. These include:

- *Information and/or research* – so property-owners understand the nature of the risks they face and can make an informed decision about their preferred risk management strategy.
- *The configuration of land use* – for example, property-owners can avoid risk by locating buildings, structures and activities in safer areas or reduce risk by investing in mitigation works.
- *The quality of building standards* – buildings and structures constructed to a higher standard are less likely to suffer damage in the event of disaster.
- *Ownership choices* – individuals can choose to own or rent properties; larger property-owners can hold geographically-diversified portfolios of rental properties to reduce the risk they face from disaster in any particular region.
- *Risk transfer* – primarily through insurance markets.
- *Post-disaster recovery arrangements*.

The Government already intervenes in most of these areas. It manages land use through the Resource Management Act (RMA), establishes building standards through the Building Act, and organises civil defence and emergency response efforts through the Civil Defence and Emergency Management Act (CDEMA). Through the Earthquake Commission (EQC), the Government provides disaster insurance for residential properties and funds research and public information campaigns on matters relevant to natural disasters. In the case of the Canterbury quakes, the Government also established a new department, the Canterbury Earthquake Recovery Authority, to coordinate the long-term recovery process.

### The role of insurance

Insurance is likely to be a part of any balanced approach to the management of disaster risk. This is because it is impossible to avoid or reduce natural disaster risk altogether. There are four general reasons why:

#### 1. *Natural/physical forces*

- The physical forces unleashed by natural disasters can be enormous. No human structure or settlement, for example, could directly withstand the forces generated by a volcanic eruption.
- Natural disasters can expose hitherto unexpected weaknesses in the design, configuration and building quality of human structures and settlements.

#### 2. *Economic considerations*

- It may be uneconomic to minimise risk through the use of measures such as stricter building standards or land use restrictions alone. In other words, it may be more efficient to either accept or transfer the risk.
3. *Political economy considerations*
- It may be impossible to minimise risk through the use of measures such as stricter building standards or land use restrictions alone due to political economy considerations (e.g. relating to the size and distribution of the costs of change).
4. *Timing issues*
- Even if society agrees to minimise risk through measures such as stricter building standards or land use restrictions, it may take considerable time to upgrade and reconfigure the stock of buildings, particularly if the costs of change are high and the probability of disaster small.

Property-owners will therefore continue to bear some degree of residual risk relating to natural disasters *even if* society agrees to implement stringent building standards and restrictive land use planning and they themselves take reasonable measures to reduce or avoid risk. In the absence of insurance, this risk may crystallise into significant losses when a natural disaster occurs.

Insurance therefore represents an important mechanism to minimise the residual natural disaster risk that cannot be reduced or avoided for either practical or economic reasons. On this basis, it makes sense for the Government to investigate the provision of disaster insurance as part of society's overall approach to the management of natural disaster risk.

### **The EQC scheme**

The Government has been involved in the provision of disaster insurance in New Zealand, through the EQC and its predecessor entities, since the 1940s. EQC is a Crown Entity that provides basic disaster insurance to residential properties in New Zealand. EQC pays out on claims damage caused by earthquake, natural landslip, volcanic eruption, hydrothermal activity or tsunami; fire caused by any of these events; and storm or flood (in the case of residential land only).

### **Objectives**

The current EQC scheme resulted from a significant review of disaster insurance that began under the Fourth Labour Government in the late 1980s and continued under the Fourth National Government in the early 1990s. The review defined the Government's underlying objective in relation to natural disasters as being to "reduce distress", both for those immediately affected and for New Zealand society and economy as a whole.

The review was also motivated by a strong desire to reduce the fiscal risk associated with the existing public sector disaster insurance scheme, which was managed at the time by the Earthquake and War Damages Commission and covered both residential and commercial property. There was much concern that the level of the Disaster Fund and the strength of the Crown's balance sheet were insufficient to meet the claims likely to arise from a major earthquake in Wellington, which was considered to be the most likely major disaster to call upon the public insurance scheme.

The intention of the reforms was therefore to contain the Crown's exposure to natural disasters. In this context, the Government stated its interest in natural disasters was limited to "humanitarian" concerns – the provision of basic, adequate housing and the re-establishment of basic infrastructure – rather than what was described as "extensive obligations to those home owners who are better off, and to business".

### *Policy principles*

The Government's general approach was to complement, rather than replace, the actions of private parties making their own insurance arrangements. On this basis, it decided that insurance arrangements could be left to private parties where (i) property owners would bear the costs and benefits of their decisions over obtaining insurance cover, and (ii) the market was able to provide such cover.

The Government decided that both of these conditions could be met for non-residential property, which was accordingly removed from the new EQC scheme (representing a major liberalisation of New Zealand insurance markets). Residential property remained subject to public insurance, but caps were introduced for payments on buildings, land and contents in order to limit the Crown's exposure. The maximum payments were considered sufficient to rebuild an "adequate" dwelling, and were thus intended to strike a balance between the Government's "humanitarian" concerns and its need to manage fiscal risk.

At the same time, the new scheme allowed private insurers to enter the market to provide disaster insurance above the caps. The provision of disaster insurance in New Zealand today is therefore shared between public and private insurers.

### *Coverage*

The parameters of EQC coverage are established by the Earthquake Commission Act 1993. EQC covers residential land, building and contents, with coverage triggered automatically by the purchase of private fire insurance.<sup>1</sup> Property-owners pay a uniform levy of 15c per \$100 of insurance cover, with an annual cap of \$207 (including GST). The current structure of EQC coverage is as follows:

- **Building** – the costs of rebuilding or repairing up to \$100,000 + GST (less excess).
- **Contents** – replacement or indemnity value (depending on the type of fire insurance coverage) up to \$20,000 + GST (less excess).
- **Land<sup>2</sup>** – the lower of the value of damaged land or the cost of repairing the land to its pre-disaster condition. The *value of damaged land* will be the lower of:
  - i. the market value of the destroyed or damaged land;
  - ii. 4,000 square metres of land in the neighbourhood; or
  - iii. the minimum-sized building allowed in the area by the district plan.

<sup>1</sup> EQC's land cover is unique by international standards. The only other major insurer known to cover land is the state-sponsored California Earthquake Authority, which pays up to \$US10,000 of the costs of land rebuilding/stabilisation if such work is necessary for the repair/reconstruction of an insured dwelling.

<sup>2</sup> EQC only covers land within 8 metres of the house or buildings serving the house; land under the main access way up to 60 metres from the house or buildings serving the house; and some retaining structures, bridges and culverts.

The current configuration of EQC has not been subject to major review since 1993. The levels of coverage remain unchanged since 1993 (during which time the value of EQC cover has been steadily eroded by inflation), while the levy has only been increased once (it was tripled from 5c to 15c per \$100 of cover in February 2012 in order to rebuild the NDF).

#### *Other responsibilities*

EQC is tasked with responsibilities in the areas of research and education. The EQC Act requires the Commission to facilitate research and education about natural disaster damage, methods of reducing/preventing damage, and the coverage it provides.

#### *Financing*

The EQC manages its obligations through a number of financial instruments:

- An accumulated reserve called the *Natural Disaster Fund* (NDF). The NDF totalled \$5.6 billion at the time of the Canterbury quakes. The NDF was wholly invested in New Zealand fixed interest securities such as Government stock until 2001. In late 2001, EQC began to invest in international equities in line with a Ministerial direction to geographically diversify the NDF's assets (i.e. beyond the markets that would be directly affected by any major natural disaster covered by EQC in New Zealand). Investment in equities was to be maintained within a range of 27-33% of the total portfolio of assets.
- *Reinsurance* totalling several billion dollars at the time of the Canterbury quakes.
- A backstop *Government guarantee* to be called upon if the EQC's reserves and reinsurance lines are exhausted

The cost of the Canterbury quakes is currently estimated to be \$12 billion. The earthquakes have exhausted the NDF and many of EQC's layers of reinsurance, triggering the Government guarantee, and leaving a shortfall of perhaps \$800 million to be covered by the Crown.

## PART TWO: RATIONALE FOR INTERVENTION

Before we consider the range of options available for Government intervention in disaster insurance markets, we need to assure ourselves that there is a rationale for intervention in the first place. This Part explores the rationale in three main steps:

- It outlines the key characteristics of private markets for disaster insurance.
- It describes the outcomes generated by private markets for disaster insurance, including implications for the Government.
- It proposes a rationale for Government intervention.

### Natural disasters and insurance

The classic economic model of risk exchange predicts that competition in insurance markets will lead to a Pareto-efficient allocation of risks in the economy<sup>3</sup>. All risks will be pooled in financial and insurance markets; in particular, the residual systematic risk in the economy will be borne by the agents who have a comparative advantage in risk management. In such a model, all risks are insurable and there is no need or rationale for any Government intervention. By incentivising property-owners to reduce risk before disaster occurs, and providing resources for recovery afterwards, insurance serves as an efficient mechanism to maximise national welfare.

In practice, however, natural disasters have a number of characteristics that are problematic for the insurance industry to manage:

#### *The risk of catastrophic losses*

Natural disasters tend to have a fat-tailed probability distribution. In other words, there is an irregularly high likelihood of catastrophic events. A fat-tailed distribution means that historical averages tend to understate the probability of future extreme events, so it is difficult for insurance companies to assess the likelihood and magnitude of the costs they actually face. Natural disasters are also highly correlated risks: they damage large numbers of similarly-situated properties at the same time, and tend to reoccur in the same general areas over time (e.g. around faultlines or floodzones).

The result of these characteristics is that natural disasters can generate massive and unexpected losses for primary insurers. These losses, in turn, create an intertemporal smoothing problem for insurers: they must match regular premiums, which are insufficient in any given year to cover a large loss, with the need for enormous sums of capital in a catastrophic year. The provision of catastrophe insurance therefore entails a much higher insolvency risk for primary insurers than other lines of insurance.

There are limits to the extent to which primary insurers can reduce their insolvency risk through aggregation, especially in a small market such as New Zealand. Instead, primary insurers tend to transfer much (but not all) of their risk to a secondary market of reinsurers, which pool risk on a global basis. The main way in which reinsurers manage their own exposure is by holding extremely large capital reserves. The cost of this capital is a major driver of reinsurance pricing and has an indirect effect on primary insurance pricing.

<sup>3</sup> See Gollier (2005) for a summary of the classical Arrow-Borch model of efficient risk-sharing.

### *Behavioural issues*

The attitudes of property-owners towards natural disasters also create barriers to the efficient management of catastrophe risk. There is a substantial body of research pointing towards evidence of myopia and bounded rationality among property-owners regarding the likelihood of catastrophic loss in natural disasters.<sup>4</sup> The research finds that property-owners tend to underestimate disaster risk and so many are unwilling to either invest in risk mitigation or pay for insurance against an event they judge to be extremely unlikely.

### **Markets for catastrophe risk**

Partly as a result of these issues, markets for catastrophe risk are not *complete* and may at times be subject to outright market failure.<sup>5</sup> The supply of disaster insurance, in particular, is notoriously unreliable. It is not unknown for disaster insurance to become completely unavailable at times, as occurred in the market for earthquake insurance in California after the 1994 Northridge earthquake. A common cause of restrictions in supply in the immediate aftermath of a disaster is lack of information. It usually takes some time for insurers to establish whether assessments of the underlying risk in the area need to be revisited. In the meantime, insurers may be unable to price insurance cover and unwilling to maintain (let alone increase) their exposure in the affected region. Such a phenomenon is currently playing out in Canterbury, where the seismic event is ongoing and insurers are generally unwilling to take on new customers.

The supply of natural disaster insurance is also a function of cycles in the stringency of underwriting standards and the capacity of the insurance industry (known as the 'underwriting' or 'insurance' cycle) that do not appear to be related to changes in the industry's understanding of its underlying exposures. While there has been a long debate in the literature about the cause of the underwriting cycle, the current consensus appears to be that the cycle is caused by capital market/insurance market imperfections, which mean capital is not able to flow freely in and out of the industry in response to unusual loss events (Cummins 2006).<sup>6</sup>

The international reinsurance cycle is reflected in reinsurance premiums that can be many times higher than one might reasonably expect to see. For example, in an analysis of reinsurance contracts over the period 1970-1994, Froot and O'Connell (1999) found that reinsurance premiums could be up to seven times higher than the expected loss. There is a general market perception that New Zealand avoided the brunt of this cycle before the Canterbury quakes because New Zealand's risk profile was not well understood by either the domestic insurance industry or the international reinsurance industry. If this perception is correct, it is unlikely to hold in the future: the earthquakes have been a rude awakening and premiums are rising.<sup>7</sup>

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See Kunreuther and Michel-Kerjan (2009) for a summary of the evidence of bounded rationality among decision-makers.

<sup>5</sup> A financial market is said to be complete when a market exists with an equilibrium price for every asset in every possible state of the world.

<sup>6</sup> See Lamm-Tennant and Weiss (1997) for a summary of the main positions in the debate.

<sup>7</sup> Market intelligence as of November 2011 indicates Australasian premiums for residential property catastrophe insurance currently range from 3-6 times expected losses (100 year return period) to 1.5-2 times expected losses (3-5 year return period). Rates in NZ are presumably higher than the Australasian average due to the high (and active) earthquake risk on this side of the Tasman.

At the same time, voluntary demand for natural disaster insurance is known to be weak in risk-prone jurisdictions where figures are available. The *penetration rate* of residential earthquake insurance in a number of jurisdictions with voluntary earthquake insurance is outlined below.<sup>8</sup>

Country	Rate	Year
Turkey	23%	2011
Chile	25%	2010
Japan	23%	2009

The *residential earthquake insurance attachment rate* (i.e. the percentage of residential property-owners that purchase earthquake insurance with their fire insurance) is also known to be low; it ranges from 12% in California (Pomeroy 2010) to 48% in Japan (Non-Life Rating Organisation of Japan 2010) in 2010. The main argument advanced in the literature for such low levels of demand is that most buyers consider the price of insurance to be too high for the extent of coverage actually provided, even though – in the case of California – premiums through the state-sponsored California Earthquake Authority were found to be close to expected losses (Jaffee 2005).

New Zealand is unusual in that it possessed high levels of insurance penetration before the Canterbury quakes. The extent of insurance take-up appears to have been driven by a variety of institutional factors, the most important of which is the existence of basic earthquake coverage through a state-sponsored insurance scheme. The fact that EQC cover is tied to fire insurance means New Zealand automatically has an earthquake insurance attachment rate of 100%, and levels of fire insurance are generally high due to the major retail banks' requirement for all mortgaged properties to be insured. A major adjustment is now underway in the industry, however, as insurers absorb the lessons from the earthquakes and reassess their risk positions. We are already seeing changes to the pricing, structure and availability of private sector disaster insurance. In some areas, for some segments of the market, private disaster insurance may be either extremely expensive or simply unavailable at any price.

### Implications for the Government

The existence of incomplete markets for catastrophe risk means property-owners may face large losses from a natural disaster, even after taking reasonable steps to reduce or avoid risk, because they are unable to transfer the residual risk they face into insurance markets. In the first instance, individual private losses are a matter for the individual, not the Government. However, an accumulation of private losses across a region may have wider impacts on social order, specific industries such as the banking and finance sector (e.g. by impairing mortgage portfolios), or economic activity, at least at the regional level. If private losses are sufficiently large and widespread, the costs facing society, and ultimately the Crown, may be significant.

The existence of large numbers of uninsured *residential* victims presents a difficult management challenge from a political economy perspective. While the owners of all types of property are likely to seek assistance from the Government, there will be particularly strong pressure for the Government to relieve the owners of residential property, and strong political incentives to make the relief as generous as possible. The key drivers for Government action are likely to be:

<sup>8</sup> Data sourced from Denton (2011), Ríos (2011) and Nomura Research Institute (2011).

- A democratic expression of solidarity with affected citizens.
- A desire to ensure that victims have access to adequate housing arrangements.
- Distributional or 'fairness' concerns associated with the fact that there will be an element of randomness to the distribution of losses.

Governments do not tend to face the same type of pressure in the case of *non-residential* properties. For example, there appears to be a widespread community consensus following the Canterbury quakes that it is reasonable to expect the owners of these types of properties to manage their own risk as they see fit in the private market place, without Government intervention or assistance. Still, this consensus was formed over a period in which private sector disaster insurance was both widely available and easily affordable; the community's views regarding non-residential property may well change in the future if private sector insurance is seen to be unavailable or considered to be unaffordable.

At the very least, however, any democratic Government is likely to feel compelled to assist residential property-owners after a natural disaster. The problem is that policy decisions taken in the aftermath of a disaster tend to generate inequitable results and substantial moral hazard effects. Common assistance measures, such as the provision of blanket Government aid to all victims, are likely to discourage property-owners from purchasing insurance or incurring the expense of risk mitigation in the future, since they will expect a similar response from Government if disaster strikes again. In this case, the perverse outcome of Government generosity is actually to increase the costs associated with future disasters.<sup>9</sup>

In essence, then, the Government is confronted with a time-consistency problem. It is difficult for any Government to credibly commit ahead of time not to provide some form of aid to the victims after disaster strikes. Property-owners come to expect that some form of aid will be forthcoming; in fact, the larger the number of the uninsured, the more likely it is that some form of aid *will* be forthcoming – and this, in turn, will reduce the incentive for other property-owners to seek insurance. A large population of uninsured property-owners therefore represents a sizeable fiscal and policy risk to the Crown.

A major natural disaster could also cause significant disruption in insurance markets, including insolvencies. The Government may feel compelled to intervene if faced with the insolvency of an insurer that is either systemically important or expected to play a major role in recovery efforts. There is recent New Zealand experience of this type of situation. Two insurance companies sought Crown assistance after the Canterbury quakes: Western Pacific, which operated on the basis of an extremely risky business model, was not systemically important and was left to fail, but the Crown did support AMI, which held some 30% of the Christchurch residential insurance market as of 2010. The problem with such interventions is that they tend to have high fiscal costs and generate ongoing moral hazard risks with regard to the remaining players in the industry, resulting in greater costs for society in the future. These costs may be characterised as a negative externality arising from the mismanagement of private risk.

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<sup>9</sup> Buchanan (1975) names this phenomenon "the Samaritan's dilemma". The most notorious example of the dilemma in action is the Alaskan Earthquake of 1964, after which the U.S. Government offered such generous aid that uninsured victims were actually left better off than their insured counterparts. It is no coincidence that 1964 was also the year of a Presidential election (Kunreuther and Michel-Kerjan 2009).

There is also some anecdotal evidence to suggest that private insurers do not always prioritise catastrophe response planning for long tail risk. For example, the Chilean insurance regulation agency (SVS) believes the Chilean insurance industry's response to the 2010 Cobquecura Earthquake in Chile was hindered by a lack of capacity and planning (Ríos 2011). In fairness, however, large natural disasters will tax the systems and processes of any insurance entity, whether private or public, and all insurers face difficult decisions about how much standing capacity to maintain for responding to large events that occur relatively rarely.

### **A rationale for Government intervention**

We can extract two general rationales for *ex-ante* Government intervention in insurance markets from the preceding discussion:

#### *Social costs*

Private markets for disaster insurance are incomplete and can be subject to outright market failure. As a result, property-owners may face significant losses of wealth in the event of a disaster, even after taking reasonable steps to avoid and/or reduce risk. An accumulation of private losses in a single region may have wider impacts on social order, specific industries, or economic activity. In this context, the Government is likely to face strong and irresistible pressure to relieve the victims (at least with regard to residential property), and strong political incentives to make the relief as generous as possible. The problem is that policy decisions taken after a disaster tend to be rushed and *ad hoc*. The resulting policy frequently creates inequities and/or future moral hazard risks that will increase the costs of future disasters. In summary, then, a combination of insurance market dysfunction and political economy risks can impose significant costs on society as a whole.

#### *Budget management*

An incomplete market for catastrophe risk in which large numbers of residential property-owners are unprepared and uninsured (to one degree or another) creates a major fiscal and policy risk for the Crown. The problem is that the Government cannot control *when* this risk may crystallise; it may, for example, crystallise during a period in which the Crown's position is already stressed due to other factors. The Government therefore has an interest in managing the contingent liability it faces so it can reduce the potential for large and unexpected calls upon the Crown's resources.

### **Competing considerations**

While there is a rationale for Government intervention in the management of disaster risk, the costs and benefits of any particular intervention must be carefully considered. This is because intervention itself creates considerable risks. The major problem is that the Government may subsidise imprudent private-sector risk-taking. The public sector is often unable to adopt a risk-differentiated approach in disaster risk schemes because of political pressure to provide 'affordable' coverage and treat all citizens 'equally'. As a result, public sector catastrophe schemes around the world, particularly for flood and wind events, are riddled with moral hazard risks (Freeman and Scott 2005). A poorly-designed intervention may increase the overall level of risk that society faces to such a degree that intervention becomes self-defeating. At some point, the costs and risks generated by intervention may be greater than the Government can actually bear.

Equally, the involvement of the private sector brings many benefits to the management of disaster risk. Well-functioning private markets can bear some of the costs that would otherwise fall upon the Government, reducing the direct fiscal impacts of disaster, and the private sector may be able to offer operational efficiencies or economies of scale in terms of claims assessment, management and processing. Any intervention should therefore look to build upon the resources and strengths of private insurers.

### **Assessment**

The inefficient management of private risk can generate substantial social costs, due primarily to an interaction between dysfunction in insurance markets and political economy risks. The Government has an interest in reducing these externalities, particularly as they may stress the Crown's balance sheet by resulting in large and unexpected expenditures in the event of a disaster. This interest does not, however, translate into a blanket justification for Government intervention. Any intervention must still be judged on its own merits with a view to the costs, benefits and risks that the options for intervention present. Following sections of this paper will explore the costs and benefits of various options for intervention that we have identified to date.

## PART THREE: GOVERNMENT OBJECTIVES

This part proposes a series of objectives to guide the Government's interest in natural disaster arrangements.

### Are the original objectives of the EQC scheme still relevant?

The objectives of the current EQC scheme are twofold: to reduce distress to citizens and to reduce fiscal risk to the Government. It is difficult to argue that the high-level objectives proposed for the EQC scheme in the early 1990s are not relevant today: the Crown clearly continues to have an interest in reducing the distress caused by natural disasters and in managing the fiscal risk associated with private property damage in a natural disaster. However, familiarity with the objectives of the EQC scheme has declined over time, in particular because the scheme has drifted away from its original intent in certain key respects.<sup>10</sup> On this basis, it would be desirable to develop a clear statement of the Government's objectives at this point to guide future policy.

### A proposed restatement of the Government's objectives

At the highest level, the Government's overall objective with regard to natural disasters is essentially to maximise national welfare over time, taking into account the full range of pre-disaster costs (mitigation, insurance, etc) and post-disaster costs (disruption, recovery, etc). In the immediate context of a disaster, this means minimising the distress of affected citizens, minimising wider disruption to New Zealand's society and economy, and supporting the recovery of the affected area. In ordinary times, this means reducing the potential for distress and disruption in future disasters through readiness and risk reduction measures.

Within this context, we propose the following objectives to guide the Government's interest in disaster insurance arrangements:

#### Proposed Government Objectives with regard to Natural Disaster Insurance

- Minimising the potential for socially-unacceptable distress and loss in the event of a natural disaster
- Minimising the fiscal risk to the Government associated with private property damage in natural disasters.
- Promoting the economic efficiency of disaster insurance arrangements.

<sup>10</sup> For example, the caps on insurance payments have never been adjusted for inflation and are now insufficient to pay for reconstruction of an "adequate" dwelling.

## PART FOUR: OPTIONS FOR INTERVENTION

This Part explores the range of options for Government intervention in *disaster insurance markets* and identifies a preferred option for taking forward in the review of disaster insurance arrangements. It works through the options in three main steps:

- A brief description of the key options for consideration.
- An outline of the main advantages and disadvantages of the options, along with selected international examples of their use.
- Options analysis and recommendations for the focus of the review.

### Main options

The main options for consideration are as follows:

#### 1. *No insurance intervention*

Rely on *ex-post* disaster aid to relieve victims rather than *ex-ante* intervention in insurance markets.

#### 2. *Require supply*

Regulate to require all private insurers that offer fire insurance to also offer disaster insurance.

#### 3. *Require purchase*

Regulate to require all property-owners to purchase disaster insurance.

#### 4. *Provision of primary insurance (i.e. the current EQC model)*

Provide primary disaster insurance through a state-owned or state-sponsored entity. The entity essentially operates like an insurance company: it offers insurance to consumers and is directly responsible for managing and settling their claims. The main features of a primary insurance model are:

- A direct insurance relationship between property-owners and the Government.
- Defined levels of coverage for different types of property.
- Fees/levies for coverage.
- Financial instruments to manage the entity's obligations to insured parties (e.g. an accumulated disaster fund).

#### 5. *Reinsurance intervention*

Provide or facilitate reinsurance to private primary insurers. Reinsurance is essentially *insurance for insurers*. A reinsurance intervention could take the form of a reinsurance pool, either administered or sponsored by the Government. Under this model, private insurers accept the first tranche of losses, but a growing proportion of the losses will be covered by the pool (and ultimately the Government) as the size of losses increase. The main features of a reinsurance pool are:

- No direct insurance relationship between property-owners and the Government.
- Varying degrees of risk sharing between private insurers and the pool as the size of losses increases.
- Fees for private insurer access to the pool.

6. *Tax intervention*

Encourage the supply and/or demand of disaster insurance through changes to tax policy. One frequently suggested option to encourage supply involves allowing disaster insurers to claim a rebate against previous tax paid in the event of a disaster. Countries such as Japan also offer tax deductions on premiums in order to encourage demand

7. *Funder-of-last resort*

Encourage the supply of disaster insurance by establishing a formal expectation that the Crown will automatically provide loan or equity support to any insurer facing liquidity or solvency issues due to large disaster losses.

8. *Funding of research and provision of information.*

Fund research and disseminate information on natural disaster risk.

## Advantages and Disadvantages

Note: these interventions are not mutually exclusive; some of them may be combined, and are combined in certain jurisdictions.

Option	Potential Policy Considerations	Advantages	Disadvantages	Selected Examples
1. No insurance intervention	<ul style="list-style-type: none"> <li>When to provide disaster aid?</li> <li>How much to provide?</li> <li>Under what conditions?</li> </ul>	<p><i>Costs</i></p> <ul style="list-style-type: none"> <li>No <b>ongoing costs</b> outside of disaster contexts.</li> </ul> <p><i>Risks</i></p> <ul style="list-style-type: none"> <li>No risk of <b>government failure</b> or unnecessary <b>distortion</b> to private markets.</li> </ul>	<p><i>Impacts</i></p> <ul style="list-style-type: none"> <li>Unreliable supply and weak demand for insurance means large numbers of property-owners likely to be <b>uninsured &amp; unprepared</b> when disaster occurs.</li> </ul> <p><i>Costs</i></p> <ul style="list-style-type: none"> <li>Government likely to provide <b>ex-post disaster aid</b> to affected victims.</li> <li>No <b>revenue</b> stream to offset costs of aid.</li> </ul> <p><i>Risks</i></p> <ul style="list-style-type: none"> <li><b>Fiscal risk</b> Govt faces large &amp; undefined contingent liability related to disaster aid. Ex-post disaster aid tends to be rushed, inequitable and expensive.</li> <li><b>Timing.</b> Liability may crystallise unexpectedly during periods of heightened sovereign risk/stressed balance sheets.</li> <li><b>Moral hazard.</b> Expectation of Govt aid reduces incentives for property-owners to reduce/avoid/mitigate disaster risk before disaster occurs. Result: increases overall cost to society of future disasters.</li> </ul>	<p>Italy offers Govt compensation for earthquake losses on an <i>ad hoc</i> basis after the event. There is limited involvement by private insurers in the management of earthquake risk.</p> <p>Insured losses accounted for only 2% of total economic losses from earthquakes in Italy over the period 1970-2011 (vs. 80% in NZ).</p>
2. Require supply	<ul style="list-style-type: none"> <li>What scope and pricing is acceptable for compulsory cover?</li> <li>How will Govt deal with insurers that do not offer coverage?</li> <li>How will Govt deal with property-owners who refuse to purchase coverage?</li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>May increase <b>supply</b> of private disaster insurance if:               <ul style="list-style-type: none"> <li>(i) there are no/minimal Govt restrictions on insurance pricing rates; or</li> <li>(ii) there are Govt restrictions on insurance pricing rates but other lines of property insurance are profitable and insurers are willing to provide disaster coverage as a 'cost of doing business'.</li> </ul> </li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>By itself, will not address issue of <b>weak demand</b> for insurance.</li> <li>May <b>reduce supply</b> of private disaster insurance if some insurers consider risks of provision too great and decide to exit NZ altogether.</li> </ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"> <li><b>Compliance costs</b> for insurers.</li> <li><b>Enforcement costs</b> for Govt.</li> </ul> <p><i>Risks:</i></p> <ul style="list-style-type: none"> <li><b>Fiscal risk.</b> Govt will face pressure to bail out any insurers overwhelmed by claims after an event.</li> <li><b>Moral hazard.</b> Insurers may imprudently increase exposures in expectation of future Crown support.</li> </ul>	<p>California required private insurers to offer earthquake coverage after the 1994 Northridge quake. This obligation triggered a major crisis in insurance markets: insurers covering 93% of the market were either severely restricting or refusing to write new policies by January 1995 due to concerns about the risk they faced in offering such coverage.</p> <p>California now requires insurers to offer a state-sponsored earthquake insurance scheme (the CEA) to their customers instead. But take-up is voluntary and insurance penetration rates are low.</p>
3. Require purchase	<ul style="list-style-type: none"> <li>What scope and pricing is acceptable for compulsory cover?</li> <li>How will Govt deal with insurers that do not offer coverage?</li> <li>What will Govt do in a situation where insurance is unavailable in some/many/all segments of the market?</li> <li>How will Govt deal with property-owners who refuse to purchase coverage?</li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>Maximises <b>demand</b> for private insurance &amp; eliminates the adverse selection problem faced by private insurers.</li> <li>Will make the <b>cost of risk</b> explicit to all property-owners.</li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>By itself, will not address issue of <b>unreliable supply</b> of insurance.</li> <li>Will <b>reduce welfare</b> of those property-owners who have a rational reason not to purchase insurance.</li> </ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"> <li><b>Enforcement costs.</b></li> </ul> <p><i>Efficiency:</i></p> <ul style="list-style-type: none"> <li>Creation of captive market likely to impact <b>price &amp; quality</b> of private insurance in absence of any countervailing intervention.</li> </ul>	<p>Spain and Turkey combine a requirement to purchase insurance with the establishment of a state-owned insurance scheme. But Turkey lacks a mechanism to enforce the insurance requirement so its earthquake insurance penetration rate is low (23%).</p> <p>Many countries automatically link disaster insurance to fire insurance (e.g. Norway, Taiwan, NZ). NZ's high rates of property insurance translate into high rates of earthquake insurance under this model.</p>

Option	Potential Policy Considerations	Advantages	Disadvantages	Selected Examples												
4. Provision of primary insurance	<ul style="list-style-type: none"><li>• Scope and pricing of cover.</li><li>• Voluntary or mandatory purchase?</li><li>• Structure of the delivery entity.</li><li>• Investment strategy.</li></ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"><li>• Directly increases <b>supply</b> of insurance.</li><li>• <b>Option value.</b> Govt can use the entity to deliver other measures on the ground, consistent with broader policy objectives, if it wishes to do so.</li></ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"><li>• Premium <b>revenue</b> offsets costs of scheme.</li></ul> <p><i>Efficiency:</i></p> <ul style="list-style-type: none"><li>• Govt can capture <b>coordination benefits</b> by efficiently sequencing overall rebuild after an event</li><li>• Allows for possibility of building a <b>critical mass</b> of recovery capability within a single entity.</li></ul> <p><i>Risks:</i></p> <ul style="list-style-type: none"><li>• <b>Fiscal risk.</b> Allows Govt to define and limit its contingent liability in disaster situations.</li><li>• Reduced <b>moral hazard</b> risk because Govt not reliant on private insurers to achieve core policy objectives on the ground.</li></ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"><li>• By itself, will not address issue of <b>weak demand</b> for disaster insurance.</li></ul> <p><i>Role of Govt:</i></p> <ul style="list-style-type: none"><li>• Involves Crown in <b>claims management</b> which may distract Govt attention from broader recovery process.</li></ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"><li>• <b>Management &amp; administration costs.</b></li></ul> <p><i>Efficiency:</i></p> <ul style="list-style-type: none"><li>• May create potential for <b>double-handling</b> of claims by private insurers and the state-owned entity.</li><li>• Many (if not most) claims will be managed by the state-owned entity – imposes <b>heavy administrative and organisational burdens</b> on that entity.</li></ul> <p><i>Risks:</i></p> <ul style="list-style-type: none"><li>• <b>Govt failure.</b> Poor design may expose Govt to unexpected fiscal/policy risks and unnecessarily distort insurance markets.</li></ul>	<p>NZ provides primary insurance through the EQC, which offers basic coverage for residential land, building and contents that can be supplemented in the private market.</p> <p>The 2010/11 Canterbury quakes represent the first major test of the EQC model. Reflections on the lessons learned from that experience are summarised in the Annex.</p>												
5. Reinsurance intervention	<ul style="list-style-type: none"><li>• Who owns and operates the pool?</li><li>• Scope and pricing of primary cover to be reinsured by the pool.</li><li>• Should the pool be capped? At what level? What happens if the cap is breached?</li><li>• How much risk should be borne by the Crown vs. private insurers?</li></ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"><li>• May indirectly increase <b>supply</b> of insurance (but cannot guarantee private insurers will enter market).</li></ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"><li>• Premium <b>revenue</b> offsets costs of scheme.</li></ul> <p><i>Role of Govt:</i></p> <ul style="list-style-type: none"><li>• Reduces need for Ministers to focus on claims management; allows them to focus on <b>broader recovery process</b>.</li></ul> <p><i>Efficiency:</i></p> <ul style="list-style-type: none"><li>• Reduces potential for <b>double-handling</b> of claims by removing the state entity from the claims process.</li><li>• Claims managed by multiple insurers: <b>reduces burden</b> on any one entity.</li></ul> <p><i>Risks:</i></p> <ul style="list-style-type: none"><li>• <b>Fiscal risk.</b> Allows Govt to define and place hard cap on its contingent liability in disaster situations.</li></ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"><li>• By itself, will not address issue of weak <b>demand</b> for disaster insurance.</li></ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"><li>• <b>Management &amp; administration costs.</b></li></ul> <p><i>Efficiency:</i></p> <ul style="list-style-type: none"><li>• Difficult to capture <b>coordination benefits</b> from competing insurers during rebuild phase</li><li>• <b>Recovery capability</b> diffused among multiple insurers with incentives to under-invest in recovery planning/preparation.</li></ul> <p><i>Risks:</i></p> <ul style="list-style-type: none"><li>• <b>Govt failure.</b> Poor design may expose Govt to unexpected fiscal/policy risks and unnecessarily distort insurance markets.</li><li>• <b>Moral hazard.</b> Govt reliant on private insurers to achieve its policy objectives on the ground so cannot allow them to fail. Govt also hostage to private insurers in terms of timing &amp; quality of service delivery.</li></ul>	<p>The Japan Earthquake Reinsurance Co. (JER) is a private entity that operates a reinsurance pool on behalf of Japan's private insurers. The JER pool is capped at ¥5,500 billion and risk shares with Japan's Govt as follows:</p> <table><tr><th>Claims (¥bn)</th><th>JER share</th><th>Govt share</th></tr><tr><td>0 - 115</td><td>100%</td><td>0%</td></tr><tr><td>115 - 1,925</td><td>50%</td><td>50%</td></tr><tr><td>1,925 – 5,500</td><td>5%</td><td>95%</td></tr></table> <p>Claims are reduced proportionately if total claims exceed the ¥5,500bn cap.</p>	Claims (¥bn)	JER share	Govt share	0 - 115	100%	0%	115 - 1,925	50%	50%	1,925 – 5,500	5%	95%
Claims (¥bn)	JER share	Govt share														
0 - 115	100%	0%														
115 - 1,925	50%	50%														
1,925 – 5,500	5%	95%														
6. Tax intervention	<ul style="list-style-type: none"><li>• What precedent effects would these changes create for other sectors of the economy?</li><li>• Implications for the efficiency of tax administration?</li></ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"><li>• Some options may increase <b>supply</b> of insurance by boosting effective size of insurers' reserves.</li><li>• Some options may increase consumer <b>demand</b> for disaster insurance.</li></ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"><li>• Unclear whether these issues represent a significant barrier to the <b>supply &amp; demand</b> of disaster insurance given:<ul style="list-style-type: none"><li>(i) unique characteristics of disaster risk;</li><li>(ii) the incentive set facing shareholders and management of private insurers;</li><li>(iii) bounded rationality/myopia that affects demand for disaster insurance.</li></ul></li></ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"><li>• <b>Revenue reductions.</b></li><li>• <b>Tax administration costs.</b></li></ul> <p><i>Risks:</i></p> <ul style="list-style-type: none"><li>• <b>Fiscal risk</b> due to abuse or manipulation.</li></ul>	<p>Earthquake premiums in Japan are tax deductible to encourage the take-up of earthquake insurance; take-up, however, is very low (a residential earthquake insurance penetration rate of 23%).</p>												

Option	Potential Policy Considerations	Advantages	Disadvantages	Selected Examples
7. Funder-of-last-resort	<ul style="list-style-type: none"> <li>Under what circumstances should the Crown offer support?</li> <li>How much support should be offered?</li> <li>What conditions should be attached to support?</li> <li>Should the Crown charge for support?</li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>May increase <b>supply</b> of private disaster insurance by reducing insolvency risk for private insurers.</li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>By itself, will not address issue of <b>weak demand</b> for disaster insurance.</li> </ul> <p><i>Risks:</i></p> <ul style="list-style-type: none"> <li>Exposes Crown to major <b>fiscal risk</b>, especially since decisions to offer support are likely to occur in fraught contexts with little time for full consideration of risks.</li> <li><b>Moral hazard.</b> Insurers may imprudently increase exposures in expectation of future Crown support.</li> <li>Option would need to be combined with a robust prudential regime to manage moral hazard and fiscal risks.</li> </ul>	<p>We are not aware of any jurisdiction where such an approach is in force, but there have been many occasions where governments have intervened on an <i>ad hoc</i> basis in response to actual/potential insurer failures (e.g. the Crown support agreement with AMI following the Canterbury quakes).</p>
8. Research & information	<ul style="list-style-type: none"> <li>Public vs. private benefits: how much cost should be borne by the Crown vs. private parties?</li> <li>How to prioritise requests for funding.</li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>May increase <b>supply</b> of private insurance by increasing information on the probability &amp; potential magnitude of disaster risk.</li> <li>May increase <b>demand</b> for insurance by increasing consumer awareness &amp; understanding of disaster risk.</li> </ul>	<p><i>Impacts:</i></p> <ul style="list-style-type: none"> <li>Effects may be limited: information is not the <b>only</b> barrier (and not necessarily the most significant barrier) to the <b>supply and demand</b> of insurance.</li> </ul> <p><i>Costs:</i></p> <ul style="list-style-type: none"> <li><b>Fiscal costs.</b></li> </ul>	<p>EQC is tasked with facilitating research and education about natural disaster damage, methods of reducing/preventing damage, and the coverage it provides. The CEA has a similar responsibility to educate residents to make informed decisions about earthquake preparedness and earthquake insurance.</p>

### Options Analysis

We have identified a range of potential options to achieve the Government's objectives with regard to disaster insurance arrangements.

#### Discarded options

We advise against taking the following options forward in the review:

Option	Assessment
1. No intervention.	Not recommended for further investigation. Reasons why: <ul style="list-style-type: none"> <li>• Likely outcome: large numbers of property-owners uninsured and unprepared, increasing the costs of disaster.</li> <li>• Govt faces large &amp; undefined contingent liability related to disaster aid.</li> </ul>
2. Require supply	Not recommended for further investigation. Reasons why: <ul style="list-style-type: none"> <li>• Creates significant risk of breakdown in insurance markets (as occurred in California in the mid-1990s when this option was implemented)</li> <li>• Creates substantial moral hazard/fiscal risk</li> </ul>
3. Require purchase	Not recommended for further investigation as a <i>stand-alone</i> option. Reasons why: <ul style="list-style-type: none"> <li>• Does not deal with issue of unreliable supply of disaster insurance</li> <li>• <b>BUT</b> mandatory purchase could be considered as a feature of other options for intervention</li> </ul>
6. Tax intervention	Not recommended for further investigation as part of the review. Reasons why: <ul style="list-style-type: none"> <li>• Unlikely to have a significant impact on the private supply of disaster insurance</li> <li>• <b>BUT</b> may be worth investigating in the future to encourage supply at the margins once the configuration of Govt intervention is confirmed</li> </ul>
7. Funder-of-last-resort	Not recommended for further investigation as part of the EQC review. Reasons why: <ul style="list-style-type: none"> <li>• Unlikely to have a significant impact on the private supply of disaster insurance</li> <li>• Creates substantial moral hazard/fiscal risk</li> </ul>

#### Viable options

We have identified three viable options for intervention:

- Option (4): Provision of primary insurance.
- Option (5): Reinsurance intervention.
- Option (8): Research and information.

There is a clear public good rationale for the Government to continue to fund research and disseminate information on disaster risk, as it currently does through EQC. The review could usefully assess what level of investment is appropriate and which entity is best placed to perform this function.

The key choice facing the Government, however, is whether to focus the review on the existing primary insurance (EQC) model or expand the review to explore the benefits of a reinsurance model as an alternative option.

#### *Primary insurance vs. reinsurance models*

We are unaware of conclusive evidence to suggest that either model is 'better' than the other. In fact, there is a fairly even balance in the use of insurance and reinsurance models among key comparator countries/jurisdictions, as the table below indicates:

Primary insurance models	Reinsurance models
New Zealand (EQC)	Japan (JER)
California (CEA)	Taiwan (TREIP)
Spain (CCS)	France (CCR)
Turkey (TCIP)	

Following a survey of catastrophe schemes, Gurenko et al (2006) have found that the choice of an insurance model is largely been pre-determined by the local insurance market's level of development and ability to retain catastrophe risk. On this basis, the current unwillingness of domestic insurers to increase their exposure to first losses means it is unlikely the Government would be able to exit from the provision of primary insurance even if it wanted to, at least in the short-to-medium term (i.e. potentially the next 5+ years). Nevertheless, moving to a reinsurance model remains a viable option for the medium-to-long-term.

With this in mind, the following table summarises some of the key considerations associated with the two models, which generate different types of risks and benefits and also have different implications for the role of Government:

Considerations	Primary insurance model	Reinsurance scheme
Role of Govt	<ul style="list-style-type: none"> <li>Involves Govt in micro-level details of claims settlement process</li> </ul>	<ul style="list-style-type: none"> <li>Gives Govt greater scope to sit above claims settlement and focus on the broader recovery.</li> </ul>
Impact	<ul style="list-style-type: none"> <li>Guarantees supply of insurance regardless of market conditions.</li> <li>Allows Govt to define and limit its contingent liability in disaster situations.</li> </ul>	<ul style="list-style-type: none"> <li>Encourages but can't guarantee supply of private insurance.</li> <li>Allows Govt to define and place <i>hard cap</i> on its contingent liability in disaster situations.</li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>Empirical evidence suggests state insurance monopolies are more efficient than competitive insurers in some contexts.<sup>11</sup></li> <li>Govt can capture coordination benefits by efficiently sequencing overall rebuild after an event.</li> <li>A single entity will manage most claims: heavy administrative and management burden.</li> </ul>	<ul style="list-style-type: none"> <li>Competition among private primary insurers may deliver unexpected benefits – if they are willing to enter the market.</li> <li>Difficult to capture coordination benefits from competing insurers during rebuild.</li> <li>Administrative and management burden of claims shared among multiple entities.</li> </ul>
Moral hazard	<ul style="list-style-type: none"> <li>Reduced moral hazard risk with regard to private insurers.</li> </ul>	<ul style="list-style-type: none"> <li>Govt reliant on private insurers to achieve policy objectives so</li> </ul>

<sup>11</sup> See: [Efficiency of monopoly insurance providers \(Treasury:2248379v1\)](#) [Add to worklist](#)

## IN-CONFIDENCE

		cannot allow them to fail.
Capability	<ul style="list-style-type: none"> <li>Single entity may be able to build a critical mass of recovery capability.</li> </ul>	<ul style="list-style-type: none"> <li>Capability diffused among many insurers with incentives to under-invest in recovery planning.</li> </ul>
Option value	<ul style="list-style-type: none"> <li>Govt can use the entity to deliver other measures consistent with broader policy objectives.</li> </ul>	<ul style="list-style-type: none"> <li>Requires the creation of a bespoke mechanism to deliver other measures on the ground.</li> </ul>

### Assessment

We recommend the Government focus the review on the existing primary insurance (EQC) model rather than expand the review to explore the benefits of a reinsurance model as an alternative option. There are three main reasons for this argument:

- There is not an obviously strong case to *move away* from the existing primary insurance model. While the reinsurance model offers a different range of potential advantages and disadvantages, we can find no indication to suggest it would deliver significantly better outcomes overall than the current EQC model.
- There is, on the other hand, a reasonably strong case to *retain* the existing model:
  - The experience of running EQC over twenty years and responding to a broad range of disasters has allowed New Zealand to accumulate a substantial knowledge base about the operation of primary insurance schemes. It makes sense to build on this experience where possible rather than jettison these learnings in favour of an option which may not necessarily deliver greater benefits.
  - The experience of the Canterbury quakes, in particular, demonstrates that the EQC scheme can respond reasonably successfully to a major natural disaster (one that is, in fact, far greater than anticipated in previous planning exercises), even if there are clearly many areas where the scheme could be improved.
- Considerations of *speed* and *certainty for market participants* are also relevant given the currently unsettled conditions in insurance markets and the lack of an obvious case for significant change to the existing model. A tightly-scoped review of the EQC scheme will create less uncertainty in insurance markets than a broader (and necessarily lengthier) review of different types of insurance arrangements.

## CONCLUSION

This note has arrived at two main conclusions:

### 1. There is a rationale for Government intervention in disaster insurance markets.

Markets for disaster insurance are incomplete and sometimes subject to outright market failure. There are two main reasons for this:

- Weak demand for insurance by property-owners, due to:
  - Myopia/bounded rationality regarding the probability and magnitude of potential losses; and
  - The expectation of Government support in the event of a disaster.
- Unreliable supply of insurance, due to;
  - Capital market imperfections that impede the flow of capital into the insurance industry in response to unusual loss events; and
  - Insurer uncertainty and/or loss aversion following a disaster event.

As a result, large numbers of property-owners may be either uninsured or underinsured and therefore face the prospect of significant wealth losses when disaster occurs. In the first instance, private losses are a matter for the individual, not the Government. But an accumulation of private losses across a region may have wider impacts on social order, specific industries such as the banking and finance sector (e.g. by impairing mortgage portfolios), or economic activity, at least at the regional level. If private losses are sufficiently large and widespread, the costs facing society may be significant.

In this context, the Government is likely to face strong and irresistible pressure to relieve the victims (at least with regard to residential property), and strong political incentives to make the relief as generous as possible. The key drivers of Government action are likely to be:

- A democratic expression of solidarity with affected citizens.
- A desire to ensure that victims have access to adequate housing arrangements.
- Distributional or 'fairness' concerns associated with the fact that there will be an element of randomness to the distribution of losses.

The problem is that policy decisions taken after a disaster tend to be rushed and *ad hoc*. The resulting policy frequently creates inequities and/or future moral hazard risks that will increase the costs of future disasters.

It is also difficult for any Government to credibly commit ahead of time not to provide some form of aid to the victims after disaster strikes. Property-owners come to expect that aid will be forthcoming; in fact, the larger the population of uninsured property-owners, the more likely it is that aid *will* be provided, which turn reduces the incentive for other property-owners to seek insurance. For this reason, a large population of uninsured property-owners represents a major fiscal and policy risk.

In summary, then, a combination of insurance market dysfunction and political economy risks can impose significant costs on society as a whole. The Government therefore has a legitimate interest in reducing these costs, not least because of the potential impact they may have on the Crown's own balance sheet.

## 2. The review of disaster insurance should focus on the existing EQC scheme

There is a range of options that can be used to intervene in disaster insurance markets. We recommend the Government focus the review on the existing primary insurance (EQC) model rather than expand the review to explore the benefits of alternative options. There are three main reasons for this argument:

- There is not an obviously strong case to *move away* from the existing primary insurance model. Alternative models do not appear to deliver significantly better outcomes overall than the current EQC model.
- There is a reasonably strong case to *retain* the existing model, based primarily on the experience New Zealand has built up running the EQC scheme over the past twenty years. The experience of the Canterbury quakes, in particular, demonstrates that the EQC scheme can respond reasonably successfully to a major natural disaster (one that is, in fact, far greater than anticipated in previous planning exercises), even if there are clearly many areas where the scheme could be improved.
- Considerations of *speed* and *certainty for market participants* are also relevant given the currently unsettled conditions in insurance markets and the lack of an obvious case for significant change to the existing model. A tightly-scoped review of the EQC scheme will create less uncertainty in insurance markets than a broader (and necessarily lengthier) review of different types of insurance arrangements.

## ANNEX: MAJOR LESSONS FROM CANTERBURY

The response to the Canterbury quakes is still underway, so a full analysis of the effectiveness and efficiency of the EQC scheme in the Canterbury context is not yet possible. Nevertheless, even at this stage, some high-level lessons are emerging.

### The scale of the event

Previous disaster planning was based on the assumption of a single major shock that would be followed by relatively minor aftershocks. EQC anticipated that a major earthquake in Wellington would generate approximately 150,000 claims. In Canterbury, however, the February 2011 aftershock was even more damaging than the primary shock in September 2010. Over the course of the entire quake sequence, Canterbury has experienced 15 claim events, two of which generated 150,000+ claims each, for a total of 650,000+ claims. The scale of the event has a number of implications:

- There must be careful management of stakeholder expectations regarding what is reasonable and possible in terms of claims settlement.
- The structure of future cover must be influenced by judgements about what can feasibly be delivered by the responsible entity.
- The most frequent natural disasters have relatively minor impacts. What kind of standing capacity can be justified to deal with rare but major events?

### Multiple events

The fact that we are responding to *multiple* events, in particular, has caused a number of additional problems:

- The High Court has determined that EQC cover immediately and fully reinstates after each event so long as the contract of fire insurance is in force. This interpretation transfers costs from private insurers to EQC and massively increases the future liability associated with the EQC scheme in its current form.
- It is challenging to 'apportion' damage to specific events, especially in cases where it was not possible to conduct an initial damage assessment before subsequent shocks caused further damage.
- The uncertainty associated with timing, combined with the High Court's decision on reinstatement, creates strong incentives for cost-shifting: private insurers can transfer much or all of the costs of repair to EQC if they can successfully argue that each shock caused relatively small amounts of damage (i.e. below the cap in each event); equally, EQC can transfer some or much of the costs of repair if it can successfully argue that the damage occurred in a single shock (in which case any costs over the cap will fall onto the private insurers).

### The public/private split

One of the goals of the 1993 reforms was to reduce the Crown's natural disaster liability by transferring all non-residential property risk and some residential property risk to the private sector. This goal has largely been achieved in two ways:

- The private insurers have met their obligations with only two exceptions: Western Pacific (a small player) has gone insolvent and AMI required some Crown support.
- Claimants and stakeholders generally seem to be accepting the outcomes delivered by the EQC scheme for buildings and contents.

However, the transfer of risks has not been complete in two areas:

- The Crown provided additional assistance in residential Red Zones where Ministers considered outcomes generated by EQC + private insurance to be unsatisfactory in two regards: (i) the long time it would take to resolve claims in areas of extreme land damage where substantial remediation works would be required; and (ii) the level of payouts that EQC + private insurance would deliver in some cases.
- The Crown has faced a number of residual costs in commercial areas (e.g. there is not a robust cost recovery mechanism for demolitions to protect life or reduce risk to nearby property), largely where Crown actions motivated by response/recovery concerns have intervened in the chain of causality between the disaster and the final damage to the insured property.

### Land coverage

The Canterbury quakes are unusual in that they caused much of their damage indirectly, through the deformation of land (liquefaction, lateral spreading), rather than directly through shaking damage. The extent of land damage has revealed flaws in the current design of EQC land cover:

- The description of land coverage in the Act is unclear and poorly-drafted. The determination of EQC's liability for land involves complex engineering and legal considerations that were not anticipated in the legislation. Reaching a secure position on these obligations is time-consuming and resource-intensive.
- It is unclear whether the outcomes generated by the current structure of land cover are consistent with the intentions of the cover. Examples include:
  - EQC is required to return the land to its pre-quake state, but this standard of land may exhibit a different risk profile due to broader changes in the environment and may not be sufficient for subsequent consenting/building.
  - Some buildings suffering less than total damage must be demolished for land remediation to occur. Private insurers will only pay out the cost of the damage, not the full sum insured/replacement value of the building. This means the owners of lightly-damaged buildings may be left worse off than the owners of severely-damaged buildings in terms of total (EQC + private insurer) payout in areas where substantial land remediation must occur.
- Stronger foundations reduce the need for extensive land remediation, and vice versa. This dynamic creates an incentive for cost-shifting between various parties, particularly in cases where the extent of EQC's land obligations is difficult to define.

Further reflections on the lessons learned in Canterbury are available [here](#) and [here](#).

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IN-CONFIDENCE

INSURANCE COORDINATION GROUP WEEKLY MEETING

<b>Date</b>	2 February 2012
<b>Attending</b>	Steve Wakefield, Willum Richards, Katherine Meerman, Lindy Fursman, Mike Stannard, Diane Turner, Alison O'Connell, Rob Kerr

<b>Agenda topics</b>	<b>Key points</b>
Demolition and recoveries	
Red zone recoveries	Not relevant to your request
Market developments	
EQC	Differences in EQC and insurer assessment processes and apportionment becoming significant issues. Difficulty to get into ICNZ process. Actuaries across insurers are now working on a proxy apportionment tool. Alison been asked to join this process and checking with ICNZ to get involved. Just working on a method/tool not the outcome – idea is that the tool helps to fill in data from assessments where there isn't data. Not sure if/how it will be used in conjunction with actual assessment data. Could lend support to this process if we wanted to.
Reinsurance	Tim and Lindy met with Munich Re – issues are TC3 and apportionment and assessment, proportion of code. On plus side, Fletchers PMO been very efficient in containing costs. Capacity – Dec 23 haven't impacted on capacity but may have impacted on new cover, increased aggregates. Looking for certainty around costs
Commercial	
Regulatory and consenting	Not relevant to your request
Modelling and risk analysis	
Communications	
Other issues	Not relevant to your request

**IN-CONFIDENCE**

	<p>Data request IAG requested separate confidentiality agreement and CERA said no but IAG will now proceed without it Not very helpful overall – possible mix of timing, format, willingness reasons for disappointing result so far Need to continue to follow up, work with them to get information that's usable Policy position section of the request – could it be published?</p>
Actions	<p>Mike to follow up with Kelvin on modelling work on post -90 properties and the damage to them – to see what the implications might be for foundation requirements in TC3 Lindy/Katherine to follow up on possible resource for analysing insurer data returns</p>

Last updated: 15 February 2012 by RK

#### Schedule of actual or potential issues and impediments to the residential rebuild

*This list of actual and potential issues and impediments are prepared for discussion and critique. Feedback is requested to enhance and improve the schedule. Note that they span wider than those that CERA has an involvement and wider than the scope of the Regulatory and Consenting Working Group (RCWG).*

*Regulatory and Consenting Working Group -RCWG*

*Apportionment group - EQC/Ins*

*Resources, Rebuild Resources and Co-ordination – Resources*

*Councils/DBH/ PMOs forum – TA/PMO*

	Potential or actual issue or impediment	Comment	Status
	Land and foundation		
1	Scope of foundation options in TC3	Not relevant to your request	
2	Who bears the additional costs for TC3 foundation solutions	Insurers will cover additional TC3 foundation costs, not land improvement. EQC will only return the land to the condition it was as at 3 <sup>rd</sup> September 2010 – no betterment past that.	Unknown. Is this issue under review by EQC/Insurers?
3	When foundations are to be rebuilt or repaired in TC3	Decision criteria between whether to repair vs rebuild a foundation and repair option used will impact on costs significantly. TC3 Guidelines will indicate preferred tech solns. Convergence between PMOs important.	Unknown. Councils and Insurers and PMOs to consider implications. RCWG will have to oversee if convergence on repair options not achieved.

Last updated: 15 February 2012 by RK

	Potential or actual issue or impediment	Comment	Status
4	Consistency of interpretation by Councils and by PMO's	Not relevant to your request	
5	<a href="#">Professional and Council support for TC3 foundation systems</a>		
6	Resourcing, efficiency and streamlining of the building consent process to meet demand		
7	Timetable of land repair by EQC in TC3 areas	With EQC, but possible co-ordination with SCIRT programme. Major issue for insurers to understand	Lack of EQC detail current an impediment, but may change post Feb 14 mtg. RCWG to monitor
8	Scope and method of land repair by EQC in TC3 areas (extent and type of EQC liability for land)	Certainty over what is to be done to enable insurers, property owners and rebuilders to design and plan with certainty with known timeframe. And policy matters to understand issues, risks and anticipated outcomes. RCWG monitor the interpretation of site investigation needs and foundation design by BCA's	Lack of EQC detail current an impediment, but may change post Feb 14 mtg. RCWG to monitor
9	Additional geotech data required in TC3 areas by both EQC and Insurers	Currently have no common approach and thus no planned start. Drilling could start immediately.	Preference is for a joint EQC/Insurer program. RCWG to monitor

Last updated: 15 February 2012 by RK

	Potential or actual issue or impediment	Comment	Status
10	Process between EQC and CCC for design of land repair/raising works in association with Council works to mitigate flood risk (sub issue to land repair scope)	EQC and CCC to work together to develop design solutions for areas	Lack of EQC detail current an impediment, but may change post Feb 14 mtg. RCWG to monitor
11	Process between EQC and insurers where properties need to be rebuilt to allow land repair to occur (land raising under repairable homes) (sub issue to land repair scope)	Where EQC cannot meet obligation without removing/demolishing house in order to raise land. Major issue to resolve between EQC and Insurers	Lack of EQC detail currently an impediment, but may change post Feb 14 mtg. Parties need to quantify size of this problem. RCWG to monitor
12	Cross boundary issues created by land movement (sub issue to land repair scope)	Not relevant to your request	
13	Minimum Floor levels and responsibilities (sub issue to land repair scope)		
14	EQC liability at land repair cap, but dwelling economically repairable, leading to constructive loss and ongoing EQC cover	Cash settlement by EQC at minimum lot size value, but not sufficient to allow repair of building. (Building repair separate and additional to land repair cap)	Under review by EQC/Insurer forum. Status unknown
15	Delivery of land repair works – who does what on behalf of whom	For minor works, will be carried out by insurer's contractor and charged back. If ground improvement required or land raising to meet flood levels, then becomes a joint EQC/Insurer problem.	Under review by EQC/Insurer forum. Status unknown

Last updated: 15 February 2012 by RK

	Potential or actual issue or impediment	Comment	Status
16	Areas where it may be more effective to pool land repair costs towards foundation works	EQC contribute land repair costs towards TC3 foundation solution to achieve the same material land repair outcome.	Issue for EQC/Insurers forum and then Rebuild Resources and co-ordination Forum. Trial at Halswell pilot?
17	Collective working arrangements	Not relevant to your request	
18	EQC cash out on land becomes unrecoverable from property owner by insurer	Leading to loss of funding of land work to allow rebuild to occur on site.	Issue for EQC/Insurers forum
	S72 Building Act	Not relevant to your request	
19	<i>EQC/Insurer protocols</i>		
20	Mediation of case by case disputes between EQC and insurers	Process has been agreed in principle between ICNZ and EQC, now being finalised.	Issue for EQC/Insurers forum
21	Apportionment of claims between events	Current workstream between insurers and EQC. But is process quick and smooth enough?	RCWG to monitor. EQC/Insurers forum to report progress
22	Difference in assessments of cost and scope of works between EQC and insurers	Some joint reviews of paperwork and joint reassessments going on but not clear if this is always resolving matters. EQC and Insurers need to coordinate this urgently to ensure cost estimation process retains credibility	Issue for EQC/Insurers forum. <a href="#">RCWG to discuss at next meeting. Workstream established for PMOs and EQC advisors to come to resolution.. RCWG monitoring</a>
23	Information sharing protocols	Not relevant to your request	

Last updated: 15 February 2012 by RK

	Potential or actual issue or impediment	Comment	Status
24	Management of physical works when estimates are close to cap (and then if it exceeds the cap) or insurer has less last dollar, but EQC has most dollars (or vice versa)		Issue for EQC/Insurers forum. Protocol between EQC and ICNZ developed, progressively being tested
25	Clarity of protocols	Not relevant to your request	
26	<a href="#">Availability of contract works insurance</a>		
	<i>Resourcing the rebuild</i>		
27	Materials supply constraints		
28	Labour and skills		
29	Accommodation for visiting workers and displaced homeowners		
30	<a href="#">Area wide geotechnical testing programme</a>		
31	Rebuild projections from insurers and EQC		

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To: **Minister for Canterbury Earthquake  
Recovery**



IN CONFIDENCE, COMMERCIALY SENSITIVE

## **CERA & Treasury Canterbury related insurance work programme, 2012**

Date	17 February 2012	Priority	
Report No	M/12/0241	File Reference	M/12/0241

### **Action Sought**

		Deadline
Hon Gerry Brownlee <i>Minister for Canterbury Earthquake Recovery</i>	Note the report and provide feedback	By 24 February 2012

### **Contact for Telephone Discussion (if required)**

Name	Position	Telephone	1st Contact
James Hay	General Manager, Corporate & Projects	03 354 2611 (wk)	<input checked="" type="checkbox"/>
Alison O'Connell	Senior Adviser, Insurance	03 354 2647 (wk)	

### **Minister's office comments**

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Withdrawn <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Referred to	<b>Comments</b>
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# CERA & Treasury Canterbury related insurance work programme, 2012

## Purpose

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- 1 This note updates you on the key current insurance-related issues linked to the Canterbury earthquake that are covered by CERA and/or Treasury, and sets out our recommendations for a work programme in 2012.
- 2 This note focuses on projects centred on insurance issues and those in which we consider insurance to be a significant part. It does not cover all the earthquake-related projects in which insurance is a smaller element. This note does not cover current work within Treasury related to the ongoing operational monitoring of EQC and AMI.

## Executive summary

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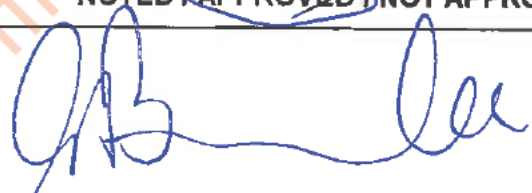
- 3 Insurance underlies many aspects of the Canterbury recovery. The overarching objective of our work on insurance has been to support the ongoing availability of insurance and settlement of claims to support the recovery of Canterbury and the ongoing insurability of New Zealand homes and businesses.
- 4 Claims settlement in Canterbury is complex and a growing source of complaint within the sector, from its customers and from the wider community. Availability of new insurance cover is limited as insurers remain largely unwilling to increase their current exposures and new entrants are niche and largely opportunistic to date.
- 5 The settlement of residential claims is slow, delayed (apart from ongoing seismicity) by differences in assessments between EQC and insurers, lack of an agreed methodology to apportion claims to events, and various complex issues in TC3 and the Port Hills. CERA is working to facilitate resolution of insurance concerns in all these areas and seeking ways to expedite claims settlement where possible.
- 6 While EQC is advancing its programme the commencement of significant parts of the residential rebuild, especially for those with the greatest (overcap) damage, it is effectively on hold pending resolution of the issues above. The strategy this paper recommends is one of seeking in the very short term to focus urgently and systematically on resolving the key apparent issues by stepping up messaging from you and monitoring from CERA and Treasury. In doing this we will get a better view as to whether these issues are the real underlying cause of the delay or whether other factors (like seismicity risks) are really driving insurer decision making.
- 7 Monitoring around local or national market issues is jointly carried out by CERA and Treasury. Currently there are no warning signs requiring action, but options to smooth the transition to the post-earthquake insurance environment are being considered.
- 8 Engagement with local insurers, brokers and reinsurers continues by CERA and Treasury to ensure the flow of information on claims settlement and the forward looking (re)insurance environment.

## Recommendations

9 It is recommended that you:

- 1 Note the insurance work priorities for CERA and Treasury in 2012.
- 2 Agree that CERA, in consultation with Treasury, work to develop a proposal on whether and how the claims settlement process could be expedited to be available if the industry has not found a solution by the end of March 2012. YES / NO
- 3 Agree that you indicate to EQC your expectation that CERA be fully briefed on: YES / NO
  - 3.1 EQC's land proposals; and
  - 3.2 industry/EQC progress towards resolution of damage quantification and event apportionment issues and able to attend relevant industry working groups on these issues.
- 4 Agree that you advise EQC and insurers that you have directed CERA to report to you by the end of March 2012 on progress towards resolution of quantification and apportionment and on EQC land issues. YES / NO
- 5 Forward this report to the Minister of Finance for his information. YES / NO

James Hay  
General Manager, Corporate Services  
and Projects

NOTED / APPROVED / NOT APPROVED

Hon Gerry Brownlee Minister for Canterbury Earthquake Recovery
Date: 24/02/2012

Attachment A: Current Canterbury earthquake insurance-related workstreams, CERA and Treasury  
Attachment B: Protocol for faster claim settlement (Option 4): working draft

## Background

- 10 Property-related insurance claims from the Canterbury earthquakes are expected to total \$30bn (Reserve Bank). As you are aware there are two key dimensions to the insurance issues – settlement of claims and the future availability of insurance cover in Canterbury and throughout New Zealand.
- 11 Claims settlement is complex and a growing source of complaint in Canterbury. On the availability side, insurers remain largely unwilling to increase their aggregate exposures in Canterbury, but are still active in New Zealand, supported by their reinsurers (but with materially higher customer and insurer retentions).
- 12 The EQC land liability and settlement process is novel to New Zealand. It is a key issue in the recovery on which there is currently no sharing of information by EQC. Yet the decisions EQC makes on how its cover responds and the settlement process EQC proposes to follow raise significant issues officials need to understand and plan for. These decisions may raise new significant concerns within the insurance sector.
- 13 Our views on the insurance priorities for both CERA and Treasury have been informed by ongoing engagement with EQC, insurers, brokers, reinsurers and banks, together with market monitoring activity, which now includes monthly provision of data by insurers on claims settlement, rebuild progress, and company policy coverage positions.
- 14 Broadly, CERA leads on claims settlement issues and providing Canterbury input to national insurance market issues and Treasury leads on market monitoring and oversight issues.
- 15 Treasury assisted in the preparation of the paper and supports its recommendations.

## Comment / Discussion

### Insurance-related workstreams

- 16 The current and proposed Canterbury insurance-related workstreams for 2012 are described, with objectives, timing and responsibilities, in Attachment A. The work is organised into two main areas – current claims settlement and market monitoring, as summarised in the table below. The remainder of this note explains the work and its rationale in more detail.

Category	Current strategy
Settlement of current claims	CERA is already involved in the local market to facilitate the claim settlement process; including contributing to ongoing policy work and as a claimant for Crown-assigned insurance claims in the Residential Red Zone.
Insurance market monitoring and transition	Monitoring around local or national market issues is jointly carried out by CERA and Treasury. Currently there are no warning signs requiring action, but options to smooth transition to the post-earthquake insurance environment are being considered.

## Settlement of current claims

### *Lack of protocols between EQC and insurers*

- 17 The main concern we hear from insurers and reinsurers arises from the extent of differences between EQC's and insurers' claims assessments and the scope for complexity, settlement delay, claim and claim handling cost escalation, uncertainty over final cost and claimant frustration that this causes.
- 18 A previous aide memoire to you (M/12/0214) described the difficulties caused by the lack of resolution by EQC and insurers of two linked critical path problems: differences between EQC and insurer on the assessment of damages and quantification of resulting repair costs and, the lack of an agreed methodology to apportion claim amounts to each seismic event (and thus calculate the share paid by EQC).
- 19 Further meetings with insurers and with claims managers from reinsurers have refined our understanding of these issues and confirmed their significance. Estimates of the proportion of insurer dwelling claims which cannot move forward without resolution of these issues range from one quarter to two thirds.
- 20 The reinsurers we met (Swiss Re, Munich Re and General Re) represent reinsurance programmes of both EQC and insurers. They expressed more faith in insurer assessments of claim damage and repair cost than those of EQC's. The reasons are: the insurers' wider experience and need to protect brand; the use of insurer PMOs in assessments means more technical expertise is applied to make the assessment more likely to be 'right first time'; aversion to wasting the time and money already incurred in insurer PMO assessments; and, the way EQC recruited assessors led to a questionable skill base. There may also be concerns from (re)insurers of the future damage risk to houses they insure but for which they have not scoped and managed the repair and/or where they do not accept the EQC repair methodology proposed.
- 21 One of the drivers of differences has been suggested to be that for dwellings EQC's Act imposes a lesser repair standard than typical reinstatement insurance policies do. Russell McVeagh advise that there is little if any material difference between the dwelling repair obligations of EQC and those of insurers under most (if not all) reinstatement policies. Some insurers have reported that the difference between assessments is more to do with differences in the way insurers approach repair design and costing, based on their previous claims management experience. For example, insurers allow for likely consequential costs when affecting repair and choose safer but more expensive options to lift houses to work underneath.
- 22 To date we have not been able to engage on specific cases with EQC or others on this matter in our capacity as Residential Red Zone claimant, as we are still waiting for EQC claims assessment data.
- 23 Insurers are reassessing claims with disputed damage repair costs individually with EQC, but there are concerns about the resources EQC are able to put to this. One insurer estimates around 20 or 30 cases a week could be solved, but numbers its properties with claims unresolved as to whether over- or under-EQC cap at nearly 3,500. We hear of industry initiatives attempting to reach resolution more quickly, but we are concerned about the lack of a definite timetable.
- 24 We hear contradictory evidence on whether joint EQC/insurer reassessments tend to support either EQC or insurer original costings. But we hear consistently that insurers argue to pay more than EQC. This is counter-intuitive and suggests there are real underlying concerns.

The net result of following a lower EQC assessment may well be that the job, when it is actually done by Fletchers, goes over-cap, which could later cause protracted EQC/insurer disputes. From a Canterbury recovery perspective such disputes "within the industry" are less of a concern but they may well reinforce reinsurer concerns with New Zealand's claim management processes and their ability to get certainty around their final exposures for each event. The latter point also holds for Crown estimates of EQC's final liability.

- 25 Even if differences in assessments could be resolved, there still needs to be a methodology to apportion claim cost to claim events in the many cases where full data on damage per event is missing. The industry has started an actuarial project to develop such a methodology. CERA has been refused entry to this joint ICNZ/EQC project, we understand at EQC's request. However, three individual insurers have suggested that CERA should be involved and have shared some information on the project. We understand that the methodology is not yet agreed, may well rest on data unacceptable to one or more parties, and does not have a timetable for completion. Experience of previous ICNZ/EQC protocols suggests resolution will be slow.
- 26 The options we developed as a starting point to address this issue, as previously communicated to you, are as follows:
1. Leave the industry to resolve: on the basis that case-by-case joint reassessments and the ICNZ/EQC actuarial work on event apportionment will result in a solution within a timetable suitable for seismic activity and resources.
  2. Put pressure on EQC/insurers by:
    - a. Helping a group of claimants to push for a fair, quicker settlement of their own claims.
    - b. Encouraging the reinsurers to make their preference for quick settlement more strongly known.
  3. Use the Residential Red Zone settlement process, where the Crown is claimant, to trial a solution.
  4. Direct a solution, e.g. start work on the basis of the insurance company's assessment and "wash up" differences later, once the actual cost is known.
- 27 Option 2 is being addressed to some extent by (a) a project to assess the merits of developing insurance advice and support (proposals in development) and (b) by ongoing discussions with reinsurers. Option 3 is not recommended as the Residential Red Zone is a complicated special case, and resolving the general issue of differences between EQC and insurers is likely to help Red Zone cases as well as Green Zone.
- 28 To expedite the settling of claims, therefore, the choice depends on a preference for agreeing for each claim the quantum of damage and apportionment before the claim can be assigned to EQC or an insurer for actual repair or rebuild to commence (Option 1) or for agreeing a process that assigns the management of claims without needing to resolve problems in assessments or apportionment immediately (Option 4). A draft of how Option 4 might work is set out as Attachment B.
- 29 Because we believe there is a risk that the industry resolution process (Option 1) will be slow and may not succeed, we recommend that CERA and Treasury work to develop a proposal for Option 4. If an option along these lines appears workable and acceptable to (re)insurers, we would aim to make a recommendation to you on its introduction if insufficient progress has been made by EQC and the insurers by the end of March 2012.

### *Regulatory and Consenting*

- 30 Insurers' engineering and local authority concerns with consenting, building standards collective responses and associated issues are addressed through the Regulatory and Consenting Working Group (RCWG). CERA provides the Secretariat of this independently chaired forum. It aims to facilitate strategic-level resolution of issues between the participants, which include the territorial authorities, DBH, nominated insurers and their PMOs, EQC, Tonkin & Taylor and advisory engineers. The RCWG is the only forum where all relevant insurer and central and local government general managers responsible for rebuild meet on a formal and scheduled basis. The RCWG also aims to ensure coordination on wider issues that also affect when a repair or rebuild can start.
- 31 The RCWG has now held three meetings. The dominant issues have been uncertainty around EQC's process for land remediation and DBH's timeframes for confirming suitable foundation designs for TC3. The concern from insurers and reinsurers is again complexity, settlement delay, claim cost escalation, uncertainty over final cost and claimant frustration, as well as the future insurability of TC3 properties and a perceived unfair additional cost for risk management betterment. Insurers are also looking to CERA and Councils for assistance in dealing with groups of claims and to use the RCWG to work up options for this.
- 32 CERA will monitor the success of the RCWG at resolving issues, and escalate if needed. A separate note from Diane Turner will update you on the TC3 issues which form a current area of focus for the RCWG.

### *Residential Red Zone Insurance recoveries*

- 33 The work in Residential Red Zone claim settlement is of a different nature because CERA is representing the Crown as claimant for Crown Purchase Offer Option 1 properties. There are complex issues to be resolved in the settlement of Red Zone claims around the status and entitlements of the Crown as assignee of those claims under the many different insurance policies. In addition, the problems of EQC/insurer differences exist for Red Zone claims as they do elsewhere. Insurers and reinsurers have expressed some concern that the Crown will be a 'difficult' claimant and reinsurers in particular have asked for early settlement, and for a timescale for resolution to be shared. Under the transaction design certain recoveries are already being realised via deductions from Crown Purchase Offer Option 1 purchase prices. We will report on these amounts moving forward.
- 34 Currently the emphasis in the work on Residential Red Zone insurance recoveries is on obtaining and verifying assessment information from the insurance companies and EQC, and facilitating the clearance of the land while not prejudicing claim settlements. Concurrently with this, work is being done to enable us to recommend to you the basis upon which the Crown will seek settlement. This includes assessment of a significant number of policy wordings and understanding a number of factors which influence the cost of repairs.
- 35 We are currently working on the assumption that the Crown will look to achieve a fair and reasonable settlement from the insurers and EQC under the terms of the policies in place, with regard to the physical state of the properties in question. We propose that the position of the Crown should be that, in general, the settlement should not be materially different to that which should have been available to the IRPO. This should be based upon an agreed assessment of the damage and scope of repairs, and the terms of the particular insurance policy in place. Settlements will only be possible once a number of issues between the insurers and the EQC (which affect all zones and include those described above) are resolved and will thereafter take place as a series of bilateral discussions with the insurers and EQC.

- 36 A more detailed strategy paper will be prepared for your approval by the end of March 2012. We expect to seek your approval at that point to share the general principles and timescale with insurers and reinsurers in order to set the basis for the negotiating process. We then expect the process of obtaining outstanding insurance recoveries for the Crown could start in late Q2/Q3, 2012 with reports back to you as required to obtain final mandates for proposed settlements.

#### *Port Hills*

- 37 The insurance implications for zoning or other decisions are being considered within CERA's ongoing policy work for the Port Hills. The insurance aspects to be considered include the proposed claims settlement process (learning from the Red Zone outcomes), and the likely insurability of remaining properties where risk levels may be elevated taking into account the mitigation measures proposed. These issues may have precedents for the rest of New Zealand. We expect reporting to you on related insurance issues to be part of the CERA reporting of the Port Hills project unless there are significant insurance items that need to be considered separately.

#### *Claim settlement progress and outlook*

- 38 Claim settlement progress and outlook is being monitored by the collection of monthly data from each insurer and EQC. The first month's collection of this data has been disappointing, with late response the norm. Most insurers, and EQC, have provided only partial data but have generally said later returns should be more complete.
- 39 This means that as yet we have little useful market data on the progress of claims settlement. In particular the projection of workflow in future years, which is the most widely useful number for estimating the pace of recovery and resources required, is unavailable for all but one major insurer. We anticipate reporting to you when we have sufficient meaningful data.
- 40 The data collection covers residential and commercial claims. Issues related to commercial claims settlement are also identified by local intelligence on specific sites. Relative to residential, commercial claim settlement is faster, as good assessments have generally been made, there is no EQC complexity, and most claims are settled by cash. Currently the main commercial issue we are watching is the extent to which insurers are questioning the level of building code compliance to be reinstated. DBH have the policy lead on this specific issue.

#### *EQC land claims*

- 41 We have had no substantive briefing on land claims from EQC since November but how EQC proposes to treat its land liability, and the response of the industry and the Crown in the Residential Red Zone, are key variables. We cannot address these issues in this paper at this time but need to flag that it is potentially a major issue for insurance strategy in 2012. Equally key will be how EQC's position on this fundamentally complex issue is communicated to the community.

### **Insurance market monitoring and transition**

#### *Monitoring insurance and reinsurance markets*

- 42 Treasury and CERA are jointly involved in monitoring insurance and reinsurance markets. The objective of the monitoring work is to understand insurers', reinsurers', and brokers' views on Canterbury claims settlement and the future extent and nature of the insurance and reinsurance market in New Zealand. There is still a general unwillingness amongst existing

insurers to increase their aggregate exposure in Canterbury so we are particularly concerned to monitor insurers' positions on the availability of new cover, and to understand the anticipated timing and conditions around the return of new cover to the region with particular emphasis on facilitating new entry into the market. We are continuing to look for opportunities to improve this monitoring effort and to disseminate relevant information to insurers and reinsurers.

- 43 Using this monitoring information, Treasury has undertaken some contingency planning on options for an insurance market intervention, should one be required at some point.
- 44 Additionally, with the introduction of the new regulatory regime for the insurance sector, the RBNZ is responsible for monitoring the capital positions of insurers and provides briefings to Treasury monthly. This will enable us to identify any early warning signs of distress, although it is expected to be a long time before final costs of Canterbury claims are fully known.

#### *EQC review*

- 45 As the first major test of an EQC-managed repair response, the Canterbury events have generated significant learning for EQC, insurers, reinsurers and the Crown. The Government has announced its intention to review the EQC model to ascertain whether change from existing policy settings is desirable. Treasury has undertaken some initial scoping for the review, seeking input from CERA, EQC and the RBNZ. The proposed scope of the review will be discussed with you on 1 March and with you and the Minister of Finance at a meeting on 6 March.

#### *Banking and insurance*

- 46 As part of ongoing monitoring of the transitions occurring in the insurance market, we are interested in flow-on impacts on other sectors, in particular, whether any future changes in the availability or terms of insurance cover will have an impact on banks' approach to existing and new mortgage lending both in Canterbury (or parts of it) and elsewhere in New Zealand. Treasury is continuing to engage with banks to understand their views on the current and anticipated insurance and lending issues. CERA will look to understand any Canterbury related implications that may rise from banks response to this.
- 47 In the commercial sector a key element of work will be around understanding the new investment and risk position of developers and their funders in response to new insurance terms and prices and how this will play out in investment decision making and nature, scale, structuring, ownership and scope of the new developments required for a successful recovery.

#### *Risk data management*

- 48 As well as seeking views from the market, we are keen to make sure that we fully utilise the data and information we have to assist insurers and reinsurers accurately understand and price risk in the New Zealand market. We are concerned that reinsurers are not getting sufficient access to and briefings on the data and analysis that is being produced. Treasury and CERA will be working with GNS to develop proposals to effectively disseminate risk data (e.g. through a regular bulletin), primarily to the international reinsurance market.

#### **Engagement with insurers and EQC**

- 49 The level of engagement of CERA with the insurance industry is mixed. Information flow from the industry and EQC is patchy and the information received is typically contradictory. While some individual insurers have been helpful to CERA, the CERA relationship with EQC has

been difficult. We are not sure why this is so. It may be because EQC finds it particularly concerning that CERA is both claimant in the Residential Red Zone and recovery agency.

- 50 Our feedback suggests that many players in the market, including reinsurers, some insurers and AMI (claims operation), would be happy for CERA to take a lead in developing a solution along the lines of Option 4 for claims settlement. We propose that we work to develop Option 4 be ready should the industry not be able to find its own solution for assessment differences and event apportionment in a timely or appropriate manner. This would allow you and CERA to apply pressure to get an industry resolution with greater confidence that there is a viable solution.
- 51 In order to put pressure for rapid resolution of assessment differences and event apportionment (which are putting at risk the time periods for acceptance and settlement of the Crown Residential Red Zone offers as well as settlement of claims in the Green Zone), we recommend you consider advising EQC and the industry that you have called for CERA to report to you on these matters by the end of March. Your advice could add that you expect EQC and the industry to provide CERA with full briefings and the right to attend and observe relevant meetings.
- 52 On land claims and settlements, we will work to understand the timing and process for EQC's land remediation decisions and the implications of this for the recovery.
- 53 Engagement with reinsurers, as discussed above, is focused on two-way information flow: so that we can understand the reinsurers' views of the current and likely post-earthquake (re)insurance environment for New Zealand and the reinsurers have the clarity they need on the claim settlement processes and available risk data.
- 54 We will continue to work with your office, and that of CERA Chief Executive, to find opportunities for sending messages to the insurance industry and reinsurers consistent with the above.

## Attachment A

### Current Canterbury earthquake insurance-related workstreams, CERA and Treasury

Workstream	Work objective from insurance perspective	Timing	Roles
<b>Settlement of current claims</b>			
1. EQC/insurer processes: a. Repair assessment differences and event apportionment b. Other	Identify whether CERA needs to facilitate an agreed solution across industry  Identify if pace of resolution of numerous points at issue threatens recovery timing or cost	Preparing rationale and possible resolution options for Ministerial decision by end March  Ongoing watching brief. EQC land issues may prompt further work.	CERA lead.  Treasury interest from EQC monitoring/Crown ownership perspective and EQC review.
2. Regulatory and Consenting	Facilitate resolution of insurers' concerns with consenting, building standards and associated issues. Consider options if resolution not at reasonable pace and cost.  Give (re)insurers comfort with and clarity on claim settlement processes, zoning review and insurability of residual risk.	Ongoing engagement.	CERA lead via Regulatory and Consenting Working Group.  Treasury interest from EQC monitoring/Crown ownership perspective and EQC review.
3. Residential Red Zone recoveries	Obtain fair and timely Crown recoveries from insurers.  Give (re)insurers comfort with and clarity on claim settlement processes.	Preparing recommended strategy and process for insurance recoveries for Ministerial decision by end March	CERA lead.  Treasury interest in impact on Crown costs of insurance recoveries.

Workstream	Work objective from insurance perspective	Timing	Roles
4. Port Hills	Enable zoning and other decisions to be made with consideration of implications for claims, future insurability and risk management precedents.	To meet Port Hills project timetable	CERA lead. Treasury interest in future risk management, EQC/insurer costs and Crown cost implications from insurer recoveries.
5. Claim settlement progress and outlook (residential and commercial)	Collect data to monitor claims progress and expected timescales for future settlements.  Identify emerging concerns.  Manage use of data in other CERA, Treasury or DBH work.	Ongoing watching brief	CERA lead through collection of monthly data collection and local market monitoring.  Treasury interest for monitoring and intelligence gathering and for economic recovery (especially commercial claims)
<b>Insurance market monitoring and transition</b>			
6. Availability of insurance and reinsurance	Monitor market trends.  Ongoing engagement with insurers, reinsurance and brokers to understand current and likely post-Canterbury earthquake insurance environment.  Develop contingency options for intervention in case these are required to smooth transition to post-quake environment.	Ongoing watching brief.	Joint Treasury/ CERA monitoring, engagement and intelligence gathering.  CERA collects monthly updates on insurers' provision of cover.  Treasury lead on reinsurance market issues and all options development.
7. Risk data management including seismicity outlook	Ensure risk data is available for (re)insurers. Develop credentials for excellent NZ risk knowledge e.g. by publishing regular Technical Bulletin aimed at (re)insurance market.	Proposals to be developed by April 2012	Jointly CERA and Treasury (with GNS)

Workstream	Work objective from insurance perspective	Timing	Roles
8. Capital/regulatory position of local insurers	Understand implications of new regulatory regime for ongoing insurance market. Understand capital position of insurers and identify warning signs.	Ongoing watching brief	Treasury lead. Joint interest/role with CERA in monitoring and intelligence gathering. RBNZ monitor capital position.
9. Insurance-banking sector linkages and impact study	Understand potential flow-on effects to banking and lending from insurance market transition	Ongoing watching brief	Treasury lead. Joint interest/role with CERA in monitoring and intelligence gathering.
10. EQC Review	Review the EQC model in light of the lessons learned from the Canterbury earthquakes and ascertain whether change from existing policy settings is desirable.	To be confirmed, following discussions with Ministers	Treasury lead. CERA to contribute lessons learned from Canterbury.
Projects under consideration			
11. Insurance Advice and Support service	Help Cantabrians navigate insurance claims process	Proposal on how and where by end February	CERA lead (Community Wellbeing)
12. New Zealand and/or Crown risk management	Use Canterbury experience to develop framework for country and/or Crown risk management	Not currently underway	Treasury lead. CERA to contribute lessons learned from Canterbury.

## DRAFT - NOT GOVERNMENT POLICY

### Attachment B

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#### Protocol for faster claim settlement (Option 4): working draft

Scope: residential dwelling claims with no land remediation issues.

- **Clearly under-cap all events with no out-of-EQC-scope claim:** EQC processes according to its assessment of damage amount and event apportionment; EQC's PMO manages work.
- **Clearly under-cap all events with an out-of-EQC-scope claim:** insurer processes according to its assessment of damage amount and event apportionment; insurer's PMO manages all work (efficiency with doing out-of-EQC-scope work at the same time).
- **Clearly over-cap at least one event:** insurer processes according to its assessment of damage amount and event apportionment; insurer's PMO manages all work.
- **Currently in dispute whether over- or under-cap:** insurer processes according to its assessment of damage amount and event apportionment; insurer's PMO manages all work.
- **For all:** repair proceeds and actual cost is divided according to event apportionment by:  
**EITHER A** using the estimate of either the insurer/EQC (depending on which party is managing claim)  
**OR B** the event apportionment tool developed by EQC/ICNZ work currently underway (if that is available by a date mutually agreed (otherwise revert to A)).
- On completion of repair, the actual cost balance is reckoned and cost transfers between EQC/insurer accounted for.

For dwellings with land remediation issues as well as dwelling repairs/rebuild, responsibility for management depends on the outcome of EQC land remediation decisions. If EQC cash settles, the above would work whether there is land damage or not

## IN CONFIDENCE

### Agenda - DRAFT

#### Solving roadblocks to residential claims settlement

3 pm Monday, 5 March 2012

Attending: Minister for Canterbury Earthquake Recovery, EQC, Insurance Council New Zealand, Insurance company CEOs, CERA, Treasury

1. Purpose of this meeting	Minister
2. Differences in repair methodology and assessment amounts: proposals and timescale for resolution	Insurers EQC
3. Event apportionment: options for agreeing a method and likely timescale	Insurers EQC
4. TC3 and geotech issues	CERA to update on proposed approach
5. Land remediation	EQC to update on plans
6. Other issues preventing timely resolution of residential claim settlement	All
7. Providing guidance/advice for claimants: is additional resourcing required?	Insurers EQC

**Industry Meeting on 5 March - Solving roadblocks to residential repair/rebuild**

**Purpose of meeting**

- Residential claim issues are causing frustrations and delaying recovery
- There is a risk that reinsurers see NZ as a difficult place to do business
- Insurers and reinsurers have a common interest in finding pragmatic solutions - and making them happen - in order to close claims quickly
- Insurance companies believe EQC is inflexible with insufficient resources to resolve issues; EQC has its own drivers, in particular meeting targets for completion of under-cap claims and liability minimisation

**Differences in damage assessments**

- Insurers see this as critical. They believe EQC under-estimates because they use less thorough damage assessment methods, less experienced assessors, low costs for damage repair and insufficient contingency allowances
- EQC sees this as a small problem with a case-by-case resolution programme in place
- All (except AMI) appear to agree this is not about 'reasonably sufficient' vs 'new for old'
- The industry is trying to get EQC to accept a global costing model for *estimation* of claim quantum. Insurers may want us to get Commerce Commission 'endorsement' of this

**Event apportionment**

- EQC sees this as critical. It has to apportion all its 100,000 claims, not just the 16,000\* claims which are not resolved as under-or over-cap. (\* CERA estimate from total industry data returns)
- Insurers also have to apportion their own claims but are more concerned about damage assessments
- All agree an accurate statistical model is unlikely to work
- All agree a pragmatic approach would be acceptable to them, but they would have to check with reinsurers. We believe the big reinsurers would welcome this.
- They are considering the option we have raised of giving disputed claims to insurers to manage (i.e. damage assess and apportion) then washing up later. Insurers may want certainty on damage assessment before committing to this.

**TC3 and geotech issues**

- A major source of uncertainty: what drilling is needed, who pays, who signs off on geotech interpretation, when DBH foundation guidelines will be ready, costs involved, how streamlined will consent process be...
- CERA is facilitating taking forward EQC/industry proposals for the geotech drilling programme into a workable consent process
- At this stage, we need to make sure everyone is signed up to the process and pushing to expedite. DBH foundation guidelines are critical path.
- Meanwhile, insurers and EQC are questioning future insurability

**Land remediation**

- EQC have not shared their proposals with insurers, so there is uncertainty on timescales and costs although Ian gave the Business Council group a reasonable briefing on process yesterday.

**Other issues**

- If we can solve all of the above, what else will delay (1) settlement (2) repair/rebuild activity?

**Providing guidance/advice for claimants: is additional resourcing required?**

- CERA receives many complaints about insurance that are not advanced enough to go to the Ombudsman, but need more than generic advice.
- CERA Chief Executive wants an industry organised and funded independent, specialist service that will help people understand their own insurance claim situation. He proposes to ask insurers and EQC what they will do to provide this.
- Insurers' reaction is likely to be that: many of the problems are because of the EQC roadblocks; they are already providing call centres; and some people are unhappy about their insurance decision but further explanation won't change that.
- EQC believes that it comes down to meeting their repair targets.

**CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY**  
Update as at 7 March 2012

Workstream	Update
1. <b>EQC/Insurer processes:</b>	<ul style="list-style-type: none"> <li>• Following Minister's meeting 5 March, insurance CEOs to meet weekly to push for progress in resolving issues. CERA dial in. Agreeing global costing model on agenda – CERA may need to address Commerce Commission concerns.</li> <li>• Apportionment working group to be directed to work on wash up methodology, disputed claims being handed to insurers (query extent to which this was agreed). Report in to weekly CERA/CEO meeting. First meeting 9 March.</li> <li>• In addition, CERA/CEO meeting to cover alignment around communications</li> <li>• Vero and Lumley encouraging cash settlement (in all areas)</li> </ul>
2. <b>Regulatory and Consenting Land and foundations</b>	<ul style="list-style-type: none"> <li>• Following Minister's meeting 5 March DBH to respond by 16 March on streamlined drilling plans and indicative foundations costs. Government may need to consider PI cover for geotech engineers signing off foundation designs.</li> <li>• EQC to liaise with insurers re cash settling land remediation with insurers. Potential issues with EQC land settlement formula.</li> <li>• Limited data to break down TC3, and uncertainty on final outcomes.</li> <li>• Likelihood of more damage? Comments on cash settling and removing insurability (EQC s. 28 and insurers) and Council liability (s. 72 Building Act).</li> <li>• Need to bring in all insurers (Tower).</li> <li>• All TC3/land issues in RCWG (Rob/James/Richard)</li> <li>• Difficulties operationalising TC3 to be considered from policy angle (Diane/James)</li> <li>• TC3/land communications need co-ordination team in CERA</li> </ul>
3. <b>Residential Red Zone recoveries</b>	Not relevant to your request
4. <b>Port Hills</b>	

5. Claim settlement progress and outlook (residential and commercial)	Not relevant to your request
6. Availability of insurance and reinsurance	
7. Risk data management including seismicity outlook	
8. Capital/regulatory position of local insurers	
9. Insurance-banking sector linkages and impact study	
10. EQC Review	
11. Insurance Advice and Support service	
12. New Zealand and/or Crown risk management	

Draft 7 March 2012  
Confidential and not government policy

**Summary of key points and actions from CE's meeting with Minister Brownlee on  
5 March 2012**

- The meeting discussed the need to ensure alignment around key messaging and communication plans for announcements currently anticipated for April
- EQC advised they are proposing to cash settle all land claims – there was discussion about ring fencing these payments to ensure they go towards ground/foundation works for dwellings

*Action 1: Ian Simpson to advise what options he has and discuss with CERA and insurers*

- DBH to provide further briefings to insurers and EQC on building foundation types when it sends its draft report to the Minister at end of March

*Action 2: DBH to brief insurers on foundation report*

- DBH to revisit drilling plans – Minister requested faster, cheaper process; potential to use drilling already commissioned and completed by EQC

*Action 3: DBH to prepare draft Cabinet paper for Minister by 16 March including consideration of liability issues*

- Insurers and EQC agreed in principle that for claims where there is disagreement as to whether it is under or over cap these will be managed by insurer (where the insurer believes it is over cap). EQC will transfer funds to the insurer to the level of their own assessment, and then differences will be addressed in a wash-up later in the process

*Action 4: Insurers and EQC to meet to test and finalise this understanding*

- All agreed apportionment is a key issue – on apportionment insurers agreed to review and 'upgrade' their membership of the industry apportionment working group to get an outcome sooner and that it would report through to the weekly CERA/CEs meeting

*Action 5: Insurers and EQC to review membership and objectives of apportionment working groups to accelerate practical resolution*

- Insurers and EQC have got closer in terms of repair methodologies, but there are still disagreements as to costs of repairs. Insurers and EQC to discuss using 'global' costing guidelines.

*Action 5: ICNZ to advise CERA if Commerce Act issues need to be considered*

- Insurers tabled a proposed communications management approach which is to be discussed more with CERA

**Draft 7 March 2012**  
**Confidential and not government policy**

*Action 6: CERA (Michelle Mitchell and James Hay) to discuss with Jacqui Johnson and EQC representative*

- CEs will meet weekly by teleconference with James Hay. The meetings are to progress all the issues on the agenda at the meeting with the Minister. There will be a report back to the Minister by end of March and a further meeting if required

*Action 7: progress report to Minister by 30 March*

Released under the Official Information Act 1982

## Canterbury Regulatory and Consenting Working Party

### NOTES OF MEETING

**Time** 9am  
**Date** Thursday 8 March 2012  
**Location** YMCA, Hereford Street

#### Attending:

Alison O'Connell	CERA
Bruce Emson	EQC
Dave Brunsdon	DBH EAG
Dean McGregor	IAG
James Hay	CERA
Jasper van der Lingen	NZIA
John Lucas	ICNZ
John McSweeney	Southern Response (AMI)
Juliette Gundy	CERA
Laurie Brady	Lumleys (for John Grant)
Mike Stannard	DBH
Nick Harrison	Waimakariri District Council
Nick Rodgers	Tonkin and Taylor
Peter Bloy	Vero
Peter Mitchell	Christchurch City Council
Peter Rose	Amrow (AMI)
Peter Sparrow	DBH
Richard Martin	Chairperson
Rob Kerr	CERA
Terry Wynyard	EQC

<i>Apologies</i>	
John Christenson	Selwyn District Council
John Grant	Lumleys

Ref	Content	Actions
1	<p><b>Opening</b></p> <p>RM opened the meeting. He stated that he considered that the group needs to refocus and to work towards more tangible results.</p> <p>JH and others updated group on nature of discussions with Minister Brownlie.</p>	

Ref	Content	Actions
	<p>Points to notes</p> <ul style="list-style-type: none"> <li>• Weekly CE's meeting now instituted</li> <li>• Essential topics to include Apportionment and Cost of repairs/methodology</li> <li>• DBH preparing report on combined site investigation., Meeting agreed that a report from this group to accompany that report would have value</li> <li>• JL noted that a cash settlement approach on the land by EQC needed further discussion.</li> </ul>	
2	<p><b>Apportionment</b></p> <p>Discussion on this issue. Team looking at different solutions to apportionment.</p> <p>AO suggested two groups required: protocol arrangements re 'wash up' and 'apportionment working group'</p> <p>BE stated that EQC putting up strawman on a 'wash up' approach next week.</p> <p>Discussion on communications and need to align efforts and have a path to resolution agreed. MS noted that a joint comms working group is being established.</p>	
3	<p><b>Mandate of this group</b></p> <p>Discussion on changes to the mandate of the group to become a governance group for all matters relating to the residential rebuild. General agreement that this was appropriate and happening in general anyway. Some will need to confirm this with their organisation.</p>	<p><b>RK and RM to prepare revised terms of reference for discussion</b></p>
4	<p><b>Geotechnical Testing programme</b></p> <p>Not relevant to your request</p>	

Ref	Content	Actions
	Not relevant to your request	
5	<b>ICNZ/EQC protocols</b> Discussion this afternoon to progress protocols	
6	<b>Halswell pilot</b> Not relevant to your request	
7	<b>Data request</b> Not relevant to your request	
8	<b>S72 and v48</b> Not relevant to your request	
9	<b>Green Zone geotechnical database</b> Not relevant to your request	

Ref	Content	Actions
10	<b>Collective Working paper</b> RK spoke to his paper. General agreement. No issues raised.	
11	<b>Risk mapping</b> Not relevant to your request	
12	<b>TC3 foundation: presentation by Dave Brundson</b> Not relevant to your request	

Meeting ended 11.30

## Canterbury Regulatory and Consenting Working Party

### Action List

Item	Date raised	Description	Owner	Date Due	Status
6	26/1/2012	Present r sk mapp ng approach	Peter Rose and Peter B oy	8 March 2012	open
10	26/1/2012	Report (paper) on cadastra boundary movement	Terry Wynyard	TBC	open
12	26/1/2012	EQC and repa r programme – scope and t me ne	Bruce Emson/Terry Wynyard	8 March 2012	o en
14	9/2/2012	Summary paper on Contact Works nsurance	Terry Wynyard and ohn Lucas	8 March 2012	open
17	9/2/2012	Pro ect and Comms p an for Ha swe p ot pro ect	an S ers	8 Ma ch 2012	open
18	9/2/2012	CCC po cy on durat on of va d ty of geotechn ca tests/reports	Ethan Stetson (Peter M tche )	8 March 2012	open
22	23/2/2012	Common cost mode po cy ssues	John Lucas and James Hay	8 March 2012	open
23	23/2/2012	Paper on nsurance cover on undamaged part of bu d ng dur ng construct on	John Lucas	8 March 2012	open
24	23/2/2012	Ex st ng use r ght and du at on of va d ty	Peter M tche , N ck Harr son and John Chr st anson	22 March 2012	open
26	23/2/2012	C ar f cat on f EQC po cy w th respect to s73 not ces	Bruce Emson	8 March 2012	open
27	8 March 2012	Rev se Terms of reference to a ow greater Governance Ro e for group	R chard Mart n/Rob Kerr	22 March 2012	open

### Completed Actions and Standing items

Item	Date raised	Description	Owner	Date Due	Status
1	26/1/2012	Stability of membership – confirmation of individuals who will represent each member	A	9 Feb 2012	closed
3	26/1/2012	DBH presentation and explanatory note on purpose and use of DBH guidelines	Mike Stannard	9 Feb 2012	closed
4	26/1/2012	Developed proposed structure of working groups and circulated	Rob Kerr	9 Feb 2012	closed
5	26/1/2012	Prepare paper on s72 and other consent obligations for CCC	Terry Wynyard, Peter M tche and Peter Sparrow	Circulate by 16 Feb 2012 (for presentation/discuss on 23 Feb 2012)	closed
8	26/1/2012	Reporting on status of EQC/ CNZ protocols	John Lucas	Ongoing	standing
9	26/1/2012	Household project progress	Peter Rose	Standing item	standing
11	26/1/2012	Data provision to CERA to allow CCC to plan resources	Aaron O'Connell and assessors	Standing item	standing
13	26/1/2012	Report on joint geotechnical testing programme	Terry Wynyard	ongoing	standing
15	9/2/2012	Develop TOR for Consent operations Working Party (PMO/TA/DBH forum)	Rob Kerr	16 Feb 2012	closed
16	9/2/2012	Circulate bank RF data request	Aaron O'Connell	16 Feb 2012	closed
2	26/1/2012	TC3 foundation presentation	Dave Brunson	8 March 2012	closed
7	26/1/2012	Collective Working Green paper	Rob Kerr	8 March 2012	closed
21	23/2/2012	Paper on orbital database	Rob Kerr	8 March 2012	closed
19	23/2/2012	Circulate consent operation Working group Terms of reference	Rob Kerr	24 February 2012	closed
20	23/2/2012	Confirm quantities of TC3 repairs and rebuilds and effects of foundation damage	Terry Wynyard	8 March 2012	closed
25	23/2/2012	Sub group to prepare flow chart showing decisions on v48/s72 and TC3 foundation issues	Rob Kerr/Terry Wynyard/Mike Gooy and Dave Brunson	22 March 2012	Standing item

## RECORD OF MEETING

**Private Insurer / EQC Claims Apportionment Working Group**  
**9 March 2012 at EQC Deans Avenue, Christchurch**  
**9am.**

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**In attendance:** David Baird VSN NZ Ltd, for EQC  
Lynley Ryder, AMI  
Richard Beauchamp, Vero  
Heathcliff Neels, IAG  
Scott Lewis, Lumley  
Rufus McPherson, EQC  
Sue Carswell, EQC  
George Hooper, EQC  
Annette Purvis, IAG  
Colin Brigstock, Finity, for AMI  
David Davies, ACS  
Carl Bakker, Taylor Duignan Barry, for EQC  
John Lucas, ICNZ  
Alison O'Connell, CERA

### WORKING GROUP TERMS OF REFERENCE

It was agreed that the object of this group is to find ways to speed up the apportionment process.

### CURRENT ISSUES

#### The Problems that need to be resolved

- Costing disparities
- Customers don't know who they are dealing with
- EQC/insurers don't know who has jurisdiction
- Liability split unclear
- Disputes
- Apportionment is manual [too slow]
- How to prioritise
- Reporting/visibility of results
- Uncertainty around the 'wash-up'

Many of these issues are outside the scope of the apportionment process.

EQC advised that so far the second round of GLM testing has not yielded useable results.

The Insurer / EQC CEO meeting with Minister Brownlee on the 5 March recommended that consideration be given to finding a more pragmatic approach to EQC claims apportionment if an actuarial method can't be found.

It was agreed it is important that the group look for new ways to speed up the process by which EQC and insurers reach agreement of apportionment calculations. Therefore a proxy-based apportionment model is still desired. Manual apportionments may take a long time to complete if it is applied to every Canterbury property with dwelling claims.

## POTENTIAL OPTIONS

### 1. Manual Apportionment [currently being used by EQC]

It was agreed that a manual apportionment system the least desirable way to work through the apportionment of dwelling claims, although at this stage this is the only option that has been operationalised at EQC. It was agreed that, conceptually, manual apportionment could be applied to the actual costs after a customer's house is repaired. However no work has been on the process/ system impacts of this approach.

### 2. A universal statistical model could be used with an agreed objective formula for each dwelling claim, reflecting certain data like geographical zones and dwelling damage factors

This may not be workable with EQC's present data collection. However, this could be used by insurers.

It was agreed that further work by individual insurers may lead to different statistical models being able to be applied to various sub-sets of claims which would result in reducing numbers of claims that would have to be manually apportioned.

This is where an independent actuary could look at developing a workable statistical model.

### 3. Pragmatic apportionment process

This may be less accurate, but would present an unbiased approach. Further work needs to be done on this proposal.

Could stand in for the initial settlement to get claims underway.

### 4. A triage process where easy apportionments are done first and the more complex apportionments completed last

This would identify the outliers by breaking the problem into smaller groups.

(Post-meeting comment: note that any process other than the current manual process needs to be acceptable to EQC's re-insurers before it can be adopted.)

Colin Brigstock of Finity has asked for the data from EQC to be tested with a Finity model.

David Baird presented his report on his GLM analysis of the Melville Jessup Weaver apportionment surveys, using an expanded set of T + T land attributes. David concluded that is the correlation between property attributes and apportionment is still too variable to be reliably used to apportion damage for individual properties.

## ACTION POINTS

- Each insurer to provide Quotable Value Property Identifiers [QVPis] to David Baird.
- David Baird provides relevant Tonkin & Taylor data to each insurer, once Rufus has confirmed that it's OK to release this data
- EQC to provide each insurer with all properties that will show EQC's claims reserves

**COMPLETED 12 March**

- From the supplied EQC reserving data to insurers, insurers will then propose which claims should be insurer managed. Insurers will identify any potential problems / large discrepancies to EQC.
- EQC will provide each insurer with a list of persons and contact details within their settlements team who can assist insurers with issues such as data errors.  
It was agreed that the shared database proposal (e.g. developing more capability in 'Orbit') needs to be developed.  
It was agreed that such a database is going to be very useful for analysing claims that have been agreed between EQC & Insurers and useful for guiding apportionment.  
The sub-group should continue with its development work.
- EQC to provide Finity with their sample data, including Tonkin & Taylor data, so that Finity can test and potentially identify alternative statistical approaches.
- EQC to advise what the likely timescale would be if it was to rely on a manual apportionment process.
- Insurers to advise EQC of:
  - Number of properties that have in the resolution/ joint review process
  - Breakdown of the reasons why these properties are in resolution (repair strategy, cost, apportionment)
- Database sub-group to meet Friday 16 March to further develop the parameters of the shared database.
- The Apportionment Working Group will meet again on Thursday 22 March, starting at 1pm, at EQC. Teleconference facilities available for those who are not able to travel.

**Meeting ended: 12 noon.**

## RESIDENTIAL REBUILD GOVERNANCE GROUP

### Terms of Reference

#### Purpose of group

*To govern the resolution of issues and impediments to the residential rebuild.*

In particular the focus will be on enabling homeowners to have their properties rebuilt as soon as possible – to that end the Governance Group will be expected to:

- Help deliver a collegial approach to key issues and processes across the relevant parties
- Be proactive in creating solutions to resolve impediments
- Be focused towards the development of tangible outcomes
- Have authority to make decisions for their organisation

#### Key areas of focus and overview

##### Claim Assessment Workstream

- Apportionment of EQC claims between events
- Agreement on repair methodology
- Common costing model
- Land repair liabilities

##### Regulation and Consenting Workstream

- Foundations and flood level strategy
- Building Act and RMA interpretation
- TC3 foundation solutions
- Green Zone geotechnical database

##### Rebuild Delivery Workstream

- Geotechnical Site Investigation programme
- Rebuild resources
- Collective Working
- EQC/Insurer protocols

#### Participants

- Territorial Authorities (Building and Regulation)
- Nominated Insurers
- EQC
- DBH
- Engineering Advisory Group
- Tonkin & Taylor
- CERA
- New Zealand Institute of Architects

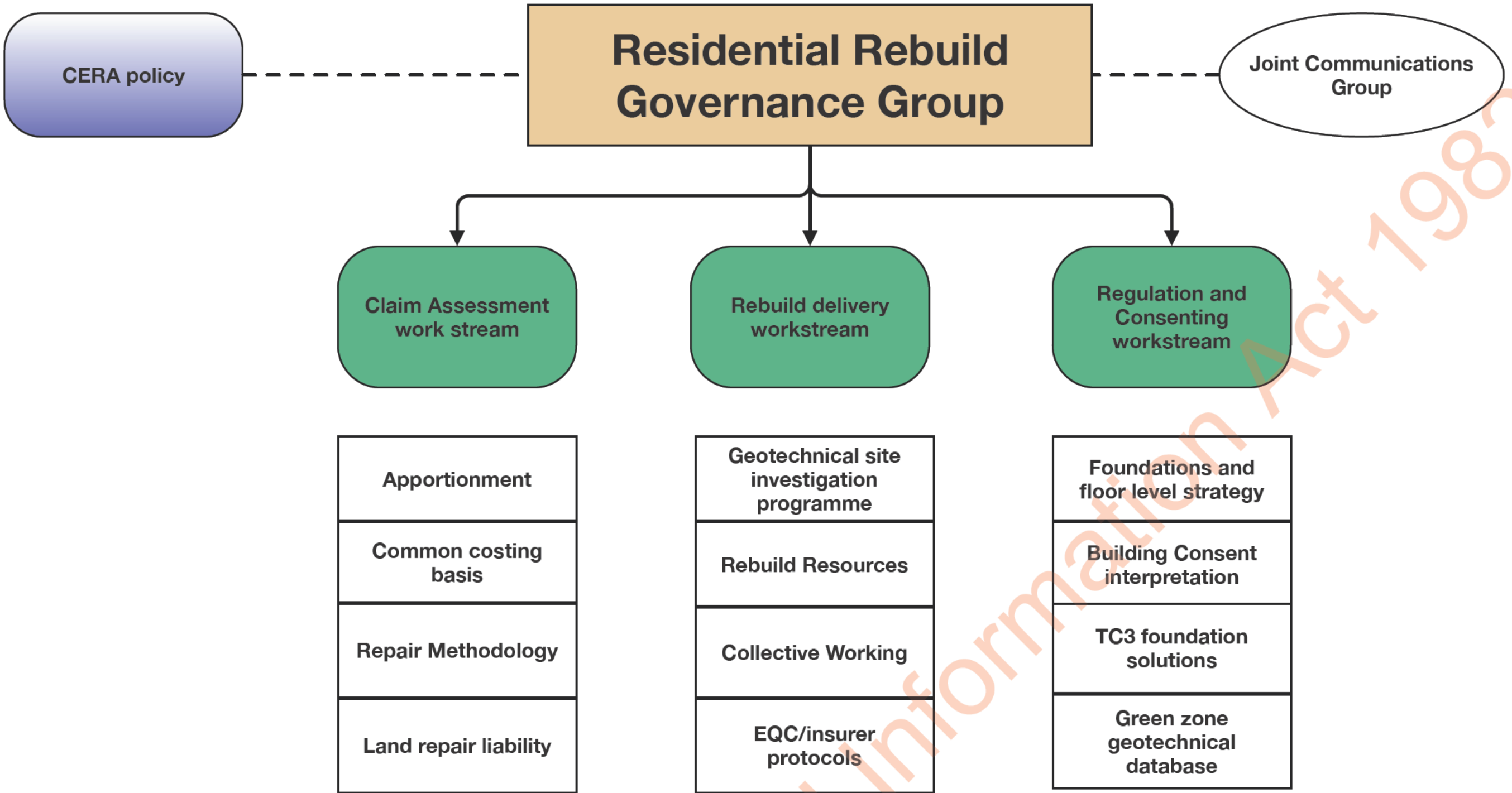
**Chairperson**  
Richard Martin

**Secretariat**  
CERA

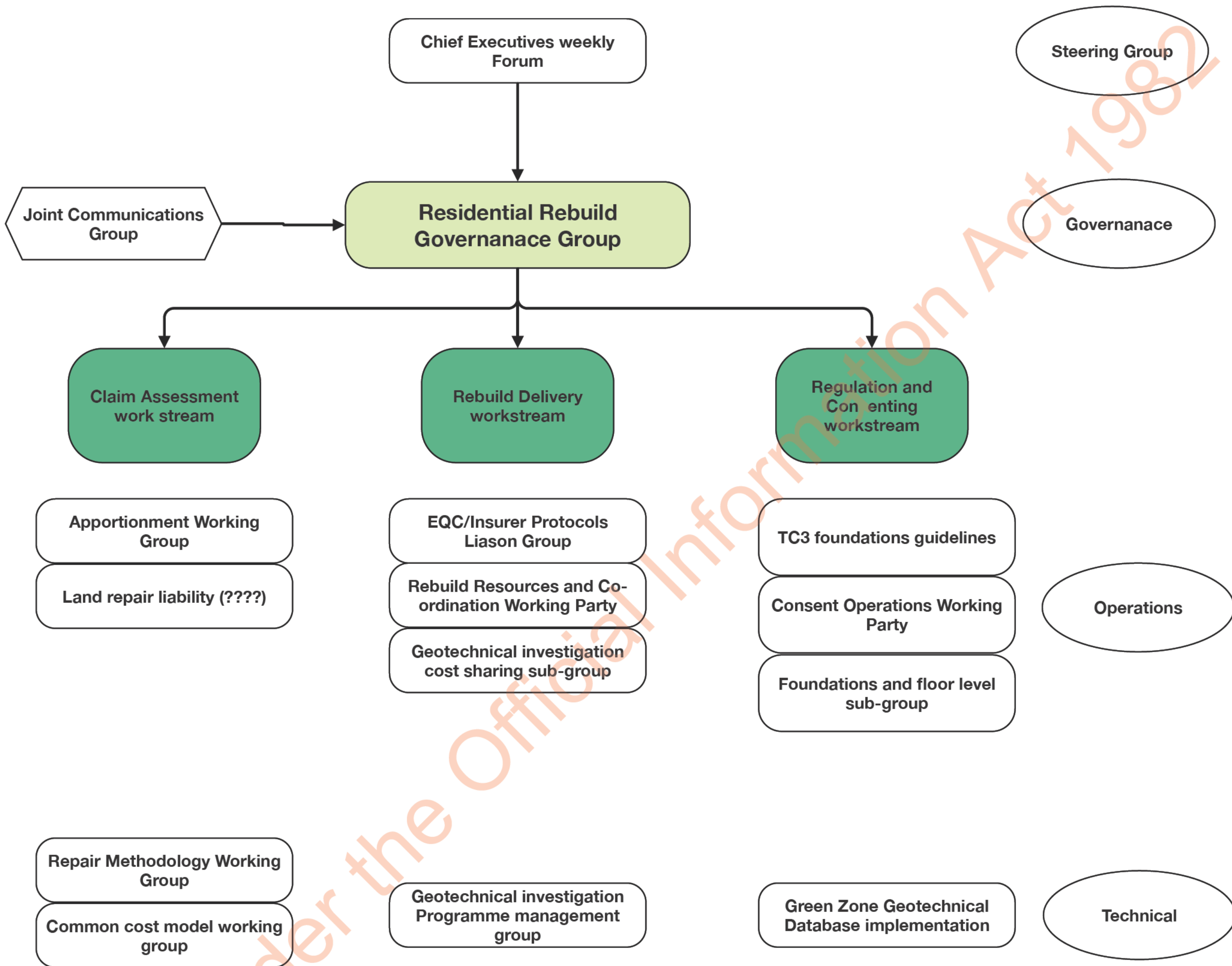
**Forums reporting to Governance Group**

Forum	Membership	Chair
<i>Claim Assessment Workstream</i>		
Event Apportionment Working Group	TBC	TBC
Land Repair liability working group	May not want to discuss this yet	
Repair methodology Working group	TBC	TBC
Common cost model Working group	TBC	TBC
<i>Rebuild Delivery Workstream</i>		
Not relevant to your request		
<i>Regulation and Consenting Workstream</i>		
Not relevant to your request		

<sup>1</sup> Progress reporting but not accountable  
<sup>2</sup> Progress reporting but not accountable



## Structure of multiparty forums



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**Summary of key points and actions from CERA and CE's weekly meeting 1  
5 March 2012**

1. *Role of CERA/CE's group:* The meeting agreed the role of this group, meeting on a weekly basis, was to add high level governance and resource coordination. To that end the key objectives were to:
  - a. understand and agree the key workstreams
  - b. ensure the right people and resources are committed to each workstream
  - c. ensure each workstream has clear objectives and is reporting through to this group with recommendations
  - d. ensure all of the above is done as a high priority with clear timelines
2. *Key workstreams:* The meeting agreed there were currently four key workstreams that it would focus on in relation to residential claim resolution and rebuild:
  - a. Repair methodologies and costings working group
  - b. Apportionment working group
  - c. Regulatory and Consenting working group (re EQC land cover)
  - d. EQC/Insurer/CERA Comms working group.
3. *Reporting and recommendations:* It was agreed each working group would be asked to report back to the CERA/CEs group in relation to:
  - a. each key issue it is considering
  - b. the timelines it is proposing for resolution of those issues and
  - c. when it reports to include recommendations (if necessary split)

This will allow the CERA/CEs group to provide decision making and guidance as required and ensure timely and coordinated resolution of the key issues.

4. *Specific points noted:*
  - *Costings:* the meeting noted the need for this working group to identify outstanding areas of difference and make relevant recommendations, preferably with worked examples. It was agreed the EQC handover proposal and joint Geotech testing programme proposals would be considered through this working group
  - *Apportionment:* the meeting sought recommendations from the working group on a whether a pragmatic low cost solution was possible, that took account of real data and could be in place as soon as possible – even if it only deals with 80% of cases
  - *TC3 DBH guidelines:* DBH to test scenarios with EQC and insurers before draft guidelines finalised and to share final draft of guidelines at end of month
  - *EQC land settlements:* EQC advised it is in final stages of its review process after which it will be ready to engage with the industry especially around damage types 8 and 9 (crust thinning and exacerbated flood risk). It also intends to start a public briefing campaign. It was agreed to use the Regulatory and Consenting working group for this briefing process

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5. *Actions and future meetings*

- a. ICNZ to ensure relevant working group meetings are arranged and briefed on expectations and reporting requirements
- b. DBH to arrange meetings on guideline scenarios
- c. Future meetings of CERA CEs group to maintain the 8.30am Friday slot
- d. CERA to discuss with EQC potential conflict management on land issues

Released under the Official Information Act 1982

CERA and Chief Executives' Weekly Meeting  
Friday 16 March 2012 at 8:30am

By teleconference  
083033  
Pin No. 899620#

- 1 Confirm actions from Minister's meeting on 5 March
- 2 Presentation from DBH on TC3 foundations
- 3 Report backs on other action items
  - i Apportionment
  - ii Geotech testing
  - iii Assessment methodology
  - iv Costing methodology
  - v Handover – EQC proposal
- 4 Confirm:
  - Right people and resources are working on each of above and
  - Report back dates and objectives for each work stream.
  - Next meeting for CERA and Chief Executives.
  - Any other business or new issues

**Summary of key points and actions from CE's meeting with Minister Brownlee on 5 March 2012**

- The meeting discussed the need to ensure alignment around key messaging and communication plans for announcements currently anticipated for April
- EQC advised they are proposing to cash settle all land claims – there was discussion about ring fencing these payments to ensure they go towards ground/foundation works for dwellings

*Action 1: Ian Simpson to advise what options he has and discuss with CERA and insurers*

- DBH to provide further briefings to insurers and EQC on building foundation types when it sends its draft report to the Minister at end of March

*Action 2: DBH to brief insurers on foundation report*

- DBH to revisit drilling plans – Minister requested faster, cheaper process; potential to use drilling already commissioned and completed by EQC

*Action 3: DBH to prepare draft Cabinet paper for Minister by 16 March including consideration of liability issues*

- Insurers and EQC agreed in principle that for claims where there is disagreement as to whether it is under or over cap these will be managed by insurer (where the insurer believes it is over cap) EQC will transfer funds to the insurer to the level of their own assessment and then differences will be addressed in a wash-up later in the process

*Action 4: Insurers and EQC to meet to test and finalise this understanding*

- All agreed apportionment is a key issue – on apportionment insurers agreed to review and 'upgrade' their membership of the industry apportionment working group to get an outcome sooner and that it would report through to the weekly CERA/CEs meeting

*Action 5: Insurers and EQC to review membership and objectives of apportionment working groups to accelerate practical resolution*

- Insurers and EQC have got closer in terms of repair methodologies, but there are still disagreements as to costs of repairs. Insurers and EQC to discuss using 'global' costing guidelines.

*Action 5: ICNZ to advise CERA if Commerce Act issues need to be considered*

- Insurers tabled a proposed communications management approach which is to be discussed more with CERA

*Action 6: CERA (Michelle Mitchell and James Hay) to discuss with Jacqui Johnson and EQC representative*

- CEs will meet weekly by teleconference with James Hay. The meetings are to progress all the issues on the agenda at the meeting with the Minister. There will be a report back to the Minister by end of March and a further meeting if required

*Action 7: progress report to Minister by 30 March*


## **Report from Regulatory and Consenting Working group to CE's weekly meeting 22 March 2012**

### **Land**

- EQC was able to a general outlined of proposals but no timeline or detail, as subject to review and final approval
- Therefore limited progress able to be made at this stage on this matter
- Concern regarding cash out may lead to extra cost to insurers as funds not available form homeowner, but more work required to determine if this is a significant issue
- Important to socialise EQC view of extent of liability with insurers before made public to avoid public disagreement within industry


### **TC3 foundations**

Not relevant to your request



### **Geotechnical testing**

Not relevant to your request



### **Other work groups**

#### *EQC handover proposal:*

Joint group doesn't see this working but individual insurers making arrangements with EQC for at least of their disputed claims

#### *Global Cost model:*

We understand not supported by working group. EQC map need to visit all disputed sites

#### *General*

Question whether the Cost & Repair method and Apportionment group are working at too low a a level to resolve the substantive issues

# memo

**To:** Roger Sutton

**CC:**

**From:** Alison O'Connell & James Hay

**Date:** 23 March 2012

**Security Level:** Confidential

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**Insurance Council (ICNZ) AGM**  
**General Discussion on the Canterbury Earthquake**  
**26 March at 4.30 - 5.30pm**

Action	Note for Meeting	Date required by	Meeting 26 March
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ICNZ Members are meeting in the hour before your session for a Members' Earthquake Session, likely topics are:

- Insurer/EQC relations
- CERA/CEs weekly meeting forum, including the four key workstreams:
  - Repair methodologies and costings working group
  - Apportionment
  - EQC land settlements (and regulatory and consenting issues)
  - EQC/Insurer/CERA comms strategies
- TC 3, building standards and flood hazard
- Reinsurance renewals
- Claims arming and enhanced client support options.

The general Discussion Session will include the CEO of EQC, as well as yourself and James.

ICNZ members are the CEOs of the major private insurers **and reinsurers**.

Minister Brownlee may join the end of the Discussion Session around 5.30.

The objective of the session is **"to assist the Insurance Council Board delivery of the Canterbury recovery during 2012"**.

You have not been asked to speak on any particular topics, but here are some points on some of the above issues:

### Repair methodologies and costing

- Differences between EQC and insurers are delaying the decision of whether claims are under- or over-cap, so customers don't know who is managing their claim. From the data provided by insurers, we believe this affects around 16,000 properties
- We are very concerned about these delays because of the stress on customers of not even knowing this most basic of questions - who will manage their claim?
- *Crown offer deadline:* Delays in agreeing claim settlements are particularly stressful for the Residential Red Zone claimants nearing the deadline for the Crown offer. There are around 1,200 Residential Red Zone offers due to expire in May 2012 from property owners who have not yet signed a Sale and Purchase agreement. Over a third of those are held up because of insurance and/or EQC claim issues
- *RRZ Demolitions:* Delays in agreeing claims are also causing delays in demolishing Residential Red Zone properties already settled, which extends the social problems of having pockets of empty, uncared for, damaged houses
- *Independent review:* We understand that the EQC/insurer repair methodology & costing group plan to use pilot joint assessments of c. 20 claims per insurer to identify systematic differences between EQC and insurer assessments and then use that learning to move towards the same assessment and methodology. This will take another 6 weeks or so. Lumley deserve credit for driving this initiative but time is slipping by.
- *Wash ups:* Insurers are each making their own decision to take over any disputed over cap claims and wash up later: Lumley, AML and Tower (possibly RRZ only) appear to be doing this. Others worry about the cash flow of carrying these costs with no confidence EQC will agree on costings for the wash-up
- *Geotech testing:* We have successfully pushed DBH to a lower density testing regime. Councils are still to confirm they are ok with this. EQC is working on a strawman for the process of geotechnical testing and cost apportionment between itself and insurers. Reduced density and Council acceptance lower total cost and reduce time required. CERA has paid over \$60k to have the geotech database module ready for data. However EQC and potentially some insurers still looking for:
  - Cost recovery from third parties and other users
  - Crown contribution to add testing at boundaries to reduce TC3
- Cost recovery is a nonsense. It is a reduced sunk cost. The information becomes public once consents are issued using it anyway
- We have made it clear once the EQC/Insurer drill program is known we will be able to see if there is a need for boundary testing, identifying if it can be added without slowing/diverting work and put a paper up seeking funding for it

### Apportionment

- The working group on apportionment is working on a simple proposal which should speed up the otherwise manual per claim process, but it depends on reaching agreement on repair methodology and costing

### **EQC land settlements and Regulatory & Consenting Working Group**

- CERA does not have any more detail on EQC's proposals for land settlement than what has been discussed generally with the insurance industry
- CCC flood hazard mapping EQC land settlement methodologies are two key missing bits for residential repair and rebuild on damaged land
- CERA is looking to set up CCC/insurer meeting on flood hazards as this is key to NZ wide upcoming reinsurance renewals, especially given learnings from Queensland
- EQC is waiting until its review process is finalised before it can brief CERA, the industry and Councils in detail on its land proposals. No time line is available for this – but most likely mid- late April

### **TC3, building standards and flood hazard**

- Not relevant to your request

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### **Port Hills**

- Not relevant to your request

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### **Building standards**

- Not relevant to your request

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### **Communications**

- The joint communications management approach insurers tabled at the Ministerial meeting 5 March needs to be further discussed. We are concerned that property owners should have all the information they need to understand

their insurance claim and make good decisions, especially around cash outs in TC3 where some insurers are trying to get out of geotech testing

- The Communications group reporting to the CERA/CEs meeting will work on aligning key messages, especially in April around the DBH guidelines, TC3 and EQC land
- We are particularly concerned that the public should understand the pros and cons of cash settling compared to repair/rebuild. As the timetable for claim settlement extends then cash settlement may appear more attractive.

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**Summary of key points and actions from CERA and CE's weekly meeting 2  
23 March 2012**

Present: Jacqui Johnson  
Gary Dransfield  
Ian Simpson  
John Grant (for John Lyons)  
John Balmforth  
Peter Rose  
Debbie Eyre (for Rob Flanagan)  
James Hay  
Chris Ryan, John Lucas, Brett Solvander (for ICNZ)

In attendance: Lindy Fursman (Treasury)  
Carl Bakker (for EQC)  
Emma Kerr (for CERA land announcements)

1. *Land zoning update:* James Hay and Emma Kerr briefed the meeting on the land zone announcements to be made at 10am this morning
2. *Reporting from 4 workstreams:* John Lucas and James Hay briefed the meeting on the work this week by the 4 workstreams. Key points noted and agreed were:

a. *Repair methodologies and costings*

- Insurers are looking to join the Lumley independent review process. Lumley results 2-3 weeks away, rest of industry at least 6.

**Action 1:** *The CEs group asked if this could be expedited with insurers doing more work now on claim selection for this process*

- The real value in this process will be if it can be used to extrapolate more general adjustments and agreement beyond a case by case approach
- Some methodology issues are still unresolved, in particular levelling, pre-existing damage/floor settlement and contingencies
- The handover and wash up proposal not generally recommended by the working group but forms of it may be adopted by EQC and some insurers on a bilateral basis
- The global costing model was not favoured and therefore the recommendation is that this be put on hold
- Insurers still reviewing the EQC claims information

**Action 3:** *It was agreed handover could be expedited where at least one of the claims was over-cap – working group to advance this*

- Meeting to be held next Thursday on geotech testing model

**Action 2:** *CERA and DBH to attend Geotech part of the meeting and consider Crown role and if liability question still relevant*

- Further meeting to review DBH draft guidelines before 30 March to assist BDH to understand likely policy responses

*The CEs group noted the importance of CCC flood modelling.*

**Action 3:** *CERA to arrange meeting with CCC to get flood model outputs sooner, preferably with an industry CE present to stress the importance*

b. *Apportionment:*

- The working group has identified several options
- A new paper by EQC and 1 insurer will be presented in two weeks
- Linkage to resolution of methodologies and costings work noted

**Action 4:** *ICNZ and Lumleys to look to advance this timing and provide draft paper to next weeks CEs Group meeting for discussion*

**Action 5:** *Insurers and EQC to consider merits of parallel engagement with reinsurers to gauge their level of comfort with proposed direction*

c. *EQC Land:*

- EQC still conducting its legal and technical reviews
- EQC will provide substantive briefings to insurers, Councils and officials through the Regulatory and Consenting working group given the strong link to consenting

**Action 6:** *EQC to advise when it will commence this pre-briefing process*

d. *Communications:*

- Working group being finalised

**Action 7:** *Working group to identify key timelines, stakeholders and media for communication of relevant messages*

**Action 8:** Not relevant to your request

**Action 9:** *EQC and insurers to consider CERA request that they supplement their independent dispute resolution services with an independent advisory service*

The meeting concluded noting the need for even greater urgency

**Action 10:** *ICNZ and CERA to prepare table identifying critical path and interdependencies*

**Apportionment: Summary of process steps, options and issues**

Process	Option A	Option B	Option C
1. Properties needing Apportionment	Identify properties at issue by excluding: <ul style="list-style-type: none"> <li>Properties where claims have already been apportioned</li> <li>Properties with only one claim</li> <li>Properties where the total loss is under cap</li> </ul>		
2. Apportionment Tool	Use existing Baird Hooper matrix of % of damage from each event by geographic zone	Do further statistical analysis on a sample of claims to adjust matrix for insurer profile of damage	Start with BH matrix but keep analysing and adjust as more information becomes available
3. Classification	Apply apportionment tool to properties at issue. EQC handles properties with no claims over cap after this calculation; insurer handles remaining properties		
4. EQC payment of its portion of over cap claims	EQC pays insured on basis of apportioned amount	EQC pays insurer its liability periodically, as cases are agreed	EQC pays insurer as each claim is handled
5. Claim Settlement	EQC and insurers settle their respective claims		
6. Balancing payment	EQC and insurers agree payments are full and final	Manual apportionment for each claim continues in background; balancing payments are made between EQC and insurers when complete	Manual apportionment for each claim continues in background until apportionment tool is agreed to be applied to remaining claims
Comments	<ul style="list-style-type: none"> <li>Insured knows who will handle claims asap (say, 4 weeks to set this up?)</li> <li>Matters between EQC and insurers settled asap</li> <li>Assumes better accuracy is unnecessary; systematic bias should be avoided as matrix works only on geographic zone</li> </ul>	<ul style="list-style-type: none"> <li>Takes longer (plus 6 weeks?) before claimants know who will handle claim</li> <li>Balancing payments between EQC and insurer delayed</li> <li>Achieves best available accuracy but at highest admin cost</li> </ul>	<ul style="list-style-type: none"> <li>Takes even longer before claimants know who will handle claim</li> <li>Timing of final payments between EQC and insurer uncertain</li> <li>Assumes desirable level of accuracy will be achieved with more information</li> </ul>
<b>Note</b> <ul style="list-style-type: none"> <li>It is necessary that the claim amounts are agreed before this process starts</li> <li>How EQC apportions its under cap claims is not covered by this tool</li> <li>Note: balancing payment options (step 6) can be combined in different ways with the options for apportionment and payment of EQC portion (steps 2 and 4)</li> <li>Matrix will have to be adapted when claims not reported for an event to prevent too many deductibles being charged</li> </ul>			

Note from meeting CERA/Swiss Re, Christchurch, 5 April 2012  
James Hay, Alison O'Connell, CERA

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**Purpose**

1. The meeting was requested by Swiss Re as a general update on progress. Two of their Claims Managers were in Christchurch visiting ceding insurers and setting up claims audits for later in April.
2. We met with Peter Newall, Executive Claims Manager (P&C) Asia and Andrew Dry, Claims Expert P&C, Australia & New Zealand.

**General points**

3. The general theme of the discussion was consistent with earlier conversations. Swiss Re is keen for claims to be settled quickly because of the escalating cost of claims and claims handling expenses pending settlement.
4. A new point that emerged was a worry about IBNR (Incurred but not Reported) reserves increasing faster than usual. This indicates slow reporting from insurers, likely due to ongoing reassessments, both commercial and residential. The concern is that it may indicate total liability reserves are insufficient.
5. Local Swiss Re claims managers have to report to Head Office an increase in liability reserves of CHF100m or more (NZD133m).

**Commercial**

6. Not relevant to your request

7.

8.

**Residential claims: assessments**

9. As in previous discussions, Swiss Re is concerned at the "bureaucracy" in residential claim settlement and high claims handling expenses from the involvement of both EQC and insurer assessors. On this visit they have looked at some insurer claim files and were horrified at the number of reassessments made in some cases for agreement of claim damage amounts between EQC and insurer.
10. So far as they could tell from these brief file inspections, the insurer claims assessments are "good".

11. Later in April, a three-man team (led by Andrew) is back in New Zealand for three weeks of claims audit. This more detailed assessment of cedant claim files will give Swiss Re more insight into the quality of claims assessments. Other reinsurers are doing similar audits.
12. **Note:** This process should give the insurers information on whether their assessments are robust enough for their reinsurers. This may change the dynamics in joint EQC/insurer reassessment programmes.  
**Action:** AOC to follow up with Andrew Dry at the end of their process to understand general findings.

#### **Residential claims: apportionment**

13. Consistent with previous discussions, Swiss Re urged a pragmatic solution to the apportionment logjam.
14. They have not been asked by ceding insurers about the emerging solution to apportionment, but they had heard some of what the working group is doing (and they should get minutes of the working group meetings from ICNZ). We explained the bulk settlement option using the matrix by geographic zone. They would want to understand the solution, but were very relaxed about it and raised no issues of potential accuracy or potential change of their liability.
15. They see the solution as simple in outline:
- agree total damage cost (i.e. do not attempt to work out damage chronologically);
  - separate out clear cases e.g. single event under or over caps
  - apply the bulk settlement matrix to the rest.
- This is in essence what the apportionment working group is developing. We checked with them that this approach was acceptable even if reinsurer programmes had changed between events.
16. They also suggested handover of cases to insurers to manage and washing up with EQC later, and were perplexed that insurers would decline to do that without a guarantee of EQC agreeing insurer assessments first.

#### **Residential Red Zone**

17. Not relevant to your request

#### **Residential claims: joint working groups**

18. Swiss Re did not have a clear understanding of the various working groups and CERA role, so we shared an organisation chart and described the role of each. They seemed impressed, although queried why CERA was not on the repair methodology group.
19. While there were several issues with TC3 that were mentioned briefly, we did not have time to develop these further. However, they were happy that the Regulatory and Consenting Working Group (and subgroups) were addressing the issues they

had previously raised around efficiency of geotech testing and consenting processes.

20. Swiss Re's initial reaction to the suggestion of a claims advisory and support service was that it was more cost for the reinsurers to bear (as part of claims handling expenses) and it would be better to just settle claims faster.

Not relevant to your request

**General market comments**

21. SR reiterated that they are writing more capacity in NZ than prior to September 2010.
22. They do not believe that there is any problem of reinsurance capacity or insurability in New Zealand. The problems with insufficient cover being available locally are therefore because local insurers are under capital pressure.
23. SR said they had heard Munich Re is writing treaty renewals only on a fixed sum insured basis. This would mean open-ended reinstatement policies will not be able to continue. So far, the only change in the market we have seen is that Vero has introduced maximum reinstatement costs per square metre. However, if the Munich Re story is correct, we should expect more changes to policy terms soon.
24. In the context of improving the quality of insurance operations in NZ, Peter mentioned The Aldermanbury Declaration of the UK's Chartered Insurance Institute. This encourages UK insurance firms (insurers, brokers and service firms such as loss adjusters) to commit to a common framework of professional standards, and put in place measures to meet specified standards by December 2013. Some of the companies signed up have NZ arms.

# **Draft Discussion Paper:**

## **Proposal for handling customers where there are unapportioned losses between events.**

Apportionment Working Group

19 April 2012

# Overview of this paper

- Current Issues
- Proposed solution
- Critical success factors

# Current Issues

- The apportionment problem (combined with the cost methodology problem) is creating the following issues for customers:
  - Insurers may not cash settle or commence repair/rebuild work until EQC has settled with the customer.
  - Customers don't know who is handling their claims if it is unclear whether it is under or over the threshold for EQC liability (the cap).
- The uncertainty also means it is difficult for Insurers and EQC to estimate and manage their costs, and expedite claims settlement.
- The current process manually apportions every claim.

# Overview of proposed solution

The proposed solution has the following broad steps:

1. Properties needing Apportionment

For each insurer determine exactly the properties needing apportionment.

2. Apportionment Tool

Determine an apportionment tool.

3. Classification

Run each property's claims through the tool to determine whether it will be insurer or EQC handled.

4. EQC Portion of Over cap claims

Determine the estimated EQC liability for each insurer and set up a system for paying this.

5. Claim Settlement

Insurers and EQC settle their respective claims.

6. Balancing payment process

A balancing payment between the Insurer & EQC.

# Overview of proposed solution

The proposed solution has the following broad steps:

## 1.Remove “Simple” properties

Simple properties have no costing or apportionment issues.

## 2.Remove claims with “Costing disputes”

Use joint resolution process to resolve costing and apportionment – insurer manages regardless of outcome.

## 3.Insurers handle remaining “Complex” claims

Remaining claims are assigned to insurers to handle (though joint resolution process, or to apportionment tool).

## 4.Apportionment Tool

Determine an apportionment tool for bulk settlement of claims not manually apportioned.

## 5.Bulk payments

Determine the estimated EQC liability for each insurer and set up a system for paying this.

## 6.Balancing payment process

A balancing payment between the Insurer & EQC (if necessary)

# 1. Remove Simple properties

- The following properties have been resolved and can be excluded:
  - Properties where all claims have been closed.
  - Properties where an allocation to all claims has been agreed by EQC and the Insurer
- The following properties are defined as “Simple” and have no costing or apportionment issues:
  - Properties where the agreed total event loss is under cap, **single or multi event (goes to EQC)**
  - Properties with n EQC claims and agreed total event claims cost greater than n caps. These go to insurer. n can be 1 or more.

## 2. Remove claims with Cost disputes

- These claims go through the cost dispute resolution process (which will also determine the correct apportionment)
- They are managed by the insurer throughout, even if agreed costing and apportionment means they turn out to be under cap.
- They will not go through the bulk apportionment process

### 3. Insurers handle remaining “Complex” claims

- The remaining properties have multiple claims and a significant amount of damage.
- There is agreement between the EQC and the insurer as to the total claim cost.
- These claims will be automatically assigned to insurers to be dealt with through their PMO's
- They will go through bulk apportionment

## 4. Apportionment tool

- The Apportionment tool will be used to determine the bulk settlement needed between EQC and Insurers for any claims with apportionment not otherwise agreed
- It will start with the data (what data?) already collected.
- A database will be created and further properties will be selected for assessment to create a representative sample of 2,000 properties with agreed cost and apportionment.
- This sample will be used to create the apportionment tool – essentially the % of damage across 4 events (Sep 10, Feb 11, Jun 11, Other) for each of 12 geographic zones

## 5. Bulk payments

- A method for handling the transfer of money from EQC to Insurers for Complex claims needs further investigation.
- ?? Is this the same as balancing payment now?

## 6. Balancing payment

- A balancing payment may be needed to ensure the total bulk payments fairly reflect the amount that should be transferred.
- This may be needed depending on the level of accuracy of the apportionment tool.
- Further work is needed on this.

# Critical success factors

- All Insurers & EQC participate in the scheme
- Reinsurers agree to the scheme
- Accurate data matching between EQC and Insurers is possible.
- Finding a way for EQC to pay insurers directly (rather than via the customer) where this is appropriate.
- Sufficient resources can be point to the Joint Resolution process and that process speeds up through all parties “learning by doing” and sharing lessons
- All parties are pragmatic, flexible and transparent

**Summary of key points and actions from CERA and CE's weekly meeting 6  
8.45 am 20 April 2012**

Present: Jacki Johnson  
Peter Bloy (for Gary Dransfield)  
John Lyon  
Peter Rose  
Debbie Eyre (for Rob Flanagan)  
James Hay  
Chris Ryan, John Lucas, Brett Solvander (ICNZ)  
Bruce Emson (for Ian Simpson)

In attendance: Michelle Mitchell (CERA)                      Alison O'Connell (CERA)  
Lindy Fursman (Treasury)                      Carl Bakker (for EQC)

1. *Repair methodologies and costings:* John Lucas briefed the meeting on the outcome of the working group's meeting on 18 April.
  - a. Preliminary numbers from insurers indicate just under 11,000 claims potentially to go through the joint insurer/EQC resolution process: roughly 8 times the number currently in process.
  - b. Further work to refine and subdivide the numbers, which will identify those cases that can be taken out of the queue quickly, is ongoing in the Apportionment group. Numbers to be ready by 30 April.
  - c. Through initial results from the Synergine/Lumley pilot and accumulated experience on the ground, the working group has concluded that the joint reassessment process works well, and that if the variety of lessons learned are shared with all parties then future reassessments will become quicker. Workshops have been organised for 2 May and 16 May, involving PMOs, to achieve this.

The CEs shared concern at the length of time cases could potentially be held up. All agreed with the approach proposed in (b) and (c) above.

**Action 1:** *Via both apportionment and repair methodology costing groups, CERA to co-ordinate revised data and information on early exits from resolution process: for CERA/CEs meeting 4 May.*

2. *Apportionment:* The latest apportionment working group meeting on 19 April. It was noted:
  - a. Work on the apportionment model (as outlined in the minutes of CERA/CE meeting 5 April) continues as planned.
  - b. Progress is being made in resolving data matching issues between insurers and EQC.
  - c. Resource has been secured for 3 weeks to build a database for joint resolution cases, but resource after then is needed.
  - d. More resource is needed to support the Apportionment group's work.
  - e. As part of considering the process of apportionment, the question will arise of how early a customer can be assigned either to EQC or the insurer to manage a claim.
  - f. The proposed approach to informing reinsurers of the approach to be taken for apportionment is for each cedant to engage individually using common material.

There was discussion of the interest of reinsurers in the apportionment approach to be used, with a shared view that the reinsurers have expressed a preference for a quick solution. Peter Rose explained the DoA process used by Southern Response, but there were concerns about the wider applicability of that method. Resources to support the apportionment issues were discussed. It was felt that because of the complexity of the issue, and the links to other part of insurance operations such as the claims management process and reinsurance, as well as the need to share ideas in development between working groups, more diversity of resources may be needed.

**Action 2:** *Organisations to consider additional resources for the working group itself or supporting the group within each organisation, as well as BA resource to develop the database. John Lucas to coordinate.*

3. Not relevant to your request

3.

4. Not relevant to your request

4.

5. Not relevant to your request

5.

Next meeting Friday 27 April, 8.45 am.

To: **Minister for Canterbury Earthquake  
Authority**

## Update on residential insurance claim settlement processes

Date	24 April 2012	Priority	Medium
Report No	M/12/0353	File Reference	

### Action Sought

Deadline	
<b>Hon Gerry Brownlee</b> <i>Minister for Canterbury Earthquake Recovery</i>	<b>Note</b> the contents of this report. As soon as you are able.

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
James Hay	General Manager, Corporate & Projects	03 354 2611 (wk)	<input checked="" type="checkbox"/>
Alison O'Connell	Senior Adviser, Insurance	03 354 2647 (wk)	

### Minister's office comments

<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Needs change <input type="checkbox"/> Withdrawn <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Referred to  _____
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<b>Comments</b>          
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# Update on residential insurance claim settlement issues

## Purpose

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- 1 This report provides an update on the insurance claims settlement issues for the residential rebuild from the CERA perspective. It is accompanied by a paper drafted by the Insurance Council of New Zealand as an agreed report back to you from the CERA/insurance CE weekly conference.

## Summary

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- 2 At your meeting with EQC and insurer Chief Executives on 5 March, it was agreed that that CEs would meet weekly with CERA as a way of progressing the various issues with residential insurance settlement. A report to you prepared by ICNZ and agreed by insurer and EQC CEs is attached (Attachment A).
- 3 The CE report says that *"While the big issues remain largely unresolved due to the complexity of potential solutions there remains good will and open dialogue between the separate parties....The group remains optimistic for a resolution of the issues in the short to medium term"*.
- 4 CERA and Treasury are involved in these and other meetings at the working group level covering most of the issues at stake. An organisation chart of the various working groups is at Attachment B. Our assessment is that:
  - Progress has been made on data sharing between EQC and the insurers. The insurers have committed to providing data on the number of properties where significant resolution issues remain. This number is likely to be significantly less than the current estimate (10,900) of properties where claims resolution is pending.
  - Working groups on issues of **repair methodology and costing** and **apportionment** are making reasonable progress towards joint solutions. Insurers and EQC are committed to streamlining the resolution process for contested claims, by sharing learnings on differences between EQC and insurer assessments. However, there is no evidence of a systematic pattern for the differences, and no single template approach that can be more broadly applied. There is a likely solution for apportionment on a bulk settlement basis, once over-cap claim amounts are agreed. While this solution may take some months to finalise, claims resolution need not be held up in the meantime.
  - Not relevant to your request
  -
- 5 There is mainly positive engagement of insurers and EQC in these processes, with this being vital to their success. We are keeping Treasury informed of all the above.

## Current strategy

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6 Following your meeting with insurance chief executives on March 5, CERA has:

- Increased the level and transparency of engagement with EQC and insurer CEs, and pressed for better information sharing and faster decision making.
- Achieved commitment from insurers and EQC to share data to size the problem, i.e. understand how many claims are likely to require manual joint resolution between EQC and insurers, and the likely timetable for these. This will better inform future options for the Crown, if necessary, to speed up the process.
- Not relevant to your request
- Not relevant to your request
- Obtained agreement from insurers and EQC to consider a joint independent support service to help claimants understand the insurance process (as opposed to the dispute process).

7 Not relevant to your request

8 However, the successful resolution of apportionment and repair methodology and costing should contribute to:

- relieving homeowner frustrations and distress and enable homeowner decision making sooner rather than later,
- allowing both EQC and insurers to focus on their respective work to settle claims and communicate with their customers,
- enabling more certain timetabling and resourcing plans for the repair/rebuild to be made, and,
- Not relevant to your request

## Consultation

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9 Treasury were consulted on this report and agree with its recommendations.

10 It is recommended that you:

- |   |   |        |
|---|---|--------|
| 1 | Note that CERA is pursuing a strategy of intensive engagement with insurers and EQC to facilitate joint solutions to claims settlement issues, and officials' view is that reasonable progress is being made. | YES/NO |
| 2 | Share a copy of this report with the Minister of Finance.   | YES/NO |

James Hay  
**General Manager – Corporate & Projects**

<b>NOTED / APPROVED / NOT APPROVED</b>
<p>Hon Gerry Brownlee  <b>Minister for Canterbury Earthquake Recovery</b></p>
<p>Date:        /        / 2012</p>

Attachment A: Report from insurer and EQC CEs  
Attachment B: Organisation structure of joint insurer/EQC/CERA working groups

## Attachment A: Report from insurer and EQC CEs

### REPORT FOR THE MINISTER ON PROGRESSING CANTERBURY EARTHQUAKE RECOVERY

17 April 2010

On March 5 the Minister for Earthquake Recovery, Hon. Gerry Brownlee, asked for a brief, month end, report on progress in bringing together all government agencies and private insurers for the recovery of Canterbury. Since our meeting of 5 March, the following progress has been made.

A formal CEO group which meets weekly has been created. It is comprised of representatives of the major insurers, the Earthquake Commission, CERA, Treasury and also includes representatives from the Insurance Council, and when required, other Government agencies, like the Department of Building and Housing.

The companies involved from the insurance sector include, IAG, Vero, Lumley AM, Southern Response and Tower. The Group meets on a weekly basis with actions and minutes. It is acting as a co-ordinating body for all other cross organisational working groups progressing specific issues – applying the necessary pressure to achieve resolution.

The issues now being addressed or awaiting announcement or agreement include;

1. Not relevant to your request
- 2.
- 3.
4. Reparability, Repair methodologies and costings. This remains unresolved.
  - DBH will seek feedback from the Working Group on their newly released TC3 Foundation Repair Guidelines. Issues such as insurer policy response and customer expectations will need to be taken on board by DBH.
  - Solutions are still being explored to find ways to bridge the claim repair methodologies and costing differences that continue to exist between insurers and EQC
  - An independent review has been taken by Lumley which will identify the key areas of dispute. It is hoped this will help the Group to move forward in a practical manner.

Unfortunately, at this stage, it appears that there may be fundamental philosophical differences between EQC and the insurers generally. Insurers are of the view that EQC starts with the premise that most damaged houses can be repaired, whereas the insurers report that they must respond to their insurance policy obligations, in many cases that damaged property must be returned to an “as new” condition.

Apportionment; this remains unresolved. The working group is meeting weekly with some progress made. A detailed discussion paper exploring the various apportionment options available has now been written. The Apportionment Working Group meeting are centring on a global approach towards apportionment whenever possible, that will still allow efficient

and timely settlements and be agreeable to the reinsurers. . There appears to be some commonality and significant goodwill in this work stream.

A Communications Group has now been created to address issues as they are resolved. It will address the announcement of decisions made by government agencies. The Communications Group now meets on a regular basis and includes representatives of CERA, EQC, DBH, ICNZ, IAG, Southern Response, Vero, Tower and Lumley. The group is now looking at identifying the key timelines, stakeholders and media for the communication of messages.

They will also be looking at co-ordinating announcements that will be made on the future of the land and recovery, responses from individual insurance companies and government agencies. The process of advice, which will be received and co-ordinating a disputes resolution process which will include the Ombudsman, Insurance & Savings Ombudsman and the Financial Services Complaints Ltd.

Finally, the Insurance Council, CERA and EQC are now in the process of preparing a table identifying critical paths and interdependencies.

The key issue still to be resolved is bringing together the Insurers and EQC in areas of repair methodology costing and establishing an apportionment model. Any solution must be agreed by the bulk of reinsurers standing behind the EQC and private insurers. The Insurance Council will seek to facilitate such an agreement through its local and international reinsurer relationships.

While the big issues remain largely unresolved due to the complexity of potential solutions there remains good will and open dialogue between the separate parties. The regular weekly meetings by the CEO group means a range of possible options outside of the traditional contractual ones can be examined and explored with some authority and then developed further.

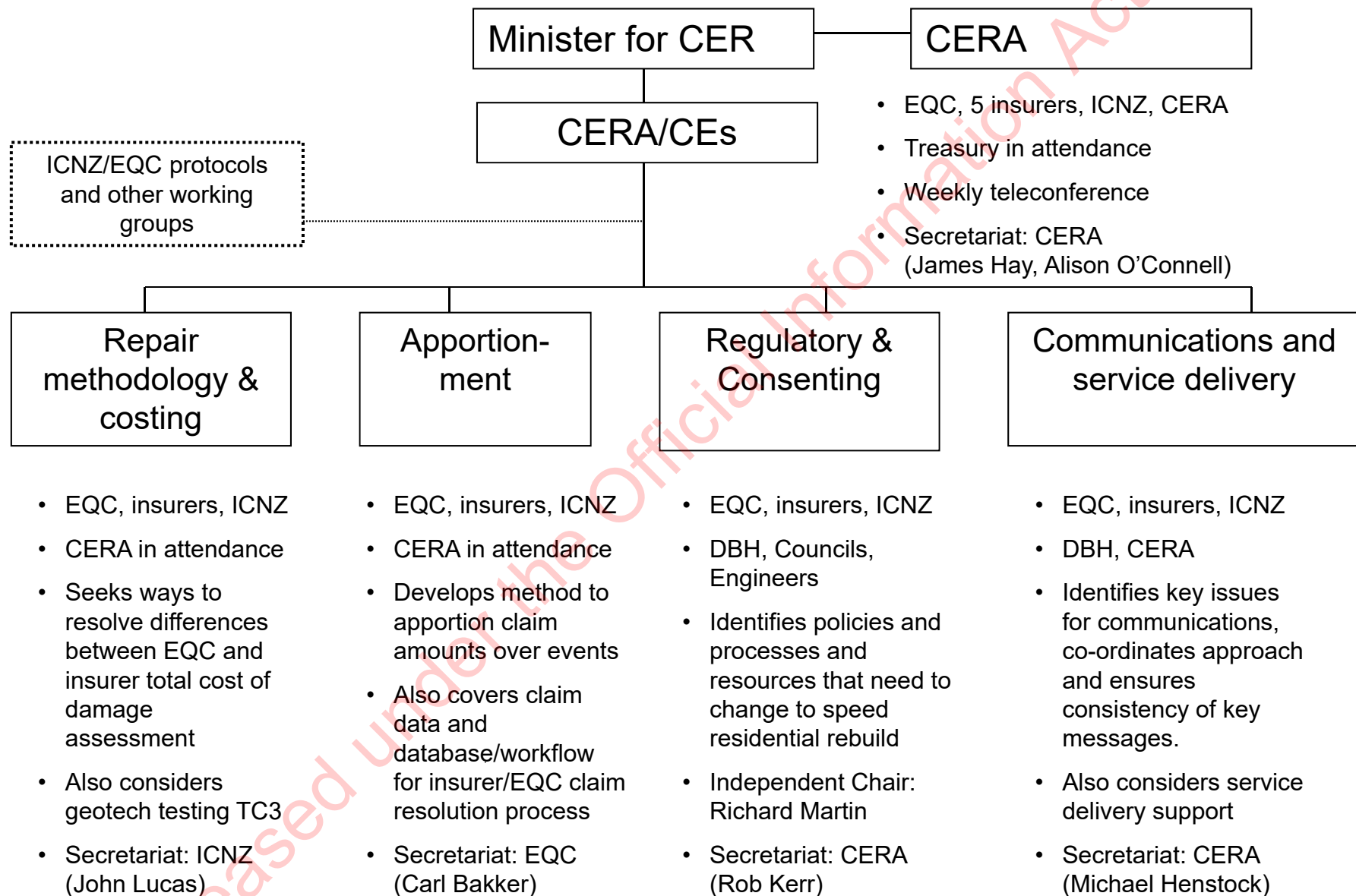
The group remains optimistic for a resolution of the issues in the short to medium term. However, if philosophical differences remain, we may need to consider other paths. The CEO group will continue to meet on a weekly basis.

**Attachment B: Organisation structure of joint insurer/EQC/CERA working groups**

DRAFT

Released under the Official Information Act 1982

# Residential insurance claim settlement – industry working groups



**CERA & CEs WEEKLY MEETINGS COLLATED ACTION POINTS AND STATUS  
AS AT 26 APRIL 2012**

**Outstanding actions**

<b>Action</b>	<b>Status</b>
<b>Meeting 1: 16 March</b>	
Not relevant to your request	
<b>Meeting 2: 23 March</b>	
1. Expedite proposals to expand Lumley review process with insurers doing more work now on claim selection for this process	<b>Revised</b> Instead of further pilots, EQC/insurer /PMO workshops planned 2 May and 16 May to share and embed learnings from Synergine pilot and other sources
3. Handover of over cap claims to be expedited where at least one of the claims was over-cap – working group to advance this	<b>In progress</b> – agreed in principle; data available to do so 30 April (Apportionment group)
5. Insurers and EQC to consider merits of parallel engagement with reinsurers to gauge their level of comfort with proposed direction	<b>Deferred</b> – some briefings happening. Awaiting firmer proposals. Apportionment paper to be refined for this purpose – needs resource.
Not relevant to your request	
Not relevant to your request	
<b>Meeting 3: 30 March</b>	
1. Southern Response to make available its recent over and under cap joint assessment cases to identify learnings	<b>Pending:</b> John Lucas to circulate
<b>Meeting 4: 5 April Additional actions only</b>	
1. EQC to provide scope for BA to develop claims database; John Lucas to circulate for comment.	<b>In progress</b> (in Apportionment Working Group). BA starting; scope available by 4 May
Not relevant to your request	
<b>Meeting 5: 13 April Additional actions only</b>	
<b>Action 2:</b> Carl Bakker to ensure data from EQC is available as required.	<b>Ongoing</b>
<b>Action 3:</b> Alison O'Connell to report to CE's meeting on data flow process and progress.	<b>Ongoing</b>

Action	Status
<b>Meeting 6: 20 April Additional actions only</b>	
<b>Action 1:</b> Via both apportionment and repair methodology costing groups, CERA to co-ordinate revised data and information on early exits from resolution process: for CERA/CEs meeting 4 May.	<b>In progress:</b> Awaiting data from insurers due 30 April
<b>Action 2:</b> Organisations to consider additional resources for the apportionment working group itself or supporting the group within each organisation, as well as BA resource to develop the database. John Lucas to coordinate.	<b>In progress</b>
Not relevant to your request	
<b>Action 4:</b> EQC to feedback any further thoughts after consideration of the Insurance Support Service paper.	<b>In progress</b>
Not relevant to your request	
Not relevant to your request	

## MINUTES - EQC/ ICNZ Claims Apportionment Working Group

Time: Thursday 3 May 2012 (1-4pm)

Location: EQC Boardroom, Level 2 Bayleys Building, 3 Deans Avenue, Christchurch

### In attendance:

Carl Bakker	Consultant to EQC
Peter Bloy	Vero
Bradley Dahlenburg	EQC
Sarah Giles	Southern Response
Scott Lewis	Lumley
John Lucas	ICNZ
Rufus McPherson	EQC
Alison O'Connell	CERA
Peter O'Connor	ICNZ
Annette Purvis	IAG
Lynley Ryder	AMI

### By phone:

Colin Brigstock	Finity for AMI
Heathcliff Neels	IAG

### Apologies

David Ashe	Tower
Richard Beauchamp	Vero
David Baird	Consultant to EQC
David Davies	Ansvar
George Hooper	EQC

### Actions and decisions are set out in the table below.

#### Significant discussions were held on:

1. Reviewing a process map, covering claim flow questions and allocation of claims into seven defined categories to help assess likely loads on parts of the resolution system. This was integrally related to a discussion on the planned approach to bulk apportionment and the identification of a representative sample. (decisions and actions 5, 6, 10-13)
2. reviewing progress on scoping of the jointly agreed property database (decisions and actions 1-4, 7-9)

#### Other key issues were also discussed:

- a. A note from Lynley setting out the key issues and principles for a clearing house (bulk payment/settlement mechanism)
- b. A note from Scott identifying the note key issues and principles around claim assignment in the event that the claim itself is not yet settled
- c. Whether/how an agreed approach to reinsurers should be developed, once progress on item 1 is clear.

### Decisions and actions

Ref	Action	Owner	Due Date	Done?
1	Process map: Alison to revise following discussion, in particular to take out TC3 box and allow for the need for apportionment after costing issues are resolved	Alison	Next revision 17 May	
2	Actuaries to meet to resolve definitional issues around the 7 categories developed by Heathcliffe. Plus provide initial problem definition for sample design for bulk apportionment tool.	Actuaries, Scott to coordinate)	17 May	
3	EQC to confirm total property numbers (with claims)	Rufus McPherson	11 May	

4	All insurers to provide property numbers in the 7 categories . Resourcing issues to be raised with CEs	All insurers	15 May 4 May	Done
5	EQC to advise on "at cap" June claim numbers, are the estimates actually the reserve number?.	Rufus McPherson	11 May	
6	"Jointly agreed property database": progress noted, data subgroup to meet to review	Lynley/Sarah and Rufus to coordinate	15 May	
7	Resource required for implementation: will require BA for 2-3 months, some names mentioned	John Lucas	17 May	
8	Approach to reinsurers: discussed the need to draft a document that clearly identified approach developed to bulk apportionment, initially for review and use with all insurance cos (incl EQC), with possible use either for bilateral discussions with reinsurers, or more jointly.	Approach and resource need to be raised with CEs: Carl John Lucas to follow up resourcing	4 May  17 May	Done
9	Agreed with approach set out Lynley's note setting out the key issues and principles for a clearing house (bulk payment/settlement mechanism). To be passed to Sarah as part of JAPD specification.		3 May	Done
10	Agreed to revisit Scott's paper following revisions to claim bucket definitions and numbers	Scott	17 May	
11	Next meeting: 1pm Thursday 17 May, EQC Princess Street: <b>still to be confirmed</b>		17 May	

**Summary of key points and actions from CERA and CE's weekly meeting 8  
8.45 am 4 May 2012**

Present: Jacki Johnson  
Gary Dransfield  
John Lyon  
Peter Rose  
Debbie Eyre (for Rob Flanagan)  
Chris Ryan, John Lucas, Peter O'Connor, Brett Solvander (ICNZ)  
Bruce Emson (for Ian Simpson)

In attendance: James Hay (CERA) Mike Shatford (CERA)  
Alison O'Connell (CERA)  
Lindy Fursman (Treasury) Carl Bakker (for EQC)

1. **Repair methodologies and costing:** Insurers have agreed to the next stage of the Synergine work to scope out a joint geotech drilling programme for TC3, commenting on potential risks and offering options for implementation. The current proposal envisages CERA as a manager; this has not yet been evaluated within CERA. Synergine's report is due in 7-10 days. It was noted that concerns had been raised over whether engineers (geotech and structural) would accept the drilling results within their liability for sign-off on repair/rebuilds. Also that feedback from reinsurers had been for insurers to make the call on the programme and a preference for speedy resolution.

**Action 1:** John Lucas to check on progress with Synergine halfway through process.

**Action 2:** James Hay to report to next CEs meeting from CERA perspective, and on perspective from engineers on liability issue.

There was a productive PMO workshop this week. A number of differences in repair methodology have now been identified and agreed, including those from the Synergine pilot. The process agreed between Lumley and EQC suggests 80% of disputed claims can be resolved by a joint desktop process, with joint site visits needed less often than previously. An binding arbiter for the remaining unresolved cases is being identified. The process will then be shared with the industry as a template for other insurers to follow. Data on how many claims would need to go through the dispute process, how long it would take, and how many have specific other issues such as foundation or land problems, is outstanding.

**Action 3:** John Lucas to co-ordinate sharing of the resolution process template through working group.

**Action 4:** Peter O'Connor to co-ordinate industry data on claim numbers as part of the 'road map' towards settlement progress.

There is an outstanding question regarding EQC's contract works cover for the existing property structure not covered by the capped cover.


**Action 5:** Bruce Emson to confirm EQC's contract works position to John Lucas.

2. **Apportionment:** The actuarial sub-group has been working on the total number of claims for which the PMO manager can be agreed and those that have apportionment and/or costing issues. More actuarial resource is needed to complete this picture. A Joint Agreed Properties Database is being scoped and more resource will be needed to develop it. There is also a resource requirement to write up the approach being taken on apportionment, first as a communication tool within organisations (and a way of agreeing the approach across organisations) and subsequently as material to explain the approach to reinsurers. It was suggested that, when the approach has been agreed, a single, high level contact with each of the main reinsurers should be made on behalf of all NZ insurers.

**Action 6:** Companies that have not yet completed data exercise to size number of claims agreed or with dispute issues to do so (Vero, Lumley, Tower). [Actuarial sub-group aiming to meet week of 7 May].

**Action 7:** All to check with internal group reinsurance officers the preferred approach to reinsurers to be taken once apportionment tool developed and agreed.

**Action 8:** Carl Bakker and John Lucas to discuss resourcing for apportionment method paper.

3. Not relevant to your request
- 

4. **Insurance Communications and Service Delivery Group (ICS DG):** The CEs expressed some dissatisfaction with the lack of integration in communications around TC3, geotech drilling and land issues over the last week. It was agreed that there needed to be a balance between commercial imperatives and the need to communicate clarity and certainty to policyholders. Mike Shatford suggested that communication of progress and a critical path to resolution of claims is needed but the Communications working group need information to develop messages and educate key stakeholders. There was discussion on how best to deliver information on progress to the Communications group, in this unusual, dynamic situation where working groups do not have binding decision making authority. It was decided that there should be reconsideration within the Communications working group of that group's role and operation.

**Action 11:** Brett Solvander/Peter O'Connor and Mike Shatford to report back at next CE's meeting 11 May on ICSDG's recommendations for its role, membership, stakeholder plan, key outputs and timing etc.

5. **Other matters:**

Not relevant to your request

b. Meeting with the Minister scheduled 10 May.

Not relevant to your request

Next meeting Friday 11 May, **8.45 am**.

Date: 14 May 2012

To: The Minister Responsible for the Earthquake Commission

## Aide Memoire: EQC Board Meeting Notes

### 1. Purpose

Last week you requested a briefing from CERA ahead of your meeting with the EQC Board on May 16. We have consulted with CERA and their advice is reflected in this note.

This note sets out our view on claims settlement issues and offers suggested questions to discuss with the Board. We suggest you test the Board's views on:

- The **critical pathway for the settlement of EQC's land claims**. What are the key decisions (both within and outside EQC control) before settlement can occur?
- **Relationship between EQC and private insurers**. What steps are EQC and insurers taking to arrive at timely resolution of claims? Is the flow of information between EQC and insurers sufficient to ensure that claims are settled in a timely manner?
- **Key risks and obstacles** to the timely and prudent discharge of EQC's liabilities.

### 2. Update

#### a. Assessment and apportionment

Our view is that progress is being made on the related claims settlement issues of damage assessment and apportionment.

- EQC and insurers are slowly resolving differences about damage assessment. A small-scale pilot between EQC and Lumley has enabled the development of a process which will mean that about 80% of cases can be resolved without additional site visits. The pilot and joint assessments with other insurers have also indicated specific changes that EQC is making to its repair methodology.
- The exact number of properties affected by a costing difference is not yet known but the latest estimate is 10,000-14,000.
- Additionally EQC and insurers are working on a bulk approach to apportion losses across events for those properties which are not apportioned manually. This would take apportionment off the critical path for most over-cap properties, potentially leaving around 2,000-3,000 cases requiring apportionment before the PMO can be determined. Once the approach is finalised, insurers intend to jointly communicate with reinsurers to seek their sign-off on the approach.

Not relevant to your request

#### c. EQC's land settlement programme

We are working with CERA and EQC on the potential policy implications of EQC's decision to cash settle land claims. We are particularly interested in whether cash

settlement will have any implications for the future insurability of properties (if property owners do not use cash payouts to remediate the land), whether there will be any difference between EQC's land payouts and the actual costs of remediating the land, and the potential for homeowners to undertake group remediation action, where this is feasible and cost effective. We are also focused on the claims inter-relationship between EQC and private insurers where land repair is a prerequisite for dwelling repair.

In order to understand the current and future implications of the land settlement programme and to facilitate the settlement of the current complex claims we need:

- Information from EQC on the numbers of affected properties with different types of land and dwelling damage, including where these properties are situated;
- Information from EQC on when key decisions on land settlement will be taken and communicated to affected households;
- Further information on how EQC is operationalising and understanding its land liability as set out in the EQC Act.

### 3. Questions for discussion

You may wish to ask the Board to share their views on the following issues:

#### a. Relationship between EQC and the private insurance industry

- i. What is the Board's view on the relationship between EQC and the insurance industry? Are there any relationship management issues, and if so, how can they be addressed?
- ii. What is the Board's view on the work EQC is doing with insurers on damage assessment and apportionment? Are they satisfied with the timescales?
- iii. How does the Board think the reinsurers will view the progress being made and the solutions being proposed?
- iv. Is the Board satisfied with the overall pace of claims settlement (both EQC and the private insurers)?

#### b. Settlement of land claims

- i. What additional data is EQC able to provide to the insurers concerning the number and location of properties with each category of land damage?
- ii. What is the Board's view of progress being made on land claims settlement?
- iii. What is the Board's expectation of the value of the land liability?
- iv. Does the Board consider that cash settlement of land claims will create any future issues of insurability for Canterbury properties or have any broader national implications?
- v. Is the Board satisfied that insurer concerns with land settlement claims have been considered and addressed?

#### c. Potential obstacles

- i. What does the Board see as potential blockages to the settlement process, and what is the Board's main focus in this area?

Lindy Fursman, Senior Analyst, Financial Markets, s9(2)(a)

Jo Hughes, Manager, Financial Markets, s9(2)(a)

Confidential  
Data from insurers

Residential properties with actual or potential insurer involvement  
Summary of process to reach repair/rebuild, with industry estimates of numbers involved

Note: "Agreed" means EQC and insurer agree on quantum within \$10,000 plus GST

Potential numbers needing bulk apportionment (range):

- If all apportioned in joint resolution process
- If none apportioned in joint resolution process

Assumes half of D are manually apportioned

Note:

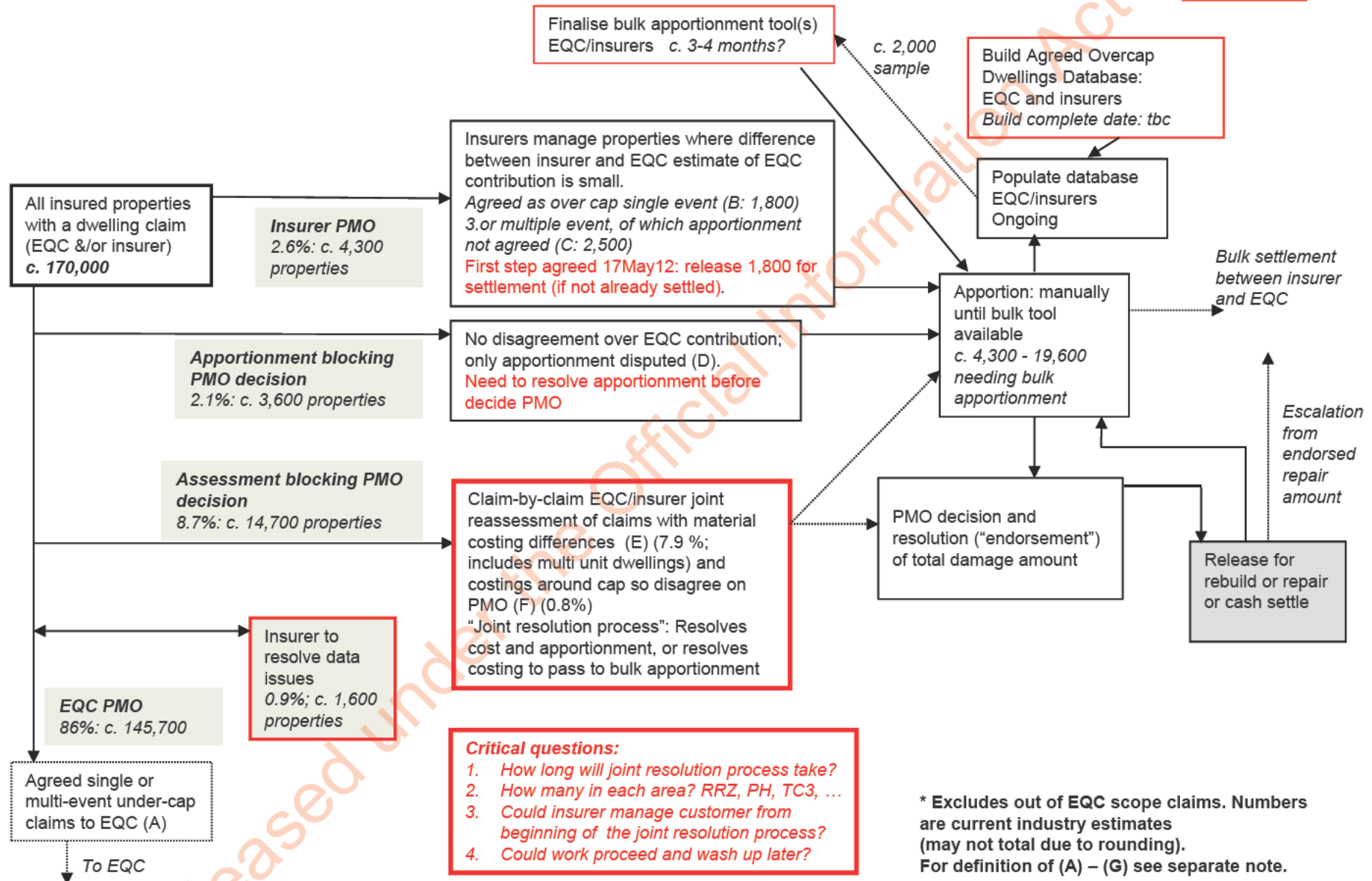
"Bulk apportionment" may mean:

- Negotiation on portfolio basis with EQC
- Insurer's own statistical model
- Industry-wide statistical model

76% of total industry

## Road map for agreeing total damage and apportionment: residential properties with actual or potential insurer involvement\*

Critical path activities



\* Excludes out of EQC scope claims. Numbers are current industry estimates (may not total due to rounding). For definition of (A) – (G) see separate note.

**Summary of key points and actions from CERA and CE's weekly meeting 13  
8.45 am 6 June 2012**

Present: Jacki Johnson  
Gary Dransfield  
Ian Simpson  
John Lyon  
Peter Rose  
Debbie Eyre (for Rob Flanagan)  
Chris Ryan, John Lucas, Brett Solvander, Peter O'Connor (ICNZ)  
James Hay

In attendance: Rob Kerr, Richard McGeorge (CERA)  
Lindy Fursman, (Treasury)  
Carl Bakker (for EQC)

**1. Introduction**

Jacqui Johnson outlined frustration on all sides regarding progress and that there is a need to ensure accountabilities, identify roadblocks and be clear about what can and cannot be communicated.

**2. Insurance Communications and Service Delivery Group (ICSDG):**

Brett Solvander reported. Noted a number of apologies to last working party meeting due to snow, including his own.

- Not relevant to your request
- EQC have provided material for initial communications on land damage with some material being sent out early next week. Ian Simpson outlined that a pilot of 10 customers has started. The material is 'light touch' and only for TC2 and not covering damage types 8 and 9. Discussion on need for insurance company sign-off on messages and to consider implications if TC3 customers receive via the broader customer groups and any misinterpretation. (*refer later discussion*)

*Action 1: Brett Solvander to co-ordinate response on land damage material from insurance companies*

- Not relevant to your request

Not relevant to your request

**3. Repair methodologies and costing:**

John Lucas reported: Concern expressed regarding EQC attendance as have a number of questions on agenda which require answers. Ian Simpson outlined concerns from EQC that meeting is one way, and needs to be restructured to make it a more constructive meeting. These concerns had not been shared previously.

*Action 3: Bruce Emson to speak with John Lucas to discuss structure/purpose of working group*

Not relevant to your request

Land Damage information: Location information for land damage types 1-7 was not released to insurers last week. Types 8-9 was to be sent off yesterday but delayed as was not correct.

*Action 5: Ian Simpson to chase up regarding data exchange*

Peter Rose requested confirmation from EQC that policy is not to wait until all TC3 geotechnical investigations completed. Ian Simpson responded that this is not EQC policy as recognised by 1500 repairs already completed in TC3.

#### **4. Apportionment:**

Carl Bakker reported: Four workstreams

- i) Cleaning up data to start process to identify sample for bulk process. Slow due to difficulty in process. Hopes to get dataset late next week

*Agreed:* CE/CERA meeting to consider if decision required on prioritisation of claim settlement for sample at meeting of 22 June

- ii) Triage of simple overcaps (3000). Only two insurers supplied data to EQC

*Action 6 All insurers to make sure data moved forward as soon as possible*

- iii) Note for re-insurers describing bulk apportionment method. Draft by next week's working group meeting and may have paper for CE/CERA meeting 22 June

Not relevant to your request

Not relevant to your request

Not relevant to your request

**6. EQC land settlements:**

Ian Simpson noted that vast majority of claims will be cash settled: Types 1-7 of amounts typically around \$1-2k. Ian stated he does not have mandate to engage on detail until after board decision. Insurers expressed concern that decisions presented as a fait accompli. Ian Simpson stated that intention is that decisions will not pre-empt conversation of substantive nature regarding effect on building platforms. Next board meeting 13 June re types 8&9. He committed to substantive briefings after that so long as the board does actually reach decisions that enable these briefings to take place

It was agreed insurers need the additional layer of detail to understand EQC's position and assess how their policies respond and the impact on the landowner/policy holder. The main concern may not be cash settlement but rather the potential gap between coverage in order to fund appropriate repairs to land to restore support for subsequent dwelling repairs and rebuilds..

*Agreed:* More work is required to understand what are the downstream impacts and risks

*Action 8: Ian Simpson/Rob Kerr/ICNZ to discuss format for this briefing through the regulatory and consenting working group and report to next CE's dial-up with a proposal for this to happen asap.*

*Action 9: ICNZ agreed to delay its request for a meeting with Minister to enable substantive briefings to occur. Chris Ryan and James Hay to co-ordinate re-scheduled meeting.*

Not relevant to your request

Next meeting Friday 15 June, **8.45 am**.

**Summary of key points and actions from CERA and CE's weekly meeting 14  
8.45 am 15 June 2012**

Present: Jacki Johnson  
Gary Dransfield  
Ian Simpson  
John Lyon  
Peter Rose  
Debbie Eyre (for Rob Flanagan)  
Chris Ryan, John Lucas, Brett Solvander, Peter O'Connor (ICNZ)  
James Hay

In attendance: Rob Kerr, Nicole Manawatu, Steve Rylands (CERA)  
Carl Bakker (for EQC)

**1. Red Zone announcements**

Not relevant to your request

**2. Red Zone Settlement**

James Hay and Nicole Manawatu outlined current status of settlements in the Residential Red Zone.

*Agreed: For CERA to share percentage completed red zone settlements by insurer: see below*

<i>Insurer</i>	<i>Completed Red Zone Settlements as at 31/05/2012</i>
AA	57.14%
AMI	66.32%
Ansvar	62.85%
FMG	52.77%
IAG	60.87%
Lumley	58.70%
MAS	78.26%
Tower	50.07%
Vero	42.10%

*Action 1 CERA to provide breakdown to each individual company, including copy to CEs*


**3. Land settlement process**

Ian Simpson reported, EQC board met on Wednesday and made a number of decisions regarding land settlement and broad coverage. The Board provided clear reinforcement of requirement to socialise these decisions. This will start with responsible Ministers.

*Action 3: EQC to bring note to this meeting next week on how EQC propose to socialise.*

Action 4: James Hay/Rob Kerr to seek to set up RCWG meeting for next Thursday

Not relevant to your request



#### 5. Repair Methodology Working Group

John Lucas reported.

- The structure/purpose of the group has been adjusted following discussion with EQC to focus on operational issues. Policy issues to be referred to this meeting or Regulatory Working Group.

*This approach was supported*

- EQC has team ready to work with insurers on Port Hills
- T&T is monitoring land movement on hills and this information will be available to EQC shortly
- Joint desktop review Lumleys/EQC progressing well. EQC to understand proportion resolved and will have this information in two weeks for this meeting.
- EQC requested information from insurers where insurers have informed customers that property is a rebuild to allow prioritised land settlement


#### 6. Apportionment Working Group

Carl Bakker reported. Noted that progress is slow as issues being uncovered. Also resource pressure due to year end requirements for actuaries.


- Triage of claims for single event overcap. 2 insurers data provided. 50% and 70% match. Noted that address matching an issue preventing easy process. EQC giving priority to those identified.

- Full claims database model development: Data specification late going out due to need to ensure done well. No data returned yet but two companies close to providing.
- Write up of bulk apportionment approach: Making progress, however need to resolve issues re cash transfer and wash ups.
- Joint settlement database: Peter O'Conner progressing recruitment of Business Analyst.
- Carl noted that the revised working group membership was providing a good mesh of claim management and actuarial input to process

Not relevant to your request

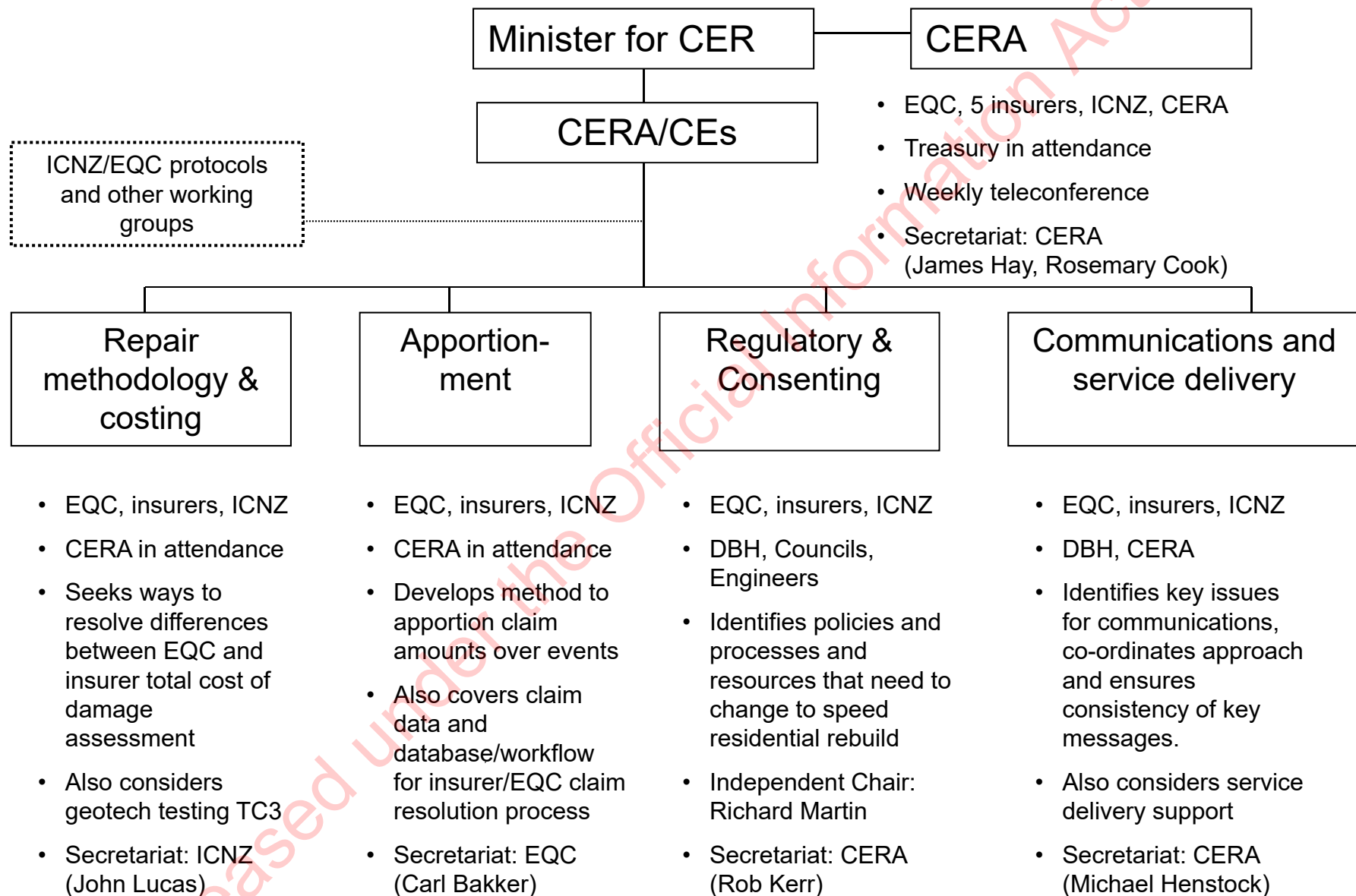


Not relevant to your request



Next meeting Friday 22 June, **8.45 am**.

# Residential insurance claim settlement – industry working groups



**Summary of key points and actions from CERA and CE's weekly meeting 18  
8.45 am 13 July 2012**

Present:

Chair - John Lyon (Lumley)  
Chris Ryan, John Lucas, Bret Solvander, Peter O'Connor (ICNZ)  
Ian Simpson, Carl Bakker (EQC)  
Dean McGregor (IAG)  
Chris Black (FMG)  
Peter Rose (Southern Response)  
Gary Dransfield (Vero)  
Katherine Meerman, Mark Jacobs (Treasury)  
Alison O'Connell, Rosemary Cook (CERA)

Not relevant to your request

**2. Council proposal for an insurance tribunal**

The issue for most people is likely to be lack of information rather than actual disagreement, so a disputes tribunal may not solve the problems people are experiencing. There are already a number of mechanisms available for dealing with disputes including the Ombudsmen's office, the ISO, and DRSL (Disputes Resolution Services Limited). In this context it was noted that it could take over a year to get through the backlog of 2000 in the joint review process.

It is not clear what the range, or scale, of issues is that has led to this call for a tribunal.

*Action 2: Chris Ryan will find out what the issues are and report back*

Not relevant to your request

Not relevant to your request

**5. Repair methodology and costing WG**

Joint review process: claim ownership will be determined on site.

Lumleys and Vero are working with EQC to provide a pathway forward to speed up the joint review process. This will be reported back to the wider group.

An EQC & Insurer sub group has been set up to look at developing protocols for:

- Cost over runs where the customer has opted out from the EQC repair process.
- Claims Wash up.

Not relevant to your request

## 6. Apportionment

Proxy apportionment tool: slower progress than hoped for – data has only been received from 3 insurers (although others noted at the meeting that their data would be sent in). The work is going ahead anyway. Sample properties will be run through the model in groups of 500 and tested for accuracy each time until the desired level of accuracy is reached. Up to 2000 sample properties are expected to be needed. Time taken to completion will depend on how quickly the sample properties are moved through the claim settlement process- and may take some 2-3 months.

### Data/database issues:


- the overlap claims database project is proceeding with a person identified to develop project specifications for completion in about 8 weeks
- A process to provide an activity signal when EQC has settled a claim has been agreed and will be implemented (likely completed by September). In the interim, EQC has identified a large group of properties which it has settled already and will provide these to insurers along with weekly updates.

*Action 4: Draft document for reinsurers that describes the proxy apportionment tool to be a regular item at the apportionment working group.*

Not relevant to your request

Not relevant to your request

Not relevant to your request



Next meeting Friday 20 July, **8.45 am**.

Released under the Official Information Act 1982

# memo

**To:** Steve Wakefield, General Manager, Economic Recovery

**CC:** Phil Barry (CERA), Carl Bakker (CERA), Jane Morgan (CERA)

**From:** Tim Wilson, Policy Advisor, Strategy, Planning and Policy

**Re:** Insurance

**Date:** Tuesday 28 August

<b>Action</b>	<b>Note</b> the contents of this report and provide feedback and further directions as you see fit	<b>Date required by</b>	29 August 2012
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## Purpose

This purpose of this report is to provide you with an update on the insurance aspect of recovery based on the data that I currently have in the CERA Economic Monitoring Framework. In so doing, this should inform you about the extent to which the Framework is able to contribute to reporting to the Minister as it stands at the moment.

Please note, I have not checked this data with officials working more closely on these matters (such as Rosemary Cook or Katherine Meerman for example). Instead, this briefing represents the extent of information that I have been able to extract from the Economic Monitoring Framework within one morning.

## Structure

This report covers the following areas:

- i. Progress of insurance claim settlement;
- ii. Progress of residential rebuilds and repairs;
- iii. Insurance availability; and
- iv. Key challenges to progress.

In short, the rates of progress of claim settlement, rebuilds and repairs are all slow and present policy concerns. In addition, the data that I have available suggests that insurance availability is a concern. Key driving forces behind this slow progress include apportionment difficulties, repair and methodology concerns, flood data and geotech drilling.

## (i) Claim settlement

### Earthquake Commission (EQC)

Approximately 22% of claims and 40% of exposures have been closed (as at 16 August 2012). The amount of claims received increased through the first quarter of this year but appears to have levelled off, while claim settled continues to grow (see Figure 1). EQC claims paid out represent approximately one third of all claims paid out to date (see Table 3).

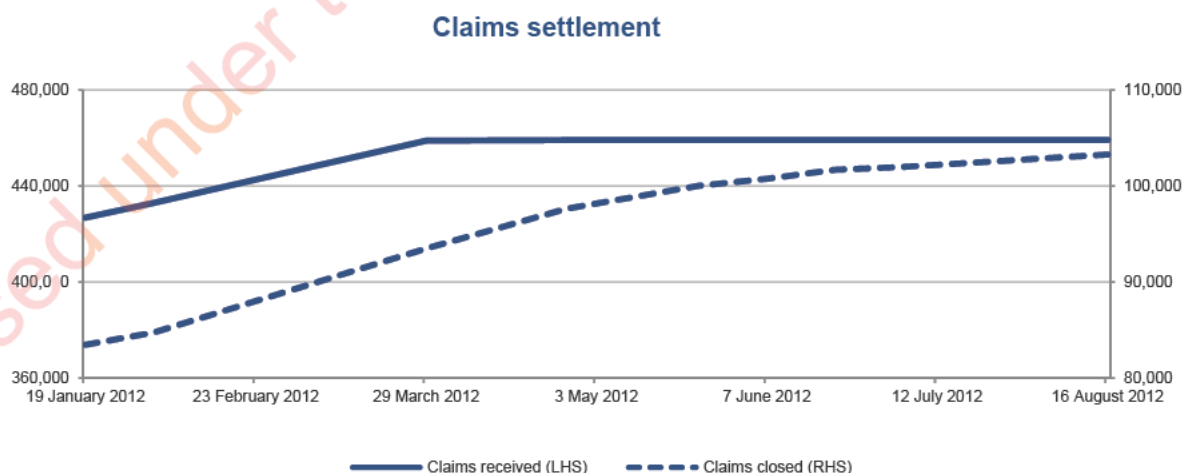
Nonetheless, the pace of settlements is slow. If EQC continues to settle claims at a similar pace that it has done so far in 2012, it would take between 8 and 14 years to settle all claims and exposures.

**Table 1: Earthquake Commission settlement progress**

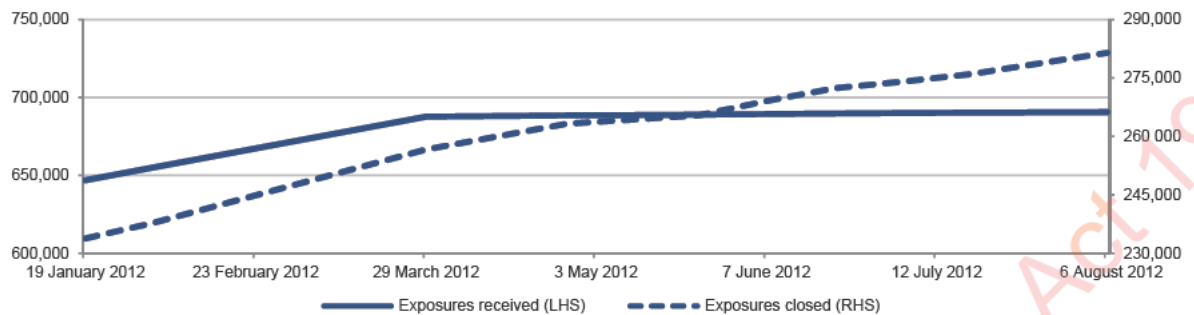
Claims	
Average claims closed per day	93.4
(as at 16 August 2012 and based on data from 19 January 2012)	
Estimated time to close all claims at this pace of claims settlement	13.3 years

Exposures	
Average claims closed per day	227.0
(as at 16 August 2012 and based on data from 19 January 2012)	
Estimated time to close all claims at this pace of claims settlement	8.3 years

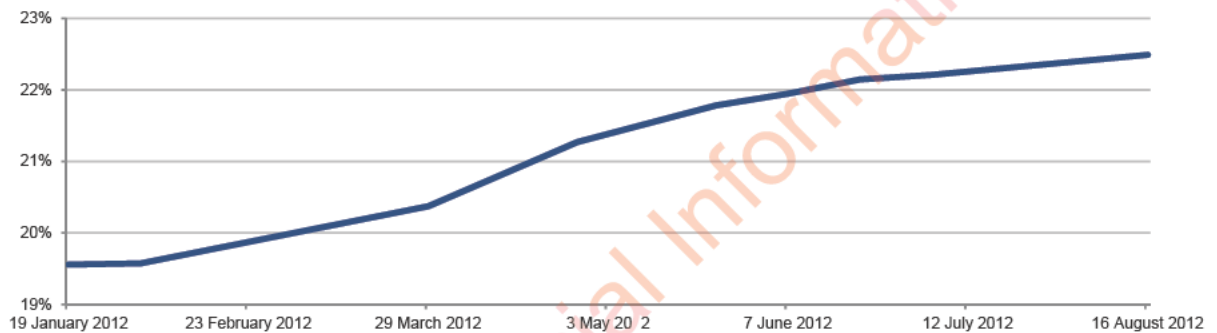
**Figure 1: Earthquake Commission settlement progress**



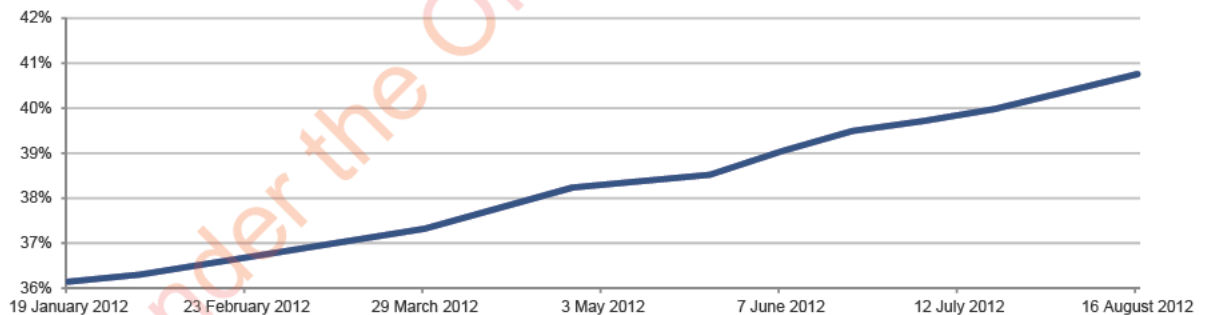
### Exposure settlement



### Claims closed as a proportion of total claims received



### Exposures closed as a proportion of total claims received



### Private insurers

The claims settlement progress of private insurers is a little more difficult to gauge. The Apportionment Working Group estimates that there are approximately 20,000 over-cap claims. Based on data provided by IAG, Lumley, Southern Response and FMG, these four residential have settled approximately 20% of their claims. However, the vast majority of these settlements are cash settlements rather than properties with repairs and rebuilds completed.

Not relevant to your request

**Table 2: Private residential insurers' settlement progress**

Properties subject to a dwelling claim	15,358
Properties where insurers will manage the claim	8,594
Properties with disputed claims management	6,764
Properties with assessments agreed with EQC	8,207
Properties with assessments not agreed	7,151
Properties with work completed	124
Cash settlements	1,574
<b>Total claims settled</b>	<b>20%</b>

Source: IAG, Lumley, Southern Response, FMG (as at 30 June 2012)

Not relevant to your request

Not relevant to your request

## (ii) Rebuilds and repairs

The progress of repairing and rebuilding the residential housing stock is slow, as shown in Table 4. Back of the envelope calculations suggest that if repairs continue at their current pace, it will take nearly 7 years to complete all repairs.

**Table 4: Estimated residential repairs and rebuild progress**

(for the following insurers only: Fletchers EQR, Arrow, Hawkins, MWH Mainzeal, Stream, Ireland Group, Beca, IAG, umley, Southern Response and FMG)

Repairs		
	Number	Percentage*
Work in progress	16,638	17.3%
Completed	20,200	21.0%
Work not started*	59,162	61.6%


Rebuilds		
	Number	Percentage*
Work in progress	1,300	13.0%
Completed	64	0.6%
Work not started*	8,636	86.4%

\*The work not started and percentage figures are calculated on the assumption that there are 96,000 repairs to be completed and 10,000 rebuilds to be completed.

Not relevant to your request

- **apportionment** – data provided to Treasury by four residential insurers listed apportionment as one of the major challenges to progress in claim settlement. The Apportionment Working Group has been seeking to address this problem but anecdotal evidence suggests that it has proven to be largely ineffectual thus far. In contrast, however, manual apportionment appears to be picking up pace and may prove to be much more effective. Furthermore, a move to geographic apportionment by EQC has greatly increased productivity (lifting apportionments completed from 2 ½ per person per day to 12 per person per day).
- **Repair methodology and costing** - data provided to Treasury by four residential insurers listed also suggested that this is a major barrier to progress. A working group has been set up to address this issue but I do not have the necessary information to advise you on the effectiveness of this group so far.

Not relevant to your request



Released under the Official Information Act 1982

To: Minister for Canterbury Earthquake  
Recovery

In confidence

## Insurance Advisory Service

Date	14 September 2012	Priority	Low
Report No	M/12-13/102	File Reference	

### Action Sought

		Deadline
Hon Gerry Brownlee Minister for Canterbury Earthquake Recovery	<b>Note</b> the contents of this report.  <b>Forward</b> a copy of this report to Hon Amy Adams.	19 September 2012

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Caroline Hart	Acting General Manager, Strategy Planning and Policy	03 354 2607	<input type="checkbox"/>
Rosemary Cook	Senior Advisor, Strategy Planning and Policy	04 916 3366	<input checked="" type="checkbox"/>

### Minister's office comments

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to

#### Comments

# Insurance Advisory Service

## Purpose

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- 1 The purpose of this report is to provide an update on insurance advice for residents following a meeting with CERA and a group of key stakeholders on Wednesday 29 August 2012.

## Background

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- 2 There is growing concern amongst residents' groups and representatives that Christchurch residents are struggling with insurance and EQC processes, and there is evidence that this is having a negative impact on the wellbeing of Christchurch residents.
- 3 The Christchurch City Council (CCC) has written to you requesting that an insurance tribunal and advocacy service be set up in Christchurch.

## Comment / Discussion

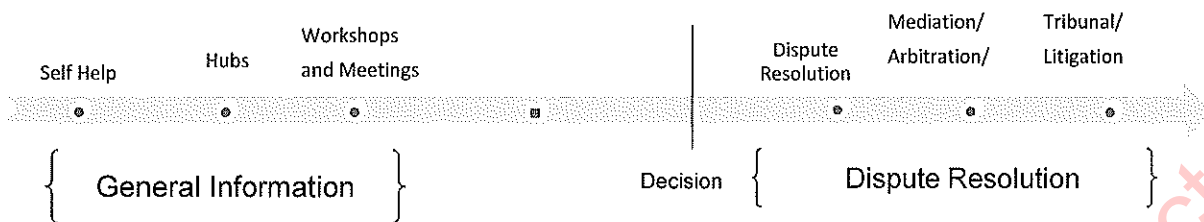
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- 4 In response to the CCC's letter as well as growing community concerns, CERA invited a group of key stakeholders including insurers, the EQC, Community Law, the Law Society and CanCERN to a meeting on 29 August to identify the needs of property owners in navigating the EQC and insurance process.

## Stakeholder Meeting

- 5 The stakeholder group identified that property owners are not in a position to undertake their normal avenues of self-support in accessing and understanding information around their EQC and insurance claims, and the process for the repair or rebuilding of their home.
- 6 Property owners are experiencing difficulties with EQC and insurance processes due to:
  - 6.1 A lack of understanding of insurance processes including understanding of policy terms and terminology;
  - 6.2 A lack of confidence in the advice they receive because of perceptions about the insurance industry and the EQC;
  - 6.3 Difficulty navigating and reconciling advice from insurers, EQC and central and local government;
  - 6.4 A lack of clarity about the timeframes for settlement and repair/rebuild of their houses;
  - 6.5 Uncertainty about whether the offer they have received is consistent with the terms of the policies; and
  - 6.6 Not knowing who to talk to in order to receive impartial advice.
- 7 Property owners currently have no independent means of developing confidence and certainty in the insurance process without seeking costly legal advice.
- 8 Our discussions with stakeholders points to a need for additional support at the "pre decision stage" as illustrated below. Dispute resolution or tribunal services are not engaged until a decision is reached by EQC and/or the insurer on the claim. The *General Information* and

*Dispute Resolution* stages seem to be functioning well. However there is a gap at the pre-decision stage when the property owner comes to apply the information available to their individual circumstances in order to make a decision. The group agreed that, as the identified need for property owners sits at the pre-decision advice stage, as opposed to the dispute stage, a tribunal service is not the appropriate solution.



- 9 The Insurance and Savings Ombudsman and various dispute resolution schemes report that they are seeing unusually low volumes of disputes given the scale of the situation. This supports the view that most house claims are sitting at the pre-decision stage. This means that these existing forums are as yet untested due to the low volume of claims that have been settled to a point where they can enter into dispute resolution.
- 10 The group agreed that an independent service would assist in the prevention of unnecessary costly disputes and have benefits for both residents and insurers and the EQC, including:
  - 10.1 Understanding their own policies (what they are entitled to; whether the offer they have been made reflects their entitlement)
  - 10.2 Assisting residents to navigate the process for dealing with different parties.
  - 10.3 Helping residents to identify where they are in the process, what steps come next and what questions they should be asking of their insurers, EQC, and other parties such as local authorities.
  - 10.4 Clarifying whether the issues the property owner is concerned about are genuine problems or not.

## Next Steps

- 11 A further meeting is scheduled for 13 September 2012 to consider specific proposals for advocacy and advice services. These proposals will inform our advice about whether a particular model should be adopted, how it should be organised, the role of government in its administration, and who should fund it, including what (if any) Government funding might be justified. We will provide this advice by the end of September.
- 12 We understand from discussions with your office that you wish to delegate responsibility for policy in this area to the Associate Minister for Canterbury Earthquake Recovery. We recommend that you forward a copy of this report to Hon Adams. CERA officials are available to brief Hon Adams on these issues if she would find that useful.

## Recommendations

- 13 It is recommended that you:
- 1 **Note** the contents of this report.
- 2 **Refer** a copy of this report to the Associate Minister for Canterbury Earthquake Recovery. **YES / NO**

CJ Hunt.

Caroline Hart  
**Acting Manager, Strategy Planning  
and Policy**

NOTED / APPROVED / NOT APPROVED
<p>Hon Gerry Brownlee  <b>Minister for Canterbury Earthquake Recovery</b></p>
<p>Date:        /        / 2012</p>

To: **Minister for Canterbury Earthquake  
Recovery**



In Confidence

## Insurance Advisory Service

Date	11 October 2012	Priority	Low
Report No	M/12-13/128	File Reference	M/12-13/128

### Action Sought

		Deadline
Hon Gerry Brownlee <i>Minister for Canterbury Earthquake Recovery</i>	Note the contents of this report.  Forward a copy of this report to Hon Amy Adams	

### Contact for Telephone Discussion (If required)

Name	Position	Telephone	1st Contact
Diane Turner	General Manager, Strategy, Planning and Policy	03 354 2607	<input checked="" type="checkbox"/>

### Minister's office comments

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to

### Comments

# Insurance Advisory Service

## Purpose

- 1 The purpose of this report is to provide an update on an insurance advisory service for residents.

## Background

- 2 There is growing concern amongst residents' groups and representatives that Christchurch residents are struggling with insurance and EQC processes, and there is increasing evidence that this is having a significant negative impact on the wellbeing of Christchurch residents.
- 3 The Christchurch City Council (CCC) has written to you to request that an insurance tribunal and advocacy service is set up in Christchurch.
- 4 In response to this CERA has been working with a range of stakeholders including insurers, the EQC, Canterbury Community Law, the Law Society and members of Christchurch's law community, representatives from residents groups, the Earthquake Support Coordination Service and advocacy groups to better understand the needs of property owners in navigating the insurance, EQC and repair/rebuild processes.
- 5 The combination of multiple events, apportionment and land damage as well as property damage has created significant complexities for property owners. As a result property owners are not always in a position to undertake their normal avenues of self-support in accessing and understanding information around their EQC and insurance claims.

### Stakeholder Meetings

- 6 Stakeholder meetings have led to agreement that an independent advisory service would assist property owners to:
  - 6.1 Understand their own policies (what they are entitled to; whether the offer they have been made reflects their entitlement);
  - 6.2 Navigate the process for dealing with different parties;
  - 6.3 Identify where they are in the process, what steps come next and what questions they should be asking of their insurers, EQC, and other parties such as local authorities; and
  - 6.4 Clarify whether the issues the property owner is concerned about are genuine problems or not.

### Features of the model to be put to insurers/EQC

- 7 Discussions with stakeholders have identified that the service should include triage of property owners' needs, advice and advocacy. Where appropriate, homeowners will be referred to legal and other professional support, including to the Earthquake Support Coordination Service for more general support.
- 8 The proposed service model will be developed on the basis of the hub model, but based in a central city location. It will provide accessible, independent, face to face support and advice for residents. Property owners will access the service through referrals from CERA, the EQC, insurers, CCC and the Earthquake Support Coordinator Service. However the service will

also be advertised to ensure that property owners that are not engaging with these organisations are aware of the support that the service can provide to them.

- 9 EQC has indicated It would like to have a presence on site alongside the independent advisors, which we support. While insurers may not be physically present at the hub, there will be an escalation path into the insurers, in particular to the appropriate case manager for each homeowner, so that existing processes are enhanced rather than replicated. There is also a possibility of communications to insurers via videoconferencing.
- 10 As well as referral to EQC and insurers, there will be referral where appropriate to financial and legal advice, in some cases on a pro bono basis or at a reduced rate.
- 11 The service will be resolution focussed with a clear escalation process agreed up front with relevant parties including insurers, EQC, territorial authorities and government agencies.
- 12 The cases that the hub deals with will provide an opportunity to EQC and insurers for improved communications and messaging to all property owners.
- 13 This model is focused on advice rather than dispute resolution. However, over time as more cases are "decided", we acknowledge that there may be increased pressure on the existing dispute resolution services, which are largely untested at this stage.

#### Next Steps

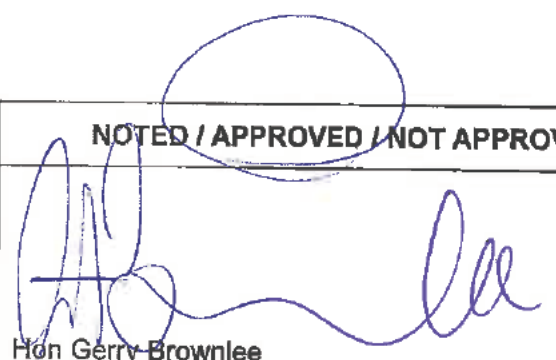
- 14 CERA has met with insurers and the EQC on Monday 8 October 2012 to commence discussions on the proposed service model including costs and timeframes. CERA will progress conversations on governance and funding with insurers, CCC and the philanthropic sector. CERA will report back in mid-November 2012 on these discussions, including the funding and management of the advisory service.

#### Recommendations

- 15 It is recommended that you:
  - 1 **Note** the contents of this report.
  - 2 **Refer** a copy of this report to the Associate Minister for Canterbury Earthquake Recovery.



Diane Turner  
General Manager Strategy Planning  
and Policy

NOTED / APPROVED / NOT APPROVED

Hon Gerry Brownlee Minister for Canterbury Earthquake Recovery
Date: 15/10/2012

**CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY**  
**As at 30 October 2012**

Workstream & Objective	Current status	Accountability	Due Date
<p><b>1. Claim settlement monitoring</b></p> <p><b>Angela</b></p> <p><i>Advise the Ministers on the impact of insurance issues on recovery</i></p> <p><i>Including policy advice for Ministers on possible interventions to assist the resolution of impediments and barriers to the recovery where appropriate</i></p>	<p><b>Claims mapping :</b></p> <ul style="list-style-type: none"> <li>PWC claims map was requested by the Minister of Finance: the map is complete and has been distributed.</li> </ul> <p><i>Next steps:</i></p> <p>?</p> <ul style="list-style-type: none"> <li>Tony Baldwin project to started October (EQC, SRL, Vero). Project is two pronged</li> </ul> <p>Insurance claims: Report to identify high level claims map and outline current road blocks in the claims settlements process and provide recommendations.</p> <p>Land remediation: working EQC &amp; insurers to understand Geotech facts, identifying points of difference and evaluating resolution options.</p> <p><i>Next Steps</i></p> <p>?</p>	Mark Jacobs	2 -3 weeks. mid November
<p><i>Monitoring progress between insurers and EQC on agreeing repair methodology and costings through attending the Repair Methodology and Costings Working Group</i></p>	<p><b>General Operations: Formerly Repair Methodology and Costing:</b></p> <ul style="list-style-type: none"> <li>Some insurers funding EQC staff to work on apportionment, and co-location for joint resolution</li> <li>3 insurers and EQC agreeing handover for TC3 &gt; \$83k with foundation damage: process issues need discussion</li> <li>Drilling: insurers and EQC to do own</li> </ul> <p><i>Next Steps</i></p> <ul style="list-style-type: none"> <li>Finalise current initiative to accelerate claims settlement process</li> </ul>	Rob	

Workstream & Objective	Current status	Accountability	Due Date
<p><i>Monitoring the progress between insurers and EQC on agreeing apportionment of claims to different events, through attending Apportionment Working Group</i></p>	<p><b>Apportionment:</b></p> <ul style="list-style-type: none"> <li>• The Apportionment Working Group made up of GM's &amp; CE's of insurers are working on the bulk apportionment model.</li> <li>• CERA does not have a representative attend this Group but monitors their progress via their published updates.</li> <li>• EQC are continuing with the manual apportionment: which seems generally acceptable;</li> <li>• A sample is underway for bulk overcap model. However there are issues with how quickly potential overcap cases be cleared and obtaining a statistically representative sample, which are likely to make the lead time on the bulk model as long as the manual apportionment progress. Therefore there is a question as to whether the bulk model becomes redundant.</li> <li>• Feed-back from reinsurers is that they have only seen how EQC undercap claims and commercial claims are affected by apportionment and they are questioning the credibility of the undercap model as not based on a statistical sample. Reinsurers have not visibility into the overcap apportionment</li> <li>• EQC think apportionment and washup models are the same but recommendation being sort from GM's</li> <li>• At this stage Insurers are reluctant to pick up claims when they don't know how the wash up model will work</li> </ul> <p>Next Steps:</p> <ul style="list-style-type: none"> <li>• Determine CERA's role regarding apportionment and claims settlement monitoring</li> <li>• Determine what the Ministers needs in terms of information and updates</li> </ul>		

Workstream & Objective	Current status	Accountability	Due Date
<i>Liaising with insurers/EQC and other government agencies to ensure that consistent and helpful information and support is delivered to the wider community</i>	<b>Communications and Customer Service:</b> Not relevant to your request	Julia (Community & Wellbeing) Leading, Angela providing policy support  Angela  Angela/Michael Rob / Angela  Michael Michael	Mid November  ?  Complete 2 November
<b>2. Rebuild issues including land</b>  <b>Rob /Angela</b>  <i>Facilitate resolution of insurers concerns with consenting, building standards and associated issues. Consider options if resolution not at reasonable pace and cost</i>  <i>Give (re)insurers conform with and clarity on claim settlement processes, zoning review and insurability of</i>	Not relevant to your request		

Workstream & Objective	Current status	Accountability	Due Date
<i>residual risk</i>	Not relevant to your request		
<b>3. Residential Red Zone recoveries (RRZ project)</b>  <b>Willlum</b>  <i>Obtain fair and timely settlement Crown recoveries from insurers.</i>  <i>Give insurers comfort with and clarity on claim settlement processes</i>	Not relevant to your request		
<b>4. Port Hills</b>  <i>Enable zoning &amp; other decisions to be made with consideration implications for claims, future insurability and risk management precedents</i>	Not relevant to your request		
<b>5. Claim settlement progress and</b>	<ul style="list-style-type: none"> <li>Have queries been resolved? Still some incomplete returns. Discuss with GMs</li> </ul> 27/9		

Workstream & Objective	Current status	Accountability	Due Date
<p><b>outlook (Residential &amp; Commercial)</b></p> <p><b>Tim Wilson / Rob Kerr</b></p> <p><i>Collect data to monitor claims progress and expected timescales for future settlements</i></p> <p><i>Identify emerging concerns</i></p> <p><i>Manage use of data in other CERA, Treasury or DBH work</i></p>	<ul style="list-style-type: none"> <li>Collection of Data: Tim Wilson to co-ordinate the claim settlement metrics collection and reporting for insurers. Rob Kerr continues to collect of data from insurers PMO's</li> <li>Meeting has been held with ICNZ GM's which gave Tim approval to speak with insurers regarding data needs.</li> </ul> <p><b>Next Steps</b></p> <ul style="list-style-type: none"> <li>Stocktake is required of what data is wanted, by whom, and for what reason, compared with what data is currently being collected:</li> <li>Clarification required as to how data will be used, ie for CERA internal reporting, to feed into CERA economic models, and adhoc Ministerial queries</li> <li>Develop a unified position on the claim settlement progress</li> <li>Work with insurers to collect data</li> <li>Establish whether reporting Insures and PMO metrics can be combined so that there is one central repository for the information.</li> </ul>	<p>Tim</p> <p>Tim</p> <p>Tim</p> <p>Tim</p> <p>Rob/ Tim</p>	<p>?</p> <p>?</p> <p>?</p> <p>?</p> <p>?</p>
<p><b>6. Availability of insurance and reinsurance:</b></p> <p><b>Alison</b></p> <p>In conjunction with Lindy &amp; Vinny (TSY)</p> <p><i>Monitor market trends. Ongoing engagement with insurers, reinsurance and brokers to understand current and likely post Canterbury earthquake insurance environment</i></p>	<p>Not relevant to your request</p>		

IN-CONFIDENCE - COMMERCIALLY SENSITIVE

Workstream & Objective	Current status	Accountability	Due Date
<p><i>Develop contingency options for intervention in case these are required to smooth transition to post quake environment</i></p>			
<p><b>7. Risk data/story</b></p> <p><b>Alison</b></p> <p>In conjunction with Lindy (TSY) &amp; CCDU</p> <p><i>Ensure risk data is available for re(insurers)</i></p> <p><i>Develop credentials for excellent NZ risk knowledge eg by publishing regular Technical Bulletin aimed at (re) insurance market</i></p>	Not relevant to your request		
<p><b>8. Capital/regulatory position of local insurers:</b></p> <p><b>Lindy (Tsy)</b></p> <p><i>Understand implications of new regulatory regime for ongoing insurance market</i></p> <p><i>Understand capital position of insurers market transition</i></p>	Not relevant to your request		

Workstream & Objective	Current status	Accountability	Due Date
<b>9. Insurance/banking sector linkages:</b>  <b>Vinny (Tsy)</b>  <i>Understand potential flow-on effects to banking &amp; lending from insurance market transition</i>	Not relevant to your request		
<b>10. EQC Review:</b>  <b>Beven (Tsy)</b>  <i>Review the EQC model in light of the lessons learned from Cauty earthquakes &amp; ascertain whether change from existing policy settings is desirable</i>			
<b>11. New Zealand / Crown risk management:</b>  <b>Lindy (Tsy)</b>  <i>Use Canterbury experience to develop a framework for country and or Crown risk management</i>			
<b>12. CCDU insurance Issues /recoveries</b>  <b>Willum</b>			

Workstream & Objective	Current status	Accountability	Due Date
	Not relevant to your request		
Insurance work planning			

# CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY

As at 7 November 2012

Status Update		Accountability	Due Date
<b>1. Claim settlement</b>			
<i>Objective: Insurance claims are settled in as efficient and effective a manner as possible in order to help progress the residential rebuild</i>			
<b>Approach</b>	<ul style="list-style-type: none"> <li>- Develop a clear understanding of the issues involved in claims settlement and of the impediments to efficient claims settlement.</li> <li>- Work with insurers to facilitate solutions to resolve issues which impact on claims settlement process until the majority of claims are settled</li> <li>- Requiring insurers to provide data on the rate of claims settlement and monitoring and reporting on this</li> <li>- Understand and monitor the supply and demand for logistical and resource requirements needed to facilitate insured earthquake damage repairs.</li> </ul>	Mark Jacobs Tony Baldwin	Mid Sep ember  Mid November
<b>Work stream</b>	<b>Claims mapping :</b>		
<b>Milestone</b>	Progress mapping tool up and running by mid September (Jointly with Treasury)		
<b>Progress</b>	<ul style="list-style-type: none"> <li>- PWC claims map was requested by the Minister of Finance: the map is complete and has been distributed.</li> <li>- Tony Baldwin project to started October (EQC, SRL, Vero). Project is two pronged  <u>Insurance claims</u>: Report to identify high level claims map and outline current road blocks in the claims settlements process and provide recommendations.  <u>Land remediation</u>: working EQC &amp; insurers to understand Geotech facts, identifying points of difference and evaluating resolution options.</li> </ul>		
<b>Next Steps</b>	?		
<b>Work stream</b>	<b>General Operations: Formerly Repair Methodology and Costing:</b>	<b>Rob / Angela</b>	
<b>Milestone</b>	<ul style="list-style-type: none"> <li>- Regulatory, consenting and other policy issues being addressed in a timely way</li> </ul>		On-going
<b>Progress</b>	<ul style="list-style-type: none"> <li>- CERA are continuing to monitoring progress between insurers and EQC on agreeing repair methodology and costings through attending the following working groups:  <u>Consent Operations Working Group</u>                      Chaired by Rob Kerr CERA and attended to PMO's Council and MBIE. The aim to remove regulatory barriers to the rebuild.                      Rebuild Resources Co-ordination Forum                      Chaired by Rob Kerr CERA and attended to MBIE xxx. The aim to facilitate market and industry and provide information into materials and labour supply and demand issues for the rebuild  <b>Current Issues</b>                      Some insurers funding EQC staff to work on apportionment, and co-location or joint resolution                      3 insurers and EQC agreeing handover for TC3 &gt; \$83k with foundation damage: process issues need discussion</li> </ul>		
<b>Next Steps</b>	Drilling: insurers and EQC to do own Continue to attend WG's and monitor and feed back on the progress		
<b>Work stream</b>	<b>Apportionment:</b>		
<b>Progress</b>	<ul style="list-style-type: none"> <li>- Monitoring the progress between insurers and EQC on agreeing apportionment of claims to different events, through attending Apportionment Working Group</li> <li>- The Apportionment Working Group will be wound up as it has been determined that they will no longer proceed with the bulk apportionment model</li> </ul>		
<b>Next Steps</b>	Wash-up is a separate issue that will be important to the claim settlement process. There is a Wash-up Protocol Development Meeting that has been established to address this issue. CERA is not involved in the meetings however progress is monitored via information is received on it progress through the General Operations Group.		

Status Update		Accountability	Due Date
Work stream	Communications and Customer Service:	Michael /Julia / Angela	
Milestones	Not relevant to your request		
Objective			
Progress			
	<p>- <u>Report to the Minister for Canterbury Earthquake Recovery and Minister of Finance</u> outlining the current status of claims settlement, the factors affecting the rate of claim settlement, current initiatives to accelerate claims settlement and any options for the Ministers on intervention to future accelerate claims settlement. The report will also outline the objectives of CERA / Treasury in the claim settlement monitoring space for 2013.</p> <p><u>Next steps:</u> a timetable has been circulated with dates for a insurer updates, combined CERA/ Treasury workshop and completion and circulation of the draft and final submission</p>	Angela/ Mark	Paper finalised and to Ministers w/e 3 December

Status Update		Accountability	Due Date
Work stream	Rebuild issues including land	Rob/ Angela	
Objectives	Not relevant to your request		
Progress			
Next Steps			
Work stream	5. Claim settlement progress and outlook: Residential and Commercial	Tim / Rob	
Objectives	<ul style="list-style-type: none"> <li>- Collect data to monitor claims progress and expected timescales for future settlements</li> <li>- Identify emerging concerns</li> <li>- Manage use of data in other CERA, Treasury or DBH work</li> </ul>		?
Progress	<p>Data is collected from a number of ICNZ members however that completions of the returns has not been consistent across participants. Once aggregated this is distributed to the ICNZ members who make the contributions</p> <ul style="list-style-type: none"> <li>- Tim Wilson to co-ordinate the claim settlement metrics collection and reporting for insurers Rob Kerr continues to collect data from insurers PMO's</li> </ul>		
Next Steps	<ul style="list-style-type: none"> <li>- Stocktake is required of what data is wanted, by whom, and for what reason, compared with what data is currently being collected:</li> <li>- Clarification required as to how data will be used, i.e. for CERA internal reporting, or fed into CERA economic models, and adhoc Ministerial queries</li> <li>- Develop a unified position on the claim settlement progress</li> <li>- Work with insurers to collect data</li> <li>- Establish whether reporting Insurers and PMO metrics can be combined so that there is one central repository for the information.</li> </ul>		

Status Update		Accountability	Due Date
2. Residential Red Zone Willum			
Objective	Not relevant to your request		
Progress			
Next Steps			
3. CCDU issues / recoveries Willum / James			
Progress	Not relevant to your request		
Next Steps			

Released under the Official Information Act 1982

Status Update		Accountability	Due Date
4. Insurability and Availability			
Workstream	Availability of insurance and reinsurance:	Alison	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	Risk data/story	Alison	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	Capital/regulatory position of local insurers	Lindy (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			
Workstream	Insurance/banking sector linkages:	Vinny (Tsy)	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			

Status Update		Accountability	Due Date
Workstream	EQC Review:	Bevan (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			
Workstream	New Zealand / Crown risk management:	Lindy (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			

Released under the Official Information Act 1982

# CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY

As at 14 November 2012

Status Update		Accountability	Due Date
<b>1. Claim settlement</b> <i>Objective: Insurance claims are settled in as efficient and effective a manner as possible in order to help progress the residential rebuild</i>			
<b>Work stream</b>	<b>Claims mapping :</b>		
<b>Milestone</b>	Progress mapping tool up and running by mid September (Jointly with Treasury)		
<b>Progress</b>	<ul style="list-style-type: none"> <li>- Tony Baldwin project to started October (EQC, SRL, Vero). Project is two pronged  <u>Insurance claims:</u> Report to identify high level claims map and outline current road blocks in the claims settlements process and provide recommendations.  <u>Land remediation:</u> working EQC &amp; insurers to understand Geotech facts, identifying points of difference and evaluating resolution options.</li> </ul>	Tony Baldwin	Mid November
<b>Next Steps</b>			
<b>Work stream</b>	<b>General Operations: Formerly Repair Methodology and Costing:</b>	<b>Rob / Angela</b>	
<b>Milestone</b>	<ul style="list-style-type: none"> <li>- Regulatory, consenting and other policy issues being addressed in a timely way</li> </ul>		On-going
<b>Progress</b>	<ul style="list-style-type: none"> <li>- CERA are continuing to monitoring progress between insurers and EQC on agreeing repair methodology and costings through a tending the following working groups:  <u>Consent Operations Working Group</u>                      Chaired by Rob Kerr CERA and attended to PMO's Council and MBIE. The aim to remove regulatory barriers to the rebuild.  <u>Rebuild Resources Co-ordination Forum</u>                      Chaired by Rob Kerr CERA and attended to MBIE xxx. The aim to facilitate market and industry and provide information into materials and labour supply and demand issues for the rebuild  <b>Current Issues</b>                      Some insurers funding EQC staff to work on apportionment, and co-location for joint resolution                      3 insurers and EQC agreeing handover for TC3 &gt; \$83k with foundation damage: process issues need d scussion                      Drilling: insurers and EQC to do own</li> </ul>		
<b>Next Steps</b>	Continue to attend WG's and monitor and feed back on their progress	Rob Kerr	On-going
<b>Work stream</b>	<b>Communications and Customer Service:</b>	Michael /Julia / Angela	
<b>Milestones</b>	Not relevant to your request		
<b>Objective</b>			
<b>Progress</b>			

Status Update		Accountability	Due Date
	Not relevant to your request		
Work stream	Rebuild issues including land	Rob/ Angela	
Objectives	Not relevant to your request		
Progress			

Status Update		Accountability	Due Date
	Not relevant to your request		
Next Steps			
Work stream	5. Claim settlement progress and outlook: Residential and Commercial	Tim / Rob	
Objectives	<ul style="list-style-type: none"> <li>- Collect data to monitor claims progress and expected timescales for future settlements</li> <li>- Identify emerging concerns</li> <li>- Manage use of data in other CERA, Treasury or DBH work</li> </ul>		
Progress	<p>Data is collected from a number of ICNZ members however that completions of the returns has not been consistent across participants. Once aggregated this is distributed to the ICNZ members who made the contributions</p> <ul style="list-style-type: none"> <li>- Tim Wilson to co-ordinate the claim settlement metrics collection and reporting for insurers. Rob Kerr continues to collect of data f om insurers PMO's</li> </ul>		
Next Steps	<ul style="list-style-type: none"> <li>- Stocktake is required of what data is wanted, by whom, and for what reason, compared with what data is currently being collected:</li> <li>- Clarification required as to how data will be used, i.e. for CERA internal reporting, to feed into CERA economic models, and dhoc Ministerial queries</li> <li>- Develop a unified position on the claim settlement progress</li> <li>- Work with insurers to collect data</li> </ul>		?
2. Residential Red Zone Willum			
Objective	Not relevant to your request		
Progress			
Next Steps			

Status Update		Accountability	Due Date
3. CCDU issues / recoveries Willum / James			
Progress	Not relevant to your request		
Next Steps			
4. Insurability and Availability			
Workstream	Availability of insurance and reinsurance:	Alison	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	Not relevant to your request		
Objective			
Milestone			
Progress			
Next Steps			

Status Update		Accountability	Due Date
Workstream	Capital/regulatory position of local insurers	Lindy (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			
Workstream	Insurance/banking sector linkages:	Vinny (Ts)	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	EQC Legislative Review:	Bevan (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			
Workstream	New Zealand / Crown risk management:	Lindy (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			

Released under the Official Information Act 1982

Residential claims settlement – stocktake of progress and options for acceleration

Description of blockage and cause	Action to date	Options for intervention
Stage 1 – Determination of responsibility		
<p><i>Apportionment</i></p> <p>EQC's contribution is based on \$100,000 (+GST) per event. With multiple events, it is necessary for EQC to decide what amount of damage occurred from each event, and therefore the contribution that EQC will make to the repair/rebuild of the property. Full assessments were not undertaken after each event, which means that apportionment becomes a matter of judgment.</p> <p>Apportionment will also determine who is managing the claim – if any claim is over \$100,000 (+GST) then the repair/rebuild of the property will be managed by the insurer.</p> <p>EQC's apportionment decisions are sent to the insurers for them to confirm/deny. In a large quantity of cases there is a significant difference between the assessments by EQC and the insurer as to the scale and extent of damage to the property and the method necessary to repair that damage.</p>	<ul style="list-style-type: none"> <li>• Efforts to create a statistical model so that over-cap claims can be apportioned by a formula, rather than individually, were suspended after manual apportionment appeared to be a faster alternative.</li> <li>• Apportionment is now being done on a geographical basis (ie street-by street), which has made the process speed up appreciably (an increase, for each assessor, from 2.5 properties per day to 12 properties per day)</li> <li>• Insurers are funding or providing resources to EQC to undertake apportionment. The apportionment process is slow and labour intensive, particularly when it is done on a non-geographic basis. This initiative allows resources paid for by the insurers to support the EQC apportionment team, and progress assessment of individual properties that the insurers wish to provide priority to outside the more efficient geographic process. This is in place and a number of insurers have established resources in the EQC office for this purpose.</li> </ul>	<ul style="list-style-type: none"> <li>• Direct EQC to employ further resources on apportionment.</li> <li>• Direct EQC to hand over claim management of all potentially over-cap claims to insurer then to wash up actual amounts due after claim settled.</li> </ul>

Description of blockage and cause	Action to date	Options for intervention
<b>Stage 2 – Costing and assessment</b>		
<p><i>Joint review</i></p> <p>EQC is working with each of the insurers through the “joint review” process. This is a case-by-case process of comparing and working through the discrepancies in scope of damage, repair methodology and the cost of the repair for a property. A physical site review is undertaken where a desktop agreement cannot be reached.</p> <p>The idea is that this allows a better understanding to be established between each team and so faster resolution of the review. However, it is still a time-consuming process, with Southern Response indicating that it typically takes in excess of 200 working days to complete (and can take closer to 300 working days).</p> <p><i>[Given that joint review is inter-related with apportionment, should it be moved into stage 1?]</i></p>	<ul style="list-style-type: none"> <li>• A “wash up” protocol is being developed, as all assessments are estimates and the final cost of the works will only be known once works are complete. This means that there will be a change in total contribution between EQC and the insurers due to apportionment between events. The protocol will be the process by which each party will recover the under and over costs on each project. Insurers are currently preparing a strawman for how this process will work.</li> <li>• There is a proposal (that is not currently operational and may not be feasible) for there to be costing and agreement on site during the joint review process. This proposal extends the delegated authority of the joint review assessors to agree a greater level of detail regarding apportionment and costing. This is to shorten the three month time frame for EQC internal costing and apportionment processes.</li> <li>• Another proposal is that where EQC has identified that (i) the property is in TC3; (ii) it has foundation damage; and (iii) the cost to repair it excluding foundation damage is at least \$75,000 (+GST), the property would be passed directly to the insurer without need for Joint Review. EQC is considering how to make operational and there is no agreement yet between parties. (Not for public release)</li> </ul>	<ul style="list-style-type: none"> <li>• Direct EQC to employ further resources on claim assessment.</li> <li>• Direct EQC to accept insurer assessments.</li> </ul>

Description of blockage and cause	Action to date	Options for intervention
<p><i>Rework of original assessments</i></p> <p>Insurers (and EQC) are having to undertake re-assessments of properties because:</p> <ul style="list-style-type: none"> <li>• there has been new or increased damage following further earthquakes;</li> <li>• some of the initial assessments were of poor quality;</li> <li>• assessment was undertaken before the foundation guidance was released;</li> <li>• there have been changes in the foundation guidance (eg allowable slope in floor means that repair may not always be necessary); and</li> <li>• in some cases, geotechnical information is needed to understand extent of foundation works required in TC3.</li> </ul>	<ul style="list-style-type: none"> <li>• CERA has been engaging with MBIE to ensure that guidance updates are limited and, where they are necessary, is vetting them closely to ensure there are no unintended consequences.</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<p><i>Cost of foundations in TC3 areas</i></p> <p>Some insurers have been concerned about the cost of foundations in TC3 areas, and may be delaying working in these areas in the hope that there will be cheaper solutions available in the future.</p> <p>This is contributed to by strict standards in the guidance issued and a conservative approach adopted by engineers due to liability concerns.</p>	<ul style="list-style-type: none"> <li>• Cost bench-marking.</li> <li>• Encourage the development of new technology.</li> <li>• Construction of demonstration houses and show homes to assist in understanding and learning.</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidise the costs.</li> <li>• Relax the standards contained in the TC3 guidance.</li> <li>• Reduce the size of TC3.</li> </ul>
<p><i>TC3 drilling</i></p> <p>Deep geotechnical investigation is required for properties in TC3 which have major foundation damage. This is an important step along the path to rebuild/repair for about 10,000-15,000 properties, and is presenting a</p>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>

Description of blockage and cause	Action to date	Options for intervention
<p>short term constraint on the pace of works while the geotechnical investigation and assessments are undertaken.</p> <p>However it needs to be understood that these investigations are not the overall rate determiner of the rebuild. An investigation can be done in one or two days, which can be compared to 18 weeks to build a house. Therefore, once the rebuild progresses further, this will be just one of the steps that need to be undertaken to get the job done on each house.</p> <p><i>[In light of the above paragraph should we even include this as a blockage?]</i></p>		
<p><i>EQC land repairs</i></p> <p>EQC is still finalising its position regarding its liability for repair of land damaged by the earthquakes (types 8 and 9). Until insurers can fully understand the extent of liability, and what it means for the rebuild/repair of homes, they have expressed reluctance to make progress on properties where a land damage payment may be made.</p> <p>Even when EQC's final decision is made, it is possible that some insurers will challenge EQC's view on land liability and this may confuse or delay works.</p>	<ul style="list-style-type: none"> <li>• A CERA-sponsored facilitator is working across the insurer/EQC interface to resolve differences of understanding and identify opportunities for efficiency gains, supported by detailed process mapping work.</li> <li>• EQC is confirming properties with land damage types 1 - 7, but this is not fully resolved yet. It has provided to insurers a list of properties that are considered to be subject to land damage types 1 – 7. However, there is a lack of clarity as to whether any of these will also have category 8 and 9 damage. If insurers can be confident that there is no category 8 or 9 damage to these properties, it would allow them to progress claims on these properties without needing to consider if compensation for type 8 and 9 land damage will be offered by EQC.</li> </ul>	<ul style="list-style-type: none"> <li>• Direct EQC as to a policy for dealing with land damage types 8 and 9.</li> <li>• Government land payment/underwriting in lieu of EQC.</li> </ul>

Description of blockage and cause	Action to date	Options for intervention
<b>Stage 3 – Settlement offer made</b>		
<p><i>Customer decision-making (ie whether or not to accept the offer)</i></p> <p>We do not have figures for the whole industry, but Southern Response advise that of the 5,898 of customers who have had offers made to them, 3,773 of them had elected one of the options. This means that around one third of its offers are still with its customers.</p> <p>While this gives the power back to the customer, it slows the pipeline of rebuild and repair work down during this decision-making time. It may indicate that confidence may be low in either the quantum of the offer or of the technical solutions offered. However, we have no evidence to suggest that this is the case.</p> <p>In addition, the public may simply be confused by different processes used by insurers (eg assess and fix individually vs assess all and then fix all), which could delay their rate of acceptance.</p> <p>Finally, Southern Response consider that customer expectations are driving some settlements to high levels of complexity.</p>	<ul style="list-style-type: none"> <li>A “resident information service” is in the process of being set up. It will provide independent support and advice to homeowners to enable them to: understand their insurance policies; navigate the process for dealing with different parties; identify what questions they should be asking their insurers EQC, etc; and clarify whether the homeowners’ concerns are genuine problems or not. A funding model has now been agreed, with a 50/50 split agreed between insurers and government.</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>
<b>Stage 4 - Resolution</b>		
<p><i>Regulatory environment</i></p> <p>There is confusion regarding the regulatory environment (eg “readily repairable” solutions and compliance with the Building Act, uncertainty on definition of works that are exempt from requiring a building consent),</p>	<ul style="list-style-type: none"> <li>MBIE working to provide clarifications.</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>

Description of blockage and cause	Action to date	Options for intervention
<p>which is caused by both complexity and insufficient professional capabilities to be able to deal with it.</p>		
<p><i>Technical issues</i></p> <p>Southern Response notes that there are a large number of preliminary items (eg flooding, land remediation, retaining walls, land slide, contamination, etc) that need to be considered and resolved by insurers and property owners before design work can be commenced. In its view, a reluctance by the authorities within the industry to share information relating to most of these technical issues has resulted in a significant duplication of effort in the industry, and has also meant the industry understanding of these technical issues has been slow to develop.</p>	<ul style="list-style-type: none"> <li>• CCC has published, via a GIS viewer, the floor level requirements for most properties in Christchurch plus guidance on how this affects a range of rebuild and repair scenarios.</li> <li>• There has been some sharing of geotechnical investigation data – EQC has provided a large quantity of data, including LIDAR, field observations, and around 4,500 CPT and borehole records. Most insurers have agreed to share the geotechnical data they procure as early as practical via the Canterbury Geotechnical Database.</li> <li>• CERA has facilitated the establishment of a range of working groups (with PMOs, Councils and MBIE) seeking to develop 'pre agreed' design outcomes or consenting requirements to ensure that: (i) the assessments are based on what is going to be consented; and (ii) the consenting process is as streamlined as possible.</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage or force further industry-wide sharing of information.</li> </ul>
<p><i>Insurer/customer interface</i></p> <p>Southern Response has advised that uninsured policy items (eg retaining walls) mean that customers are required to have a separate contract with the builder, which adds a layer of complexity to the works.</p>	<ul style="list-style-type: none"> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>

## Residential Claim Settlement: Barriers and Progress

This paper summarises the status of the residential rebuild and repair progress, the issues and the barriers to making it go faster. It is provided as a background briefing paper for staff working with residents.

**Note regarding accuracy of these numbers:** The understanding of the status of the rebuild and the rate in which work will occur is made difficult by the quality of the data, and hence the numbers within this paper are approximate only, however they do represent the best estimate of the scale of the issue.

### Context: where are we?

#### *Status*

- Approximately 171,000 dwellings in greater Christchurch have made a claim to EQC as a result of the Canterbury earthquake sequence, resulting in 459 000 insurance claims.
- Between 20,000 - 30,000 dwellings are expected to result in claims that exceed EQC's maximum entitlement (ie overcap) and will be managed by private insurers.
- Of these, to date 11,000 have been passed to the relevant insurance company to manage.
- The balance will be either settled in cash or repaired by EQC's Canterbury Home Repairs Programme (CHRP). (We are not able to estimate how many will be cash settled or repaired as customers have the ability to opt into or out of the managed repair programme at any time.)
- To date, 26,000 homes have been fully repaired, and we have completed over 47,000 emergency repairs (to ensure the dwelling is safe, sanitary and secure) and have replaced over 18,000 primary heating sources.
- The private insurers collectively expect to manage in the region 20-22,000 claims, but this could be as high as 30,000.
- However EQC and the Insurer disagree in around 10,000 of these, and so have not been agreed between EQC and the insurers who is managing the claim.
- The small discrepancies in these numbers are indicative of the challenge of understanding the complex picture

#### *Current progress*

Of the approximately 100,000 property repairs which will be managed by Fletchers EQR, they have completed about 25,761 as at 1 November 2012 - ie about 25% of the way through, although the larger more complex repairs are currently being progressed and so it is expected the percentage progress will decline (expenditure will not). This is a rate of 400-500 per week, or 100 per day

A further 2,500 property owners have delayed Fletchers EQR from starting work on their property.

Collectively, the Insurers have settled with approximately 2,200 property owners who have chosen to work outside the PMO process: ie cash payment, rebuild elsewhere or purchase and existing

property. The insurers anticipate about 10,000 property owners will choose this route and so 22% of these types of anticipated settlements have been completed, however this can only be an estimate as it depends on future decisions by homeowners.

Of the roughly remaining 12,000 properties which are likely to be managed through the PMO process, as at 1 October 2012, 185 have been completed, 276 are under construction phase and 606 are in the design phase (9% of anticipated total).

In addition, 4,576 'Out of EQC scope' (fences and driveways etc) projects have been completed by end of September 2012. (We don't have an estimate of total quantum of out of EQC scope claims)

### *Spending*

- EQC have paid out or spent \$3.5B on residential dwelling claims to date (1 November 2012)
- In total the insurers have spent \$1.6B of a projected total of \$6.7B on residential claims (as at end of September 2012)
- PMO's collectively spent \$101M in September 2012. (Of this \$65M was by Fletcher's EQR)

### **What are the barriers?**

#### *EQC/Insurers claim management process*

Apportionment: EQC's contribution is based on \$115k per event and, with multiple events, it is necessary for EQC (and the insurer) to decide what amount of damage occurred from each event, and therefore the contribution that EQC will make to the repair/rebuild of the property. This is important to understand who is managing the claim as well as how much EQC will contribute. EQC have changed their approach from the first part of this year and are now 'apportioning' at least 400 properties each week. EQC expect that they will have completed the apportionment by Easter next year. Note that this does not mean the insurer agrees with the apportionment (ie those completed by EQC are not necessarily done and dusted apportionment-wise).

Joint review: In a large quantity of cases, there is a significant difference between the assessments by EQC and the Insurer as to the scale and extent of damage to the property and the method necessary to repair that damage. This significantly affects the decision on who manages the claims. EQC is working with each of the insurers through what is known as the Joint Review process. This is a case-by-case process of comparing and working through these discrepancies. There are 10,000 properties in this situation. It should be noted that priority was given to red zone residents, allowing them to option to move on. Reported resolution rates by insurers range from 7 – 20 properties per week. Based on Southern Response information, it can take 286 working days for a case to move from start of review to resolution, of which the review process itself takes an average of 76 working days, EQC's process takes a further 67 days and then the subsequent process at Southern Response can take a further 95 days.

EQC land repair decisions: EQC are still finalising their decision on their view of their liability for repair of land damaged by the earthquakes. Until insurers can fully understand the extent of liability and what it means for the rebuild or repair of homes they have expressed reluctance to move on properties where a land damage payment may be made. It is also possible that some insurers will challenge EQC's view on land liability and this may confuse or delay works.

Insurance Company prioritisation: In general, insurers have elected to work from the least susceptible to further damage to the most susceptible. That said the main insurers each have different prioritisation systems which result in slightly different approaches. It is important to note that there are no infrastructure or engineering rationales for prioritisation of some customers over others in the same way as was established in Kaiapoi for the area that is now zoned red.

Re-assessment of damage: For a number of reasons, insurers (and EQC) are having to undertake re-assessments of properties. These reasons include:

- Poor quality assessments
- Change in allowable slope in floor meaning that repair may not always be necessary
- New or increased damage following earthquake
- Assessment undertaken before foundation guidance released
- In some cases, geotechnical information is needed to understand extent of foundation works required in TC3.

Customer decision making: We do not have figures for the whole industry; however Southern Response tell us that of the 5,898 of customers who have had offers made to them, 3,773 of them had elected one of the options. This means that around 1/3rd of offers are still with the customers. We are comfortable with this, as the power is back with the customer once they have their offer, however it slows the pipeline of rebuild and repair work down during this decision making time. It may indicate that confidence may be low, they lack the necessary information or advice in either the quantum of the offer or of the technical solutions offered, however we have no evidence to suggest that this is the case.

### *Technical and costing*

Cost of foundations: Some insurers have been concerned regarding the additional cost of foundations in TC3 and may be delaying working in these areas in the hope that there will be lower solutions available in the future.

Other technical gateways: Issues such as floor level, land contamination, cross-leases and similar details need to be resolved by the PMO and property owners to progress to design and construction.

### *Resourcing*

Geotechnical investigation and assessments: Deep geotechnical investigation is required for properties in TC3 which have major foundation damage. This is an important step along the path to rebuild/repair for about 10-15,000 properties, and is presenting a short term constraint on the pace of works while the geotechnical investigation and assessments are undertaken. However it needs to be understood that these investigations are not the overall rate determiner of the rebuild. An investigation can be done in one or two days: this compares to 18 weeks to build a house, and so, once the rebuild progresses further, this will be just one of the steps that need to be undertaken to get the job done on each house.

Labour: The residential rebuild is not the only construction work proposed over the next five years. We estimate that at least \$21B earthquake related construction work is planned to be spent by 2017 by agents as diverse as schools, hospitals, private commercial property owners, infrastructure

providers, Councils (on top of infrastructure), university and ports along with the residential market. In addition, there is 'business as usual' work to support the on-going growth of our community ranging from home extensions, business expansions to irrigation schemes. The latest NZIER QSBO surveys have found Canterbury firms have much higher capacity utilisation ratios than the rest of the country and are getting close to full capacity, reporting a shortage of skilled and unskilled labour, and have been doing so for the last two quarters. MBIE's index of skilled labour vacancies is showing growth in Canterbury well outstripping the rest of the country in the order of 80% growth compared to 5%.

We currently have about 18,000 construction sector workers in greater Christchurch. To meet all the sectors goals, at peak we will need about 34,000. This includes an allowance for Business as Usual work which is substantially less than it was before the quakes.

This assumes a four to five year programme for the residential rebuild (complete 2016 or 2017). The construction industry is not at full capacity yet, however it is close; with shortages of engineers, QS's and finishing trades all reported.

This also means that some homes will be built early in this process, and some will be built later: and some may not be able to deliver the rate of build necessary unless there is more commitment provided to building companies to recruit workers from overseas.

Materials: Initial work has been done to consider if there will be material constraints during the rebuild. This initial work suggests that total demand can be met by the market, with many production lines working at only a fraction of their potential capacity. This work is progressing with detailed modelling and investigations to explore peak flows, weak links in the chain and transport and logistics constraints; however no significant issues have been identified to date.

Accommodation: With the demand for construction sector workers, the additional labour for supporting industries and need for a place to stay when homeowners are out while it is being fixed, the demand for accommodation is expected to spike, and we may be short of perhaps 10,000-12,000 houses. This is beginning to show in the increased rental costs and limited availability. To construct a workers' village and be assured of making a return on investment, it will be necessary to charge approximately \$300 -350 per week. This compares to the \$100-150 per week for a bedroom in an existing house. Although contractors will pay whatever the market demands (as they are now and are a major source of the increase in costs), there will come a time when there will be insufficient stock to use; regardless of price. At that time, workers' villages may become bankable and we will see some emerging, however this is unlikely to fully satisfy demand, and so we can expect to see an inability for all delivery agents to meet their programmed objectives due to the unavailability of labour, and /or the increase in price as demand exceeds supply.

## What are we, insurance companies and EQC doing about it

### *Claims settlement*

Apportionment: Apportionment being done on geographical basis, speeding process up by an order of magnitude. In place for a number of months, EQC now undertakes apportionment on a street by street basis, and this has increased the productivity from 2.5/day to 12 properties per day by each assessor.

Properties over \$83k damage in TC3 with foundation damage passed directly to insurer to manage. Where EQC has identified that (i) the property is in TC3, (ii) the property has foundation damage and (iii) the cost to repair property excluding foundation damage is at least \$75k +GST, the property would be passed directly to the insurer without need for Joint Review. EQC is considering how to make operational and no agreement yet between parties on how to progress. Not for public release

Insurers funding/providing resources to undertake apportionment by EQC: The apportionment process is slow and labour intensive, particularly when it is done on a non-geographic basis. This initiative allows resources paid for by the insurers to support the apportionment team, and progress assessment of individual properties which the insurers wish to provide priority outside the more efficient geographic (street by street) process. This process is in place and a number of insurers have established resource in the EQC office for this purpose.

Joint Review process with EQC staff located in some insurers' offices. The joint review process is when EQC and an insurer disagree on the scope of damage, repair methodology and/or the cost of the repair for a property. This initiative is for EQC staff and Insurer assessors to work through the cases under joint review side by side. This allows a better understanding to be established between each team and so faster resolution of the review. A physical site review is undertaken where a desktop agreement cannot be reached.

Costing and agreement on site during joint review: Proposal only – not made operational and may not be feasible. This proposal extends the delegated authority of the joint review assessors to agree a greater level of detail regarding apportionment and costing. This is to short the three month time frame for EQC internal costing and apportionment processes.

Confirming properties with land damage types 1-7. Not fully resolved yet. EQC have provided to insurers list of properties which are considered to be subject to land damage types 1-7 (superficial or localised) however there is lack of clarity whether any of these will also have category 8 and 9 damage. If insurers can be confident that there is no category 8 or 9 damage to these properties, it would allow them to progress claims on these properties without needing to consider if compensation for type 8 and 9 land damage will be offered by EQC to these properties.

Wash Up protocol: All assessments are estimates, and the final cost of the works will only be known once works are complete. This means that there will be a change in total contribution between EQC and the insurers due to apportionment between events. The wash up protocol will be the process by which each party will recover the under and over costs on each project. Insurers currently preparing a strawman for how this process will work.

CERA sponsored facilitator and process mapping. Facilitator working across the insurer and EQC interface to resolve differences of understanding and identify opportunities for efficiency gains supported by detailed process mapping work.

#### *Technical constraints*

Floor level requirements published by CCC: CCC have published via a GIS viewer the floor level requirements for most properties in Christchurch plus guidance on how this affects a range of rebuild and repair scenarios. This provides information up front on the floor level requirements across the houses affected and so provides certainty for planning and costing.

Sharing of geotechnical investigation data: EQC has provided a very quantity of data, including LIDAR, field observations, and around 4,500 CPT and borehole records. Most insurers have agreed to share the geotechnical data they procure as early as practical via the Canterbury Geotechnical Database.

Range of working groups with PMO's, Councils and MBIE: CERA has facilitated the establishment of a range of working groups seeking to develop 'pre-agreed' design outcomes or consenting requirements to ensure that (i) the assessments are based on what is going to be consented and (ii) the consenting process is as streamlined as possible.

#### **Resourcing**

- Undertaking modelling of demand forecast for labour, accommodation and materials
- On-going monitoring
- Changes to District Plans to streamline resource consenting for temporary worker accommodation
- Guidelines issued on building consent requirements for temporary worker accommodation
- Established Canterbury Employment and Skills Board
- Instituted Canterbury Skills Shortage List
- Established Canterbury procurement Forum

#### **What might we expect to happen over 2013?**

- Apportionment complete by Easter 2013
- EQC's Geotechnical investigation completed by March 2013
- Number of houses being built will begin to outstrip the rate of claim settlement, meaning that resources will begin constraining the rate of the re-build
- Insurance companies geotechnical investigation ongoing and keeping in advance of house rebuild programme
- Shortage of labour, including trades and project managers
- Perhaps changes in the method of procurement by delivery agents to allow companies to invest in staff and resources (such as accommodation)
- Further tightening in housing market with housing prices and rents rising

When do the insurers expect to have complete their rebuild/repair programmes

	Timeframe for all houses to be repaired or rebuilt	Vulnerable (older people or with health problems) will be prioritised	Repair/rebuild work already done or underway in TC3
<b>IAG (NZI, Lantern, State)</b>	by the end of 2015	Yes – “those with uninhabitable homes, the elderly, anyone with health issues and families with young children. Also a number of other factors including financial issues/ pressure.”	Completed one major repair in TC3 with 20 rebuilds/ repairs underway
<b>Southern Resp (AMI)</b>	by the middle of 2016	Yes “combined effect of the quality of the land and the inhabitable of the house. Also the health and welfare of the individual customer is part of the priority consideration”.	5 repair/rebuild under construction; one completed
<b>VERO</b>	Timeframes will range from a start date this year through to a start in 2014 and possibly the beginning of 2015.	Yes - “elderly and others with special needs”	tell us they have some work underway in TC3 but not a lot at the moment
<b>Tower</b>	Expect to complete within 2-3 years with some outliers up to 5 years	Nothing public; they tell us they have a process to escalate priority cases.	nothing underway yet but some in pre-construction stage
<b>Lumley</b>	Lumley Insurance will finalise the timeline of our active residential caseload by the end of November. We will be announcing a confirmed timeframe in a months' time.	Nothing public; they tell us they make sure vulnerable customers are in a “warm, safe and secure environment”	11 rebuilds and 11 repairs underway in TC3
<b>MAS</b>	Nothing publicly announced yet	Nothing public; they tell us they deal case by case as sensitivities arise	both repairs and rebuilds underway in TC3
<b>FMG</b>	Nothing publicly announced yet	Nothing public; they tell us they have a personalised client management approach so claims with acute issues, including hardship, can be elevated to the top of the queue	Repair/rebuild started in 5% of TC3 properties; a further 2% with no foundation damage is progressing

## Not government policy

<b>EQC</b>	Repairs over \$50,000 to be completed by end of 2013 and all repairs to be completed by end 2015	doing 100 projects a month for priority and vulnerable customers, using a range of factors including age, health status and impact of damage	1,400 properties repaired in TC3 and 1,340 paid as over cap.
<b>ACS (Ansvar)</b>			close to lodging consents for 3 TC3 foundations

## What are the insurers policy for repairs and rebuild sin TC3 areas

Policy for repairs and rebuilds in TC3 areas	
<b>IAG</b>	<p>Are assessing customers in TC3 areas by the end of June. Once the outcome of these assessments is obtained they will proceed depending on the following:</p> <p><b>For all claims:</b></p> <p>IAG need to identify the worst land damaged properties before they are confident work can begin. IAG have requested a list of properties with category 8 and 9 damage from EQC.</p> <p><b>For customers with identified foundation damage</b></p> <p>IAG have agreed in principle to support the collaborative drilling programme and are working through final sign off. They will need the results of the geotechnical programme to design appropriate foundations for customers with foundation damage.</p> <p><b>If IAG are yet to agree apportionment with EQC:</b></p> <p>IAG need to agree apportionment with EQC. This will confirm whether the claim is IAG's or EQC's to manage.</p>
<b>Tower</b>	Where there is no foundation damage (repairs) Tower can progress claims (i.e. no geotech investigation required) – where there is geotech investigation required Tower are currently running a drilling programme and prioritising from there.

## Not government policy

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<b>Lumley</b>	Repairs are underway on TC3 land. These are typically non-structural.
<b>AA Insurance</b>	AA will repair/rebuild homes in TC3 areas in line with our policy and the DBH guidelines. The TC zoning doesn't impact the policy entitlements.
<b>Vero</b>	<p>Vero has agreed in principle to support the joint collaborative drilling program subject to some conditions which are under discussion. Additional site specific drilling may still be required on a case by case basis for some Vero TC3 claimants.</p> <p>Vero are preparing property reinstatement reports for all repair and rebuild properties in the TC3 area. This will enable settlement/reinstatement decisions to be made by customers.</p> <p>Settlement/reinstatement of TC3 properties will be subject to the resolution of issues such as EQC/Insurer discrepancies, EQC Land cover decisions, clarity on Existing Use Rights implications.</p> <p>Vero is currently working collaboratively with EQC to resolve claim issues.</p> <p>Vero is providing contract works insurance for building works that are part of the PMO reinstatement programme.</p>
<b>Policy for insuring current households in TC3 areas</b>	
<b>IAG</b>	IAG are continuing to provide insurance for existing customers on a case-by-case basis.
<b>Tower</b>	Continuing to renew existing policies without changes (subject to review).
<b>Lumley</b>	Lumley are renewing policies on properties they already insure - regardless of zone.

## Not government policy

<b>AA Insurance</b>	AA are continuing to insure their existing customers in Canterbury.
<b>Vero</b>	Vero continue to offer cover and renewals to their existing customers in TC3.
<b>Policy for writing new insurance in TC3 areas</b>	
<b>IAG</b>	IAG are not accepting new risks for new customers as they are still in a 'restricted period', however, this can and will change.
<b>Tower</b>	Currently not writing any new business in TC3.
<b>Lumley</b>	No new insurance for new customers will be written in TC3. Requests from existing customers will be reviewed on a case by case basis.
<b>AA Insurance</b>	<p>AA are not writing any insurance for new customers, unless they are purchasing a home that AA currently insure – standard underwriting conditions still apply here.</p> <p>Existing red zone customers looking to purchase in TC3 areas are able to continue to insure with AA, subject to some additional requirements, such as land and property-related reports on the property they are buying.</p>
<b>Vero</b>	Vero are not writing any new business in TC3
<b>Policy for insuring current households in TC1, and TC2 areas</b>	
<b>IAG</b>	
<b>Tower</b>	<p>As well as continuing to renew existing policies in TC1 and TC2, TOWER is taking on new risks (on a case by case basis) for houses consented and built in TC1, TC2 and unmapped / rural zones after May 2012. Also it will consider (on a case by case basis) existing houses built after 1950 in TC1 and TC2.</p> <p>Recent developments - From Tuesday, 9 October 2012 (subject to certain criteria and restrictions), new customers in Canterbury will be able to insure their homes with TOWER. This also applies to our business partners, TSB and Kiwibank, and their customers in Canterbury. TOWER will insure (on a case by case basis) new houses built after May 2012 with resource consent approval in TC1 and TC2 and unmapped / rural zones. TOWER will also consider houses built after 1950 in TC1 and TC2 areas.</p>
<b>Lumley + Westpac-</b>	Have introduced the Canterbury New Build Pac which combines a home loan, a transactional account and contract works and home cover for new and existing customers who are ready to start on residential builds or buy new residential builds in Canterbury. The home cover is provided

## Not government policy

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	on a "sum insured" basis. This means that customers insure for full replacement, up to a specified value.
<b>AA Insurance</b>	
<b>Vero ANZ</b>	Applications are being received for home insurance that would cover rebuilds on a new or existing sections. They would be subject to a maximum claimable amount of \$2,000 per insured square metre.

## File Note

This is a file note of external meetings with NZ Insurance CEs and executive teams that took place on 14 & 15 November 2012 in Wellington and Auckland. The purpose of the meetings was to develop an understanding of separate insurers positions, stages of 'recovery' and issues in the Canterbury rebuild and wider NZ Market to inform as situation report to Ministers later in late 2012.

This file note records the general issues raised and observations from Mark Jacobs and James Hay who conducted the interviews.

### General Observations

(NB: As yet we have not met with IAG's CEO – 60% of residential market)

Each insurer had a unique market perspective and interest. There was a focus on competition. There are players taking a defensive position in relation to risk and market share and at least one player looking to expand [acquire?].

Participation in the NZ Insurance Council was 'variable', generally supportive of those things insurers agreed the Council could advance but NZIC did not represent individual companies and did not have a consensus or industry view on other issues.

Companies have different strategies in relation to the rebuild. Generally there is a preference to cash settlement but this is more strongly expressed in smaller players.

A period where a large number of major claims were held by EQC has ended and insurers are now leading on most of these. There are pockets/groupings where resolution of issues (with EQC, technical data, or CCC) will hold up progress but otherwise insurers reported moving to settle claims.

Not so much a sense of gearing up in insurance offices. More 18 months has allowed us to develop process and systems (or personnel changes at management levels) where these didn't exist previously and there weren't international models to draw on. Some sense that insurers had been reviewing and changing their PMO/building company arrangements e.g. to ensure commitments could be backed by capacity.

Remainder of document (16 pages) withheld under section 9(2)(ba)(i).

# CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY

As at 21 November 2012

Status Update		Accountability	Due Date
<b>1. Claim settlement</b> <i>Objective: Insurance claims are settled in as efficient and effective a manner as possible in order to help progress the residential rebuild</i>			
<b>Work stream</b>	<b>General Operations:</b> Formerly Repair Methodology and Costing:	<b>Rob / Angela</b>	
<b>Milestone</b>	<ul style="list-style-type: none"> <li>Regulatory, consenting and other policy issues being addressed in a timely way</li> </ul> <p><b>Current Issues</b>  Wash-up: The revised wash-up strawman, developed by insurers has been circulated for comment  Some insurers funding EQC staff to work on apportionment, and co-location for joint resolution  3 insurers and EQC agreeing handover for TC3 &gt; \$83k with foundation damage: process issues need discussion</p>		On-going
<b>Next Steps</b>	Continue to attend WG's and monitor and feed back on their progress	Rob Kerr	On-going
<b>Work stream</b>	<b>Communications and Customer Service:</b>	Michael / Julia / Angela	
<b>Milestones</b>	Not relevant to your request		
<b>Objective</b>			
<b>Progress</b>			
	<ul style="list-style-type: none"> <li><b>Tony Baldwin project:</b> The insurance claim element of his project aims to identify high level claims map and outline current road blocks in the claims settlements process and provide recommendations. The output from this report will feed into the claim settlement update for the Minister</li> </ul>	Tony Baldwin	Mid November
	<ul style="list-style-type: none"> <li><b>Claim Settlement Paper</b> to the Minister for Canterbury Earthquake Recovery and Minister of Finance: Meetings have been held by James and Mark with insurers regarding their current position, the notes of these meetings have been circulated for inclusion in the paper. The brainstorming session on blockages and interventions has been undertaken. The paper is now being drafted and expected to be ready for comment by Wednesday 28 November</li> </ul>	Angela/ Mark	Paper finalised and to Ministers w/e 3 December

Status Update		Accountability	Due Date
<b>Work stream</b>	<b>Rebuild issues including land</b>	<b>Rob/ Angela</b>	
<b>Objectives</b>	Not relevant to your request		
<b>Progress</b>			
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Tony Baldwin project: Land remediation: Tony is working EQC &amp; insurers to understand Geotech facts identifying points of difference and evaluating resolution options.</li> <li>- Implementing the Residential Action Plan</li> </ul>	Tony Baldwin  Rob	Mid November  On-going
<b>Work stream</b>	<b>5. Claim settlement progress and outlook: Residential and Commercial</b>	<b>Tim / Rob</b>	
<b>Objectives</b>	<ul style="list-style-type: none"> <li>- Collect data to monitor claims progress and expected timescales for future settlements</li> <li>- Identify emerging concerns</li> <li>- Manage use of data in other CERA, Treasury or DBH work</li> </ul>		
<b>Progress</b>	<p>Issue: Data is collected from a number of ICNZ members however that completions of the returns has not been consistent across participants. Once aggregated this is distributed to the ICNZ members who made the contributions</p> <ul style="list-style-type: none"> <li>- Tim Wilson co-ordinates the claim settlement metrics collection and reporting for insurers. Rob Kerr continues to collect of data from insurers PMO's</li> <li>- Following recent meetings by Tim Wilson with insurers he has had a commitment from them to supply good quality data. By w/e 23 November a summary of that data will be prepared for review.</li> </ul>		
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Next week a internal meeting is scheduled to help clarify how the collected data will be used in CERA internal reporting, to feed into CERA economic models.</li> </ul>		
2. Residential Red Zone			
Willum			
<b>Objective</b>	Not relevant to your request		
<b>Progress</b>			

Status Update		Accountability	Due Date
Next Steps	Not relevant to your request		
3. CCDU issues / recoveries Willum / James			
Progress	Not relevant to your request		
Next Steps			
4 Insurability and Availability			
Workstream	Availability of insurance and reinsurance:		Alison
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			

Status Update		Accountability	Due Date
	Not relevant to your request		
Workstream	Risk data/story	Alison	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	Capital/regulatory position of local insurers	Lindy (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			
Workstream	Insurance/banking sector linkages:	Vinny (Tsy)	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	EQC Legislative Review:	Bevan (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			
Workstream	New Zealand / Crown risk management:	Lindy (Tsy)	
Objective	Not relevant to your request		
Progress			
Next Steps			



# Canterbury Earthquake Recovery Authority

## Programme Concept Paper

### Programme Details

Approved 26.11.2012

Programme Information	
Programme Name:	Insurance Programme
Programme Description:	This programme involves a range of policy and operational issues. The policy work aims to unblock the constraints to residential claim settlement; and understand the implications of the Canterbury earthquakes on future insurability. The operational issues focus mainly on the central city, and the extent to which insurability affects investment. There are also strong linkages to other programmes, including to the red zone recoveries programme where the Crown is an insurance claimant.
General Manager Accountable:	James Hay
Programme Manager:	Rosemary Cook
Key Partners / Agencies:	Treasury; EQC; Private Insurers and Reinsurers
Approval	
Name:	
Signature:	
Date:	
Comments:	

### Important note:

This document is for management approval.

Please use Recovery Programme Guide to guide your thinking and fill out this document.  
Consult the PMO for assistance to complete this paper.

### Document Version

Version	Date	Author	Comments
	22/8/12	Rosemary Cook	
	29/8/12	Rosemary Cook	Including comments from Alison and James

# 1. Problem definition

Insurance issues<sup>1</sup> resulting from the Canterbury earthquakes are complex and a source of concern to the Crown, CERA and the residents and businesses of greater Christchurch. Delays in claim settlement impact many aspects of the recovery. These include impacts on residents; community resilience; the pace of demolition and rebuild activities; and investment in essential repair and rebuild work – both in commercial and residential areas.

In addition, uncertainty regarding the future insurability of buildings, contents and business interruption is hindering, at least to some extent, the rebuild and through that may jeopardise the future viability of commercial and economic development. In this area the insurance work programme also considers the linkages between insurance market issues and responses and the collateral markets for debt and equity.

In relation to infrastructure insurance there is a further line of work with the CERA infrastructure team and Treasury to inform the most appropriate risk management approach for these types of assets moving forward. This has implications for the national land transport fund and other Crown balance sheet implications and Treasury is leading work in this area.

There are both operational and policy aspects to the programme. The policy issues fall under two main headings – claims settlement from the recent earthquakes and future insurability.

- **Delays in earthquake claims settlement (both commercial and residential) are a source of concern for insured customers, the wider community, and government.**

The settlement of residential claims is materially slower than commercial, delayed (apart from on-going seismicity) by differences in assessments and costing of claims between EQC and insurers an unclear process and method for apportioning claims between events and specific issues for houses in TC3. Further there is uncertainty about the implications of EQC's policy on settling land claims. There is also some uncertainty about what mitigation might take place in flood areas or from rock fall in the Port Hills, due to external interdependencies (council planning/mitigation etc.)

- **Insurers are continually re-evaluating their risk appetite in Canterbury with no certainty as to when or whether it will increase or decrease over time.**

Not relevant to your request

Operational matters within the Insurance Programme include:

- **Central City plan**  
Not relevant to your request

- **Residential Red zone and central city liaison**  
Not relevant to your request

## 2. Purpose & Scope

**Purpose:**

<sup>1</sup> In this paper "insurance" generally includes EQC so that a reference to insurance claims issues includes EQC claims issues

To show leadership in identifying and helping to resolve blockages in the claims settlement process and to develop a good understanding of the way the insurance market is responding to the Canterbury earthquakes with a view to facilitating the recovery overall.

**Scope:**

The programme extends to gathering information; understanding constraints; and facilitating responses to issues identified (including advice to Ministers). It covers residential and commercial properties and includes understanding and responding to flow on impacts these issues may have in collateral markets, debt and equity markets in particular.

**Out of Scope:**

Red zone recoveries (Residential Red Zone programme - Willum Richards)

Regulatory and Consenting Working Group (Rebuild Programme – Rob Kerr)

### 3. Outcomes and Strategic alignment

**Outcomes**

A focused, timely and expedited recovery of greater Christchurch

Ensuring, so far as possible and appropriate, that market conditions in greater Christchurch support the rebuild, development and economic recovery of the area

Confidence returns to the insurance (and therefore investment) markets in greater Christchurch to support the rebuild, development and economic recovery of the area.

Insurance policy holders retain confidence in the insurer/government led recovery.

**Strategic Alignment**

This programme is aligned with the goals of the Recovery Strategy as noted below.

**CERA, the public and private sector and communities coordinate with each other to contribute to the recovery and future growth of greater Christchurch - by:**

1.1 facilitating a timely and efficient recovery, including intervening where necessary to remove impediments, resolve issues and provide certainty;

2.3 restoring the confidence of the business sector and the insurance and finance markets to enable economic recovery and growth;

2.7 collaborating with the private sector and government agencies to address obstacles to economic recovery and to match supply with demand for resources;

3.5 supporting communities as they go through the processes of resettlement.

### 4. Objectives

- ① Insurance claims are settled in as efficient and effective a manner as possible.
- ② All stakeholders, including Cantabrians, local and central government and insurers have the information they need to make decisions about insurance claim settlement and future insurability.
- ③ With respect to future insurability of residential property a key objective is to contribute to the EQC review being led by Treasury.

### 5. Implementation approach

**Implementation approach:**

Develop a clear understanding of the issues involved in claims settlement of both commercial and domestic claims, and of the impediments to efficient claims settlement.

Work with insurers to facilitate solutions to resolve issues which impact on claims settlement process until the majority of claims are settled.

Requiring insurers and EQC to provide data on the rate of claims settlement and monitoring and reporting on this.

Promoting, with insurers and EQC, the need for homeowners to have information about when repairs and rebuilds will be done.

Understand and monitor the supply and demand for logistical and resource requirements needed to facilitate insured earthquake damage repairs.

Maintain linkages with the Community Wellbeing team and other business groups in CERA in order to help them understand the current issues as needed.

Not relevant to your request

Advise Ministers on the impact of insurance issues on the recovery, including policy advice for Ministers on possible interventions to assist the resolution of impediments and barriers to the recovery, where appropriate.

### Milestones and scheduling:

The outcomes of this programme are largely within the control of external parties. These milestones are those that CERA should be able to control to a large extent: Process mapping tool up and running by mid-September (Jointly with Treasury)

- Some public communication of claims progress (by EQC/insurers &/or CERA) satisfactorily working by October 2012
- "Assistance Service" agreed and planned by October 2012 – in place by November/December 2012

Not relevant to your request

### Budget & Resourcing:

	FY11	FY12	FY13	FY14	FY15	FY16	Who is funding?
Average number of resources required (FTE)		4	4	2	1	1	CERA
Departmental / Internal Costs (CERA) - \$NZD							
Non-Departmental / External Costs (Non-CERA) - \$NZD							

## 6. Projects within the Programme

Project Name	Brief Description	Project Lead
POLICY		
Relationships with insurers	Maintaining overall relationships with insurers.	James Hay
Communications & Service Delivery	Liaising with insurers/EQC and other government agencies on to ensure that consistent and helpful information and support is delivered to the wider	Michael Henstock/Rosemary Cook/Julia

	community	Hardacre
Repair Methodology and Costing	Watching brief on progress between insurers and EQC on agreeing repair methodology and costings through attending the Repair Methodology and Costings Working Group	Rosemary Cook/Rob Kerr
Apportionment	Watching brief on progress between insurers and EQC on agreeing apportionment of claims to different events, through attending Apportionment Working Group	Rosemary Cook
Monitoring and reporting on claims settlement progress – residential	Watching brief on data from insurers/EQC on claims settlement, publication of aggregated data, and advice on potential responses to constraints on progress	Rosemary Cook (with Treasury)
Not relevant to your request		

## 7. Dependencies and linkages

### Dependencies:

The outcome of many of the issues to be addressed within this programme, particularly in the residential claims settlement, is dependent on progress made by external parties, including progress from EQC and insurers in their settlement processes. The pace and nature of decisions by insurers also has an impact on overall outcomes, especially in commercial business but to some extent residential too.

Much of the rebuild activity is dependent on insurance claims being settled, the process of insurer-led rebuilds and repair and future availability of insurance.

While CERA does not control these outcomes, the insurance programme aims to assist with unblocking the barriers to achieving these outcomes, and will actively promote the resolution of issues/blockages identified..

### Linkages:

This is closely linked to the Red Zone Recovery Programme; Rebuilding Programme and the Communications Programme

Treasury has a close interest in work on claims settlement, given the impact of the recovery on the New Zealand economy and Crown balance sheet risks arising from EQC and Southern Response tail risks as well as their ownership monitoring role for those entities. There is also a close overlap with

Treasury for work on future insurance availability and external market/technical engagement. External risk capital providers look at the national picture, not just Christchurch.

## 8. Key risks

Key Risks			
	<b>Budget</b>	X	<b>Resource</b>
	<b>Scope</b>	X	<b>Stakeholders</b>
	<b>Time</b>		<b>Policy</b>

Note: Put an "X" where the Key Risks are.

Description of Risk	How risk will be mitigated
Lack of relevant information on claims settlement progress	Continuing engagement with insurers and EQC
Not relevant to your request	
Failure to understand the significance of emerging issues as they arise and respond fast enough	<p>Maintaining regular engagement with stakeholders, including insurers, EQC, PMOs and policy holders</p> <p>Fortnightly insurance co-ordination meetings so the cross-CERA team can discuss issues and actions, with Treasury</p> <p>Close liaison with SPP through key personnel</p>
Conflict of interest between Crown's position as claimant (red zone) and policy advisor. This could limit our access to data (see above)	Maintain "chinese wall" between the policy team and those involved in red zone recoveries.

## 9. Assumptions

It is in the interests of insurance companies to settle claims early.

Insurers and EQC provide the data we need to advise on progress.

## 10. Consultation and governance

The significant external partnerships required for the delivery of the programme are with private insurers and reinsurers, EQC and the Treasury.

Governance	Person / Group
Accountable	
Responsible	
Support	

Consulted	
Informed	

## 11. Next steps

The next priorities are:

Data collection to help identify blockages in the claims settlement process

Assist insurers/EQC, community groups and providers to develop an information/advisory assistance service

Not relevant to your request

# CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY

As at 28 November 2012

Status Update		Accountability	Due Date
<b>1. Claim settlement</b> <i>Objective: Insurance claims are settled in as efficient and effective a manner as possible in order to help progress the residential rebuild</i>			
<b>Work stream</b>	<b>General Operations:</b> Formerly Repair Methodology and Costing:	<b>Rob / Angela</b>	
<b>Milestone</b>	- Regulatory, consenting and other policy issues being addressed in a timely way  <b>Current Issues</b> Wash-up: The revised wash-up strawman, developed by insurers has been circulated for comment. Further discussion was held this week and insurers are to look at some test cases. IAG have confirmed their intention to treat all Port Hills red zone properties with a “permanent” S124 as Total Losses. They are working with Council to better understand the process and background to the individual decisions. Southern Response are understood to be reviewing their position in both the red and green zones and other insurers are likely to follow suit. A multi unit cross lease working group has been established to consider practical approach to repairs and rebuilds. ICNZ have contacted the Canterbury District Law Centre regarding community education Continue to attend WG's and monitor and feed back on their progress		On-going
<b>Next Steps</b>		Rob Kerr	On-going
<b>Work stream</b>	<b>Communications and Customer Service:</b>	Michael /Julia / Angela	
<b>Milestones</b>	Not relevant to your request		
<b>Objective</b>			
<b>Progress</b>			
-	<b>Tony Baldwin project:</b> The insurance claim element of his project aims to identify high level claims map and outline current road blocks in the claims settlements process and provide recommendations. The output from this report will feed into the claim settlement update for the Minister. No information has been received to date	Tony Baldwin	Mid November

Status Update		Accountability	Due Date
<b>Work stream</b>	<b>Rebuild issues including land</b>	<b>Rob/ Angela</b>	
<b>Objectives</b>	Not relevant to your request		
<b>Progress</b>			
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Tony Baldwin project: Land remediation: Tony is working EQC &amp; insurers to understand Geotech facts, identifying points of difference and evaluating resolution options. The <b>residential action plan</b> was approved by the Minister and will be posted out to all participate. The first monthly monitoring report on action items is due this week</li> </ul>	Tony Baldwin  Rob	Mid November  On-going
<b>Work stream</b>	<b>5. Claim settlement progress and outlook: Residential and Commercial</b>	<b>Tim / Rob</b>	
<b>Objectives</b>	<ul style="list-style-type: none"> <li>- Collect data to monitor claims progress and expected timescales for future settlements</li> <li>- Identify emerging concerns</li> <li>- Manage use of data in other CERA, Treasury or DBH work</li> </ul>		
<b>Progress</b>	<p>Issue: Data is collected from a number of ICNZ members however that completions of the returns has not been consistent across participants. Once aggregated this is distributed to the ICNZ members who made the contributions</p> <ul style="list-style-type: none"> <li>- Tim Wilson co-ordinates the claim settlement metrics collection and reporting for insurers. Rob Kerr continues to collect data from insurers PMO's</li> <li>- Following recent meetings by Tim Wilson with insurers he has had a commitment from them to supply good quality data. By w/e 30 November a summary of that data will be prepared for review.</li> </ul> <p>Internally insurance data is also collected and incorporated into CERA economic models. A meeting has been held to help streamline and efficiently co-ordinate the collection of this data. It was agreed that the questionnaires that are used to collect the data will be used by all parties who require insurance information and the questionnaire amended and refined to meet everyone's needs.</p>	Tim  Tim	30-Nov-12
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Further work with PMO's and insurers to get quality consistent and comparable data.</li> </ul>		

Status Update		Accountability	Due Date
4. Insurability and Availability			
<b>Workstream</b>	<b>Availability of insurance and reinsurance:</b>	Lindy & Vinny (TSY)	
<b>Objective</b>	Not relevant to your request		
<b>Milestone</b>			
<b>Progress</b>			
<b>Next Steps</b>			
<b>Workstream</b>	<b>Risk data/story</b>	Lindy (TSY) & CCDU	
<b>Objective</b>	Not relevant to your request		
<b>Milestone</b>			
<b>Progress</b>			
<b>Next Steps</b>			
<b>Workstream</b>	<b>Capital/regulatory position of local insurers</b>	Lindy (Tsy)	
<b>Progress</b>	Not relevant to your request		
<b>Next Steps</b>			
<b>Workstream</b>	<b>Insurance/banking sector linkages:</b>	Vinny (Tsy)	
<b>Progress</b>	Not relevant to your request		
<b>Workstream</b>	<b>EQC Legislative Review:</b>	Bevan (Tsy)	
<b>Progress</b>	Not relevant to your request		
<b>Next Steps</b>			
<b>Workstream</b>	<b>New Zealand / Crown risk management:</b>	Lindy (Tsy)	
<b>Progress</b>	Not relevant to your request		

# CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY

As at 4 December 2012

Status Update		Accountability	Due Date
<b>1. Claim settlement</b> <i>Objective: Insurance claims are settled in as efficient and effective a manner as possible in order to help progress the residential rebuild</i>			
<b>Work stream</b>	<b>General Operations: Formerly Repair Methodology and Costing:</b>	<b>Rob / Angela</b>	
<b>Milestone</b>	<ul style="list-style-type: none"> <li>- Regulatory, consenting and other policy issues being addressed in a timely way</li> </ul> <p><b>Current Issues</b></p> <ul style="list-style-type: none"> <li>- Wash-up: The revised wash-up strawman, developed by insurers has been circulated for comment. Some test cases are to be looked at. The current issue being completed is whether inflation costs will be incorporated in the wash-up, the insurers want this be EQC is pushing back.</li> <li>- IAG have confirmed their intention to treat all Port Hills <i>red zone</i> properties with a “permanent” S124 as Total Losses. They are working with Council to better understand the process and background to the individual decisions. Southern Response are understood to be reviewing their position in both the <i>red and green zones</i> and other insurers are likely to follow suit.</li> <li>- A multi unit cross lease working group has been established to consider practical approach to repairs and rebuilds. ICNZ have contacted the Canterbury District Law Centre regarding community education to ensure that property owners are aware of the implications before they give any permissions in relation to their properties and claim settlement. Updates from the working group will be received from the General Ops Working Group meeting.</li> </ul>		On-going
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Continue to attend WG's and monitor and feed back on their progress</li> </ul>	Rob Kerr	On-going
<b>Work stream</b>	<b>Communications and Customer Service:</b>	<b>Michael /Julia / Angela</b>	
<b>Milestones</b>	Not relevant to your request		
<b>Objective</b>			
<b>Progress</b>			
	<ul style="list-style-type: none"> <li>- <b>Tony Baldwin project:</b> The insurance claim element of his project aims to identify high level claims map and outline current road blocks in the claims settlements process and provide recommendations. Angela to summarise for Diane what Tony is currently doing and work out how this fits into the total programme work and where to from here</li> </ul>	Tony Baldwin	Mid November

Status Update		Accountability	Due Date
<b>Work stream</b>	<b>Rebuild issues including land</b>	<b>Rob/ Angela</b>	
<b>Objectives</b>	Not relevant to your request		
<b>Progress</b>			
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- <b>Tony Baldwin project:</b> Land remediation: Tony is working EQC &amp; insurers to understand Geotech facts, identifying points of difference and evaluating resolution options. The <b>residential action plan</b> was approved by the Minister and will be posted out to all participate. The first monthly monitoring report on action items is due this week</li> </ul>	Tony Baldwin  Rob	Mid November  On-going
<b>Work stream</b>	<b>5. Claim settlement progress and outlook: Residential and Commercial</b>	<b>Tim / Rob</b>	
<b>Objectives</b>	<ul style="list-style-type: none"> <li>- Collect data to monitor claims progress and expected timescales for future settlements</li> <li>- Identify emerging concerns</li> <li>- Manage use of data in other CERA, Treasury or DBH work</li> </ul>		
<b>Progress</b>	<p>Issue: Data is collected from a number of ICNZ members however that completions of the returns has not been consistent across participants. Once aggregated this is distributed to the ICNZ members who made the contributions</p> <ul style="list-style-type: none"> <li>- Tim Wilson co-ordinates the claim settlement metrics collection and reporting for insurers. Rob Kerr continues to collect of data from insurers PMO's</li> <li>- Following recent meetings by Tim Wilson with insurers he has had a commitment from them to supply good quality data. The quality of the data has improved: Southern Response and IAG are on board with the new framework and understand the information needs. By w/e 7 December an A3 summary of the claims information will be prepared for review.</li> </ul> <p>Internally insurance data is also collected and incorporated into CERA economic models. A meeting has been held to help streamline and efficiently co-ordinate the collection of this data. It was agreed that the questionnaires that are used to collect the data will be used by all parties who require insurance information and the questionnaire are amended and refined to meet everyone's needs.</p>	Tim  Tim	7-Dec-12  on-going
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Further work with PMO's and insurers to get quality, consistent and comparable data.</li> </ul>		

Status Update		Accountability	Due Date
4. Insurability and Availability			
Workstream	Availability of insurance and reinsurance:	Lindy & Vinny (TSY)	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	Risk data/story	Lindy (TSY) & CCDU	
Objective	Not relevant to your request		
Milestone			
Progress			
Next Steps			
Workstream	New Zealand / Crown risk management:	Lindy (Tsy)	
Progress	Not relevant to your request		
Workstream	Insurance/banking sector linkages:	Vinny (Tsy)	
Progress	Not relevant to your request		
Next Steps			
Workstream	EQC Legislative Review:	Bevan (Tsy)	
Progress	Not relevant to your request		

To: **Minister for Canterbury Earthquake Recovery**

IN CONFIDENCE

## Canterbury residential insurance claim settlements – update on progress

Date	10 December 2012	Priority	MEDIUM
Report No	M/12-13/212	File Reference	

### Action Sought

#### Deadline

Hon Gerry Brownlee <i>Minister for Canterbury Earthquake Recovery</i>	<b>Read</b> this report.  <b>Forward</b> this paper to the Prime Minister, the Minister of Finance and the Associate Minister of Finance (Hon Steven Joyce).	13 December 2012
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### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Diane Turner	Deputy Chief Executive, Recovery Strategy, Planning and Policy	03 354 2607	<input checked="" type="checkbox"/>
Angela Mellish	Senior Advisor, Policy	03 354 2610	
Mark Wright	Advisor, Policy	03 354 2782	

### Minister's office comments

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to

#### Comments

# Canterbury residential insurance claim settlements – update on progress

## Purpose

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- 1 This briefing:
  - provides an update on the status of residential insurance claim settlements in Canterbury;
  - notes the factors contributing to the delay in resolving these; and
  - outlines options for government intervention, and their costs and risks.

## Executive summary

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- 2 The latter part of 2012 has seen increased momentum in residential insurance claim settlements in Canterbury. A number of the issues causing delays that were present at the start of the year have been resolved, and claims are starting to flow through the settlement pipeline and beginning to reach the rebuild and repair stage.
- 3 New issues in the settlement pipeline are beginning to emerge, such as delays in customer decision-making, but in part this reflects that progress is being made. By and large, these are being worked through by the industry. However two matters (in particular) remain unresolved: EQC's liability for two types of land damage; and the resolution of claims that affect shared property (such as multi-unit complexes). These issues have the potential to cause significant delays to the rebuild and repair of some residential properties. We will continue to monitor these and report to you if we consider Government intervention may be required.
- 4 The challenge for 2013 is two-fold: ensure that claims continue to flow through the settlement pipeline, and prepare for potential issues that may arise at the rebuild and repair stage (such as demand for materials, labour and accommodation for temporary workers and displaced residents). Work is underway by our Residential Rebuild and Housing Programme to deal with the latter.
- 5 This paper recommends that the Government does not intervene to speed up residential claim settlements. Any intervention would be likely to involve significant fiscal costs, may introduce new precedents and could potentially derail the current momentum we are seeing. It may also place increased pressure on the recovery effort, and lead to delays or increased building costs.
- 6 Officials will continue to monitor issues that affect claims settlement. If significant issues arise that cannot be resolved by the industry, we will report to you with specific targeted opportunities to facilitate agreement.

## Consultation

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- 7 Treasury assisted in the preparation of this paper and supports its recommendations.

## Recommendations

8 It is recommended that you:

- 1 **Note** that progress has been made on a number of the issues that were delaying residential insurance claim settlements in Canterbury.
- 2 **Note** that, as more claims start to reach the last stages of the settlement process, new factors are beginning to cause delays for some properties, such as: uncertainty regarding EQC's liability for land with a significantly increased vulnerability to flooding/liquefaction; and shared property where agreement by multiple interested parties is required before repair can be undertaken.
- 3 **Note** that, as claims move into the rebuild and repair phase, resource issues may arise that have the potential to significantly impact on the recovery, and that work is underway to deal with these.
- 4 **Note** that there are limited levers for the Government to speed up the claims settlement process, with potential areas for action limited to (i) significant changes in EQC operational policies/priorities, and/or (ii) a significant financial contribution to address issues at the EQC/insurer interface.
- 5 **Note** that any options for intervention to speed up the claims settlement process would be likely to carry considerable risks, including: the potential to derail the currently increasing momentum in the speed of claims settlement; significant fiscal costs; and introducing new precedents in how the Crown responds to natural disaster damage.
- 6 **Note** that CERA and Treasury will continue the role of gathering information and monitoring the claims settlement process.
- 7 **Note** that where issues between EQC and insurers remain unresolved and have a significant impact on the recovery, CERA will report to you with options for intervention.
- 8 **Forward** this paper to the Prime Minister, the Minister of Finance and the Associate Minister of Finance (Hon Steven Joyce).

YES/NO

NOTED / APPROVED / NOT APPROVED

Hon Gerry Brownlee  
Minister for Canterbury Earthquake Recovery

Date:     /     / 2012

Diane Turner  
Deputy Chief Executive  
Recovery Strategy, Planning and  
Policy

## Background

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### Introduction

- 9 Approximately 460,000 claims have been made to EQC as a result of the Canterbury earthquake sequence. These claims relate to 171,000 properties, of which around 25,000 are estimated have at least one over-cap claim and so will be managed by insurers.
- 10 The timely and equitable resolution of the claims relating to over-cap properties is critical to the repair and rebuild of Christchurch's residential housing stock, and the wellbeing of the community. These properties are the most damaged and are causing the greatest disruption to home-owner's lives. Outside of the Residential Red Zone, the majority of over-cap properties are likely to be within Technical Category 3 (TC3). For example Southern Response advise that 55% of the Green Zone properties it manages are in TC3, with 24% in TC2 and 21% in the Port Hills (and other uncategorised areas).
- 11 In a February 2012 note (M/12/0241), we commented that the settlement of claims relating to over-cap (and potentially over-cap) properties was being delayed by problems in the assessment of damage from the earthquakes and the apportionment of this damage across each earthquake event, as well as a number of complex issues in TC3 areas and the Port Hills. We advised that our approach would be to attempt to facilitate resolution of the issues between EQC and insurers and that, together with Treasury we would continue to monitor and collect information relating to claims settlement.

### Progress on factors slowing the speed of claims settlement

- 12 In the past nine months, progress has been made on a number of these issues. As a result, there is increasing momentum in the claims settlement process. Insurers and EQC have been able to find solutions to a number of the barriers identified, and insurers are now able to progress claims for many customers through the settlement pipeline. IAG, for example, expects to have completed 500 new homes and 450 major repairs by the middle of next year.
- 13 However, the complexity of the claims settlement process and the sheer number of affected properties means that the best-case timeframe for the completion of insurers' repair and rebuild programmes remains at 2015-2016. Some insurers have publicly committed to these timeframes, but most have noted that these completion dates are subject to a number of factors that, in some cases, remain beyond their control.
- 14 For example, it is anticipated that, as the speed of insurance claim settlements increases and more claims move into the rebuild and repair phase, issues may arise relating to materials, labour, and the demand for temporary accommodation for the influx of workers and residents who are displaced during the time their home is being fixed. Such issues have the potential to significantly impact on the recovery. Accordingly, work is currently underway by our Residential Rebuild and Housing Programme to plan and prepare for these.

## Comment

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### Data collection and monitoring

- 15 CERA and Treasury have been working with the insurers and EQC to understand blockages in the claims settlement process, and to help facilitate solutions. Officials have also been collecting data to inform monitoring of the claims settlement process, and to identify areas where large numbers of claims experience delays.

- 16 We have continued to have difficulty with data monitoring due to the different processes and definitions used by each of the insurers and EQC, but after further engagement with these parties we feel now that the output of this work is looking more promising.

#### **Factors causing delay in each stage**

- 17 Notwithstanding the advances we have made with data collection, we have still only been able to identify the nature of the delays in each stage of the claims settlement pipeline, as opposed to being able to quantify (with any precision) the number of claims subject to any particular delay. Therefore, it is difficult to determine just how significant each delay is.

#### *Initial assessment and apportionment*

- 18 In February, we noted that both the assessment of earthquake damage and the apportionment of this damage across earthquake events were problematic and causing significant delays in claim settlements.
- 19 Reaching agreement on the assessment of property damage and who should manage the claim remains difficult, with significant differences between insurers and EQC. To resolve these issues, EQC has been working with each of the insurers through a 'joint review' process. This is a case-by-case process with EQC and the relevant insurer comparing and working through the discrepancies in the scope of damage, the repair methodology and the cost of the repair for a property. A physical site review is undertaken in the 20% of cases where a desktop review fails to secure agreement. While this typically leads to mutually agreeable results, it will take some time to clear the backlog of claims. Southern Response has put a proposal to EQC, based on learnings from a sample study, to reduce the number of claims requiring joint review, but we understand that EQC has yet to respond to it.
- 20 For apportionment, despite efforts by EQC and insurers to develop a statistical model to apportion claims in bulk, manual apportionment (ie case-by-case) has turned out to be more productive. Funding and resources are being provided by insurers to EQC to speed this up, and so claim management decisions are being made more quickly. For example, Vero has noted that it should have all its property claims apportioned by late January 2013, and IAG expects all of its customers to know whether their property is a repair or a rebuild, and who is managing their claim, by 20 December 2012. Further, in those cases where insurers consider that the property is likely to go over-cap, they have commenced costing and assessment in anticipation of receiving endorsement from EQC. This reflects a general trend by insurers to come to a pragmatic solution to provide more certainty for their customers.
- 21 Insurers and EQC are also working on a 'wash-up' protocol to resolve the final share of costs after the work has been undertaken, but agreement is yet to be reached. CERA understands a key difference between insurers and EQC relates to the inclusion of cost inflation in the 'wash-up' model.
- 22 Overall, while assessment and apportionment is still having an effect on the flow of claims being settled, it is now unlikely to be a key determinant of the overall pace of recovery. Eventually all claims will proceed through this stage. The primary impact the delays in this step are causing is that insurers do not have certainty as to the number of properties they will be managing, and so are finding it difficult to forecast their rebuild requirements. Consequently, this may affect the ability of the supply chain (labour, materials and accommodation, for both temporary workers and displaced customers) to respond in time.

### *Costing and assessment by insurer*

- 23 A number of factors are still contributing to delays once the initial assessment and apportionment for each property has been agreed. One factor is that many properties are requiring subsequent (and often multiple) assessments due to, for example, the poor quality of some initial assessments and the release (and then update) of the Ministry of Business Innovation and Employment's (MBIE) "Guidance on repairing and rebuilding houses affected by the Canterbury earthquake sequence".
- 24 A second factor is the uncertainty surrounding properties in TC3, including the costs of repairing or replacing damaged foundations in TC3. We understand that this is of concern to some insurers, and may lead to delays in beginning these works in the hope that there will be cheaper solutions available in the future. There are a number of initiatives in the TC3 Action Plan to deal with this, such as the exchange by Project Management Offices of information on foundations costing approaches in order to gain common understanding of typical costs of new foundations.
- 25 A compounding aspect to the high cost of foundations is the uncertainty regarding EQC's liability for two types of land damaged by the earthquakes: land that has a significantly increased vulnerability to liquefaction and land that has a significantly increased vulnerability to flooding. We understand that insurers have yet to receive formal advice from EQC on this. Until insurers fully understand the extent of EQC's liability and what it means for the rebuild/repair of the homes for which they are responsible, they have expressed reluctance to make progress on properties that have suffered this type of land damage.
- 26 In particular, insurers are concerned that EQC's settlement may not be applied by home-owners for land remediation, leading to higher rebuild costs for the insurer. CERA is attempting to resolve this impasse by engaging a facilitator to get a common understanding between EQC and the insurers as to the geotechnical facts, and to distil the key points of difference about EQC's land liability. This will better enable the parties to consider the next steps. However, should the outcome be arbitration or litigation, affected home-owners may be left waiting for a considerable amount of time for their repair/rebuild.
- 27 In the meantime, Southern Response and IAG are attempting to progress this by offering their customers a Deed of Assignment. This would give the insurer the right to any EQC land payment that may be forthcoming, which will mean that work can begin on the customer's property. However we are not convinced that this will have a significant impact, as home-owners may be wary about signing over an unquantified EQC land payment to their insurer, particularly when it is unclear as to the circumstances (if any) in which the insurer is entitled to this money. CERA continues to monitor this issue and will advise if there may be a case for the Government to intervene.

### *Settlement offer with the customer*

- 28 Insurers have recently been reporting that home-owners are taking a long time to make decisions on the settlement offers they are receiving. They advise that, as more claims reach this stage of the process, this is likely to become an issue as insurers look to progress matters quickly through the settlement pipeline.
- 29 By way of example, Southern Response has advised that almost half of its customers with offers are taking over six months to make a decision. It is also noted that, when it followed up a group of 700 TC3 customers with outstanding offers, it found that:
- 37% made a decision shortly thereafter

- 27% disputed that their house was a repair
  - 24% were awaiting EQC apportionment
  - 12% had other matters to work through, such as personal issues, getting independent reports, disputes with neighbours over shared property and so on.
- 30 A “resident information service” is under development, which will provide independent support and advice to home-owners. This service should reduce delays in customer decision-making, and it will also allow us to monitor and report on trends and common issues. A separate briefing updating you on this will be provided prior to Christmas.
- 31 The TC3 Action Plan should also help to progress a number of the issues outstanding in this area, by educating home-owners and promoting solutions for building in TC3 (for example, by the construction of show homes).

*Decision on settlement offer made*

- 32 Increasingly, claims are reaching the pre-design phase of the claims settlement process. Issues that are beginning to arise in some cases, particularly in relation to shared property, are:
- liability for retaining walls, including the extent of damage, and who is to execute and fund the repair/replacement of these
  - repairs and rebuilds of multi-unit complexes, as these are governed by various different legal agreements and require co-ordination between a number of home-owners, insurers and EQC
  - driveways and pathways, in particular where these are shared or extend across property boundaries.
- 33 Work is underway by the Insurance Council of New Zealand to develop processes to address these issues, and progress on this work remains a key reporting issue at the fortnightly meetings of insurance company chief executives. However, this work is unlikely to overcome situations where property owners disagree amongst themselves.
- 34 We will continue to monitor this, as it is uncertain at this stage how significant these issues are likely to be. In the event that a considerable number of properties are still unresolved, officials will provide advice about options for intervening, particularly where vulnerable people are involved.

**What more can be done?**

- 35 As noted above, CERA’s approach has been to support the resolution of issues between EQC and insurers as they arise and, with Treasury, to monitor and collect information relating to claims settlement.
- 36 In light of the progress made over the past nine months, and the increased momentum we are seeing, officials recommend that this approach be continued. We understand that EQC and Southern Response are endeavouring to reach agreement on various issues on which the market could follow. Where issues between EQC and insurers remain unresolved and have a significant impact on the recovery, we will report to you with options for intervention.

- 37 However, if your priority for 2013 is to speed up the claims settlement process further, officials have identified two broad options for intervention that the Government could consider:
- direct EQC to provide advice around changing its operational policies and/or priorities to focus on resolving issues with insurers (which may run counter to commercial imperatives and contractual obligations); and/or
  - targeted cost contributions by the Government (for example, funding the differences in costs where EQC and the insurer disagree).
- 38 These options come with significant risks and costs, including the potential to derail the currently increasing momentum in the speed of claims settlement; significant fiscal costs; and the introduction of new precedents in how the Crown responds to natural disaster damage. In addition, a focus on increased speed may lead insurers to raise their rate of cash settlements, which could in itself raise additional problems if residents subsequently abandon properties in areas where it is too difficult and/or expensive to rebuild or repair.
- 39 Even if the interventions were implemented in such a way to manage the above risks, problems may still arise. Claims would flow more quickly through the earlier stages of the process, leading to increased pressure on the rebuild. An inability to meet the added demand for resources could lead to increased costs, or further delays.
- 40 In light of these risks and costs, officials do not recommend either of these options be investigated further at this time. If, however, low cost and low risk interventions of benefit to the recovery are identified through the monitoring process, we will report to you on these.

# CANTERBURY EARTHQUAKE INSURANCE-RELATED WORKSTREAMS – CERA AND TREASURY

As at 4 December 2012

[Should read "As at 12 December 2012"]

Status Update		Accountability	Due Date
<b>1. Claim settlement</b> <i>Objective: Insurance claims are settled in as efficient and effective a manner as possible in order to help progress the residential rebuild</i>			
<b>Work stream</b>	<b>General Operations: Formerly Repair Methodology and Costing:</b>	<b>Rob / Angela</b>	
<b>Milestone</b>	<ul style="list-style-type: none"> <li>- Regulatory, consenting and other policy issues being addressed in a timely way</li> </ul> <p><b>Current Issues</b></p> <ul style="list-style-type: none"> <li>- Wash-up: The revised wash-up strawman, developed by insurers has been circulated for comment. Some test cases are to be looked at. The current issue being completed is whether inflation costs will be incorporated in the wash-up, the insurers want this be EQC is pushing back.</li> <li>- IAG have confirmed their intention to treat all Port Hills <i>red zone</i> properties with a "permanent" S124 as Total Losses. They are working with Council to better understand the process and background to the individual decisions. Southern Response are understood to be reviewing their position in both the <i>red and green zones</i> and other insurers are likely to follow suit.</li> <li>- A multi unit cross lease working group has been established to consider practical approach to repairs and rebuilds. ICNZ have contacted the Canterbury District Law Centre regarding community education to ensure that property owners are aware of the implications before they give any permissions in relation to their properties and claim settlement. Updates from the working group will be received from the General Ops Working Group meeting. Mark Wright (CERA) is also looking into the issues of the multi unit cross lease.</li> </ul>		On-going
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Continue to attend WG's and monitor and feed back on their progress</li> </ul>	Rob Kerr	On-going
<b>Work stream</b>	<b>Communications and Customer Service:</b>	Michael / Julia / Angela	
<b>Milestones</b>	Not relevant to your request		
<b>Objective</b>			
<b>Progress</b>			
	<ul style="list-style-type: none"> <li>- <b>Tony Baldwin project:</b> The insurance claim element of his project aims to identify high level claims map and outline current road blocks in the claims settlements process and provide recommendations. Angela to summarise for Diane what Tony is currently doing and work out how this fits into the total programme work and where to from here</li> </ul>	Tony Baldwin	Mid November

Status Update		Accountability	Due Date
<b>Work stream</b>	<b>Rebuild issues including land</b>	<b>Rob/ Angela</b>	
<b>Objectives</b>	Not relevant to your request		
<b>Progress</b>			
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- <b>SR High Court Judgements</b> - this week the high court ruled in favour of SR on as "as new" basis i.e. that they may use a reasonable substitute of materials where it does not affect the functionality. The judgement is in the appeals phase but has not gone to appeal yet.</li> <li>- SR were also ruled in favour of replacement cost being the replacement costs off site rather than a notional on site replacement cost.</li> <li>- <b>Tony Baldwin project:</b> Land remediation: Tony is working EQC &amp; insurers to understand Geotech facts, identifying points of difference and evaluating resolution options.</li> <li>The <b>residential action plan</b> was approved by the Minister and will be posted out to all participate. The first monthly monitoring report on action items is due this week</li> </ul>	Tony Baldwin  Rob	Mid November  On-going
<b>Work stream</b>	<b>5. Claim settlement progress and outlook: Residential and Commercial</b>	<b>Tim / Rob</b>	
<b>Objectives</b>	<ul style="list-style-type: none"> <li>- Collect data to monitor claims progress and expected timescales for future settlements</li> <li>- Identify emerging concerns</li> <li>- Manage use of data in other CERA, Treasury or DBH work</li> </ul>		
<b>Progress</b>	<p>Issue: Data is collected from a number of ICNZ members however that completions of the returns has not been consistent across participants. Once aggregated this is distributed to the ICNZ member who made the contributions</p> <ul style="list-style-type: none"> <li>- Tim Wilson co-ordinates the claim settlement metrics collection and reporting for insurers. Rob Kerr continues to collect data from insurers PMO's</li> <li>- Following recent meetings by Tim Wilson with insurers he has had a commitment from them to supply good quality data. The quality of the data has improved: Southern Response and IAG are on board with the new framework and understand the information needs. Tim is currently working on an A3 summary of the claims information. The summary will be provided aggregated for all insurers and provided back to them as well as a comparison against their own data they submitted. Some of the data provided for the larger participants such as SR is up to date to October 2012, other smaller participants dates back to June 2012. The question was raised as to when (if at all) CERA should use its powers to require the insurers to provide the data. s9(2)(h)</li> </ul> <p><b>ACTION Tim:</b> a goal of 31 March has been set as a date to review the participation rate and quality of data again and determine what further action, i.e. use of CERA powers will be taken.</p> <p>Internally insurance data is also collected and incorporated into CERA economic models. A meeting has been held to help streamline and efficiently co-ordinate the collection of this data. It was agreed that the questionnaires that are used to collect the data will be used by all parties who require insurance information and the questionnaire amended and refined to meet everyone's needs.</p>	Tim          Tim	on-going
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>- Further work with PMO's and insurers to get quality, consistent and comparable data.</li> </ul>		

Status Update		Accountability	Due Date
4. Insurability and Availability			
<b>Workstream</b>	<b>Availability of insurance and reinsurance:</b>	Lindy & Vinny (TSY)	
<b>Objective</b>	Not relevant to your request		
<b>Milestone</b>			
<b>Progress</b>			
<b>Next Steps</b>			
<b>Workstream</b>	<b>Risk data/story</b>	Lindy (TSY) & CCDU	
<b>Objective</b>	Not relevant to your request		
<b>Milestone</b>			
<b>Progress</b>			
<b>Next Steps</b>			
<b>Workstream</b>	<b>New Zealand / Crown risk management:</b>	Lindy (Tsy)	
<b>Progress</b>	Not relevant to your request		
<b>Workstream</b>	<b>Insurance/banking sector linkages:</b>	Vinny (Tsy)	
<b>Progress</b>	Not relevant to your request		
<b>Next Steps</b>			
<b>Workstream</b>	<b>EQC Legislative Review:</b>	Bevan (Tsy)	
<b>Progress</b>	Not relevant to your request		

12 October 2011

## **WORST AFFECTED SUBURBS**

### **Paragraph 12**

**Earthquake Support Coordinator Service** - There are currently 52 Earthquake Support Coordinators deployed from a range of organisations. At present this service is managing **1631** open social support requests. Emerging trends have been identified as Insurance issues, the Crown offer to red zone residents, problems with EQC, providing support to older persons, people with English as a second language and availability of suitable accommodation.

## **GREEN ZONE REBUILD PROGRAMME**

### **Paragraph 17**

We are preparing a briefing for you on the rebuild and repair programme. Relevant agencies are being consulted. The briefing will recommend that you agree to seek cabinet approval to initiate the rebuild of the rebuild and repair programme in order to:

- publicly signal central Government support for a CERA-led programme and for Government's preferred pace of rebuild and repair
- approve a preferred method for sequencing and allocating priority to rebuilds and repairs, and agree who is best placed to manage the sequencing tool
- agree that: (i) central Government's role in the rebuild and repair programme at this stage relates to signalling and facilitation; (ii) no new funding is required; (iii) joint Ministers will receive monthly reports on key success indicators; and (iv) early warning will be provided of any slippage in the programme, enabling Government to re-consider its level of intervention if appropriate.

## **ECONOMIC RECOVERY**

### **Paragraph 35**

**Insurance** – Information related to domestic residential insurance claims compiled by the Insurance Council for Treasury in early September from their members indicated that there were 44,727 residential claims outstanding over the EQC cap, which represented 30% of all residential dwelling policies in Canterbury. The number of rebuilds expected from these over cap claims is 9,314, which is 21% of all over cap claims, and 6.5% of all houses in Canterbury insured by ICNZ members. The number of these rebuilds that have commenced is 45, which is 0.5%. The key constraint that is preventing any significant progress on the rebuilds is the lack of contract works insurance cover. It was indicated by the Insurance Council that “pre-earthquake reinsurance treaty terms limit the ability to provide high value contract risk cover.” This may indicate a capacity issue which the sector had not anticipated, and needs further investigation.

27 January 2012

## INSURANCE

### Paragraphs 12-14

**Insurance Strategy** - Priorities for 2012 are being worked through with Treasury, the Minister's Office and others this week, for a briefing to you in the next couple of weeks. Key issues include settlement delays from differences and disputes between EQC and insurers over event apportionment and assessment methodology. Discussions with reinsurers, insurers and EQC will provide an understanding of reasons for delay and likely outcomes of work EQC and insurers are doing to develop protocols.

**Insurance Progress Initiatives** - State Farm Insurance will be visiting CERA on Thursday 26 January. They have no insurance interests in New Zealand, but have lessons to share in claims management. Aon Benfield are hosting the State Farm Insurance visit to New Zealand.

**Insurance Company Performance Key Performance Indicators (KPIs)** - KPIs have been received from insurance companies to date and the others will be chased up this week. We will compile a summary of this data once further replies are received.

## WORST AFFECTED SUBURBS

### Paragraph 22

**Offer Expiry** - We are conscious that the initial red zone offers of approximately 5,000 will begin expiring in May this year. Originally the intention had been to ramp up communication on this to encourage uptake. However, this may confuse parties given the subsequent expansions of the red zone. In addition, it has become clear in the last two weeks that resolution of the quantification and apportionment issues between EQC and insurers needs to occur before some red zone residents will get clarity on their insurance position and are able to make an informed choice on which Crown offer to accept. EQC and insurers assure us resolution of these matters is their top priority but there is a varying level of confidence about whether and when resolution can be expected.

24 February 2012

## INSURANCE

### Paragraphs 1-3

Insurance Chief Executives are concerned that the major announcements in April/May (especially DBH foundation guidelines for TC3 and EQC land settlement) will require more focus on communications. This has been formalised into an expanded EQC/ insurer/ CERA communications group which will also work on integrated service delivery and the procurement by the industry and EQC of independent advice in relation to the insurance process (not just disputes, as is currently the case). This group will report to the weekly CERA/CEs meeting. Not relevant to your request

The industry and EQC are continuing to work together on issues delaying claims settlement, but appear to be leaning towards relying on the case-by-case reassessment of claims to agree on repair methodology and cost rather than seek an overall solution. The time to settle all claims depends critically on this decision. The industry CEs are preparing a note to you on their perspective of progress. We will provide you with our interpretation including a consideration of options to hasten settlement.

Swiss Re claims management visited last week. They were impressed with the progress made in the CBD. They again urged speed and pragmatic approaches to settling residential claims, as they are concerned at the escalating claims handling expenses from repeated reassessments because of the divide between EQC and insurers.

#### **Paragraph 10-11**

**Insurance Work Programme** - We await your agreement on insurance work priorities for 2012, in particular on the proposal that CERA take a more active role in resolving barriers to claims settlement if EQC and the insurers do not make sufficient progress and in monitoring EQC's decisions on land remediation. Further intelligence from the market continues to confirm differences in EQC/insurer assessment and casts further doubt on the viability of an actuarial method to apportion claim amounts to events. We are working to understand what expectations are for the pace of claim settlement.

**Insurance Monitoring and Engagement** - We continue our monitoring role jointly with Treasury to keep track of claims settlements and to smooth transition to the post-earthquake insurance environment. We continue to engage frequently with insurers and EQC in a number of forums and ad hoc meetings. We met this week with a broker from the London Market who had previously run Benfield's New Zealand office and was involved with placing EQC's reinsurance cover. His view confirmed our understanding that reinsurance capacity is available, and not in danger of being withdrawn, but that pricing will be difficult.

#### **WORST AFFECTED SUBURBS**

##### **Paragraph 18**

We are noting increasing frustration from residents regarding EQC delays in payouts and the flow on affect this is having on insurance claims, as follows:

- An increasing number of enquiries are being received from Green Zone TC3 residents who have been advised by the EQC that all land payouts are on hold until CERA completes land assessments.
- Enquiries have also starting to be received from Green Zone TC2 residents who are being advised by the EQC that repairs can not be started until CERA completes land assessments.

**3 May 2012**

## **CORPORATE AND PROJECTS**

### **Paragraphs 33-39**

**Insurance** - We continue to support the CERA/insurance CEs' weekly meetings on residential rebuild.

- Progress is being made on claims data to size the numbers of insurer-managed repairs/rebuild at different stages of the claims process, but data differences between insurers mean an overall view is not straightforward.
- The insurers appear to have embraced the idea of publishing industry statistics on how numbers of repairs/rebuilds are progressing compared to the expected total, but the details of what this will look like have yet to be worked through.
- The potential number of claims in dispute with EQC over costing remains a concern, but smaller insurers report that the joint resolution process with EQC works satisfactorily.
- Insurers are expressing concerns about the cash settlement by EQC of land claims, as in some cases failure to make appropriate land remediation could put at risk a safe and insurable dwelling repair or rebuild. We expect you to receive a request from the insurers for EQC to reconsider its universal cash settlement approach for land.

The Australian arm of Arch Insurance, a Lloyds syndicate for commercial property business already on risk in Christchurch, are visiting this week and are reporting requests for more cover. We have also met with insurers associated with Lockton brokers who plan to open a Christchurch office in late May, in conjunction with Wayne Tobeck of Morath who are promoting innovative foundations and rebuild options.

**Regulatory and Consenting Working Party** - The Canterbury Geotechnical Database is now live. EQC have contributed a significant quantity of data to the system which will form the basis for a powerful resource during the rebuild and beyond.

The insurers are receiving advice on the opportunity of joint geotechnical drilling program. This advice is likely to include CERA taking an active role in the management of the program, an idea EQC is already advocating. We will be preparing advice to you on any proposal that comes from the insurers and EQC in mid-May.

**17 May 2012**

## **INSURANCE**

### **Paragraphs 3-5**

Following your meeting with insurers, ICNZ are encouraging the industry to share more data on repair/rebuild progress and have a process in place to try to bring this together.

New ideas for the method of apportionment have been raised, suggesting that some insurers are considering a settlement for their own portfolio rather than participating in an industry-wide response. However, work still continues on an industry-wide approach and we are not aware of any decisions to follow another path.

We have received, and are assessing, the proposal from insurers for a joint drilling programme in TC3, managed by CERA, which will also incorporate EQC drilling requirements. There are two main papers being prepared for your consideration on this topic:

- Coordinated Geotechnical Drilling in TC3 – Insurers' commitment to joining the programme is still unknown, but ICNZ has indicated that they expect to provide this in 2 weeks. CERA will provide initial advice to you on the proposal by 25 May.
- EQC land settlement issues – A set of scenarios are being developed in consultation with Treasury and EQC to illustrate potential claims settlement outcomes given EQC's proposed cash settlement of land claims. We would like to discuss these with you by 25 May.

**8 June 2012**

## **STRATEGY, PLANNING AND POLICY**

### **Paragraphs 14-15**

**Collaborative Geotechnical Programme** - We have provided advice to you on the Insurance Council proposal for a collaborative geotechnical drilling programme in TC3 properties. The working group to develop this further will have its first meeting on Tuesday 12 June. We will attend, and will continue to keep you updated on progress with this.

**EQC Settlement of Land Claims** - We were previously to have provided you with advice on the implications of EQC's policy to cash settle a number of its land claims. We are now aware of a letter from lawyers for the Insurance Council to EQC's lawyers which relates to this issue (you have received a copy of this letter). We understand Treasury and EQC will be advising you on their proposed response to that letter. Once those legal issues are clarified, there may still be an issue for some property owners whose dwelling repairs are impeded in some way because they did not, or could not, remediate their land. We are developing some policy solutions. Once we know how many properties are likely to be affected, we will advise on the appropriate range of potential solutions. We are expecting informal advice from EQC within the next few days on the size of the potential problem.

## **COMMUNITY WELLBEING**

### **RESIDENTIAL RED ZONE**

#### **Paragraph 30**

**Outstanding Insurance offers for Residential Red Zone property Owners** - It is complex to determine the exact number of Individual Residential Property Owners yet to receive an offer from their insurance company. Where possible, we request the insurer to provide information by tranche. These numbers do not take into account the cases where an offer has been made, but is in dispute. We are beginning to work with insurers to monitor the number of red zone homeowners yet to receive an offer from their insurance companies and whose offers are due to expire in the first tranche. We will continue to update you on this as work progresses.

12 July 2012

## **PRIORITIES**

### **INSURANCE**

#### **Paragraph 7**

**EQC land settlement** - You were briefed on 26 June on the outcome of EQC's 13 June board decisions on its land settlement approach. Both CERA and the insurers have now had a high level briefing on this. We are working with EQC to understand the size of any presenting policy issues which will inform our policy advice to you as more information becomes available. We have now also received a copy of the draft EQC/Tonkin & Taylor Stage 3 land report.

#### **EXPIRATION OF RED ZONE OFFERS FOR CERTAIN AREAS IN AUGUST AND SEPTEMBER 2012**

##### **Paragraph 16**

Of the 69 contacted so far 43 stated that they are progressing with their sale and purchase agreements. 10 of the individual residential property owner's contacted have indicated that they are experiencing delays with EQC or their insurance companies which are preventing them from being able to make an informed decision regarding their settlement option. These cases have been escalated back to the relevant insurance companies via the agreed processes. Outbound calling will continue over the coming weeks.

19 July 2012

### **INSURANCE**

#### **Paragraph 12**

**Repair methodology and apportionment working groups** - Two insurers and EQC are working to agree the decision about who will manage a claim earlier in the claim dispute resolution process which will give customers certainty on claim process earlier and potentially reduce the time for the parties to agree on works scope. [Repair methodology meeting minutes have this just as Vero and Lumley]. The process of agreeing bulk apportionment of over-cap damage between events is still some months away, although EQC appears to have made progress with manual apportionment.

9 August 2012

### **INSURANCE**

#### **Paragraphs 10-12**

**Insurer/EQC co-ordination** - The regular insurance/EQC CEs meeting last week agreed some changes to the regular coordination meetings. The CEs will meet fortnightly via teleconference, and insurer EQC GMs will meet weekly. There is an open question as to whether the new GM meeting will take over the role of the Regulatory and Consenting Working Group which CEs wanted disbanded.

**Claims settlement mapping** - Treasury and CERA are developing a tool to help us track progress with claims settlement. This will help identify the size and scale of constraints to claims settlement.

**Insurance support for homeowners** - We are aware that the Insurance Council is considering a proposal for a triage service for Canterbury residents who are facing insurance issues. We have received a proposal from Canterbury Community Law for funding for an

advisory service. We are also meeting with Simon Mortlock of Mortlock McCormack Law to discuss the 'framework' he is proposing to provide support to residents. We will look to provide you with further advice on this by the 16 August 2012.

## **COMMUNITY WELLBEING**

### **RESIDENTIAL RED ZONE**

#### **Paragraphs 28 and 33**

There are currently 102 individual residential property owner's whose Crown offers are due to expire 19 August. 53% have indicated that they will be progressing to signing a sale and purchase agreement. Approximately 30% have indicated that they are having issues with their insurance company, EQC or a combination of both. These cases have been escalated back to the insurer or EQC. Specific cases have been escalated with insurance companies, and to reiterate the message that the expiry of offers is pending and that a resolution with the insurer is vital to the settlement process. Early indications from the insurance companies are that resolutions can be reached in these cases within the week. The situation is being monitored to review the progress of these cases.

**Relocations** - Relocating houses from the RRZ remains frustrated due to the EQC and insurance apportionment delays. Mounting holding costs and the reduction in salvage and demolition value is of considerable concern.

**7 September 2012**

## **COMMUNITY WELLBEING**

### **RESIDENTIAL RED ZONE**

#### **Paragraph 23**

**Relocations** - Insurance and EQC reconciliation and apportionment continues to impede progress. Opportunistic crime, squatting, mounting holding costs and the reduction in salvage and demolition value is of significant concern

## **COMMUNICATIONS**

#### **Paragraph 41**

**Home Owners Take Insurers to Court** - CERA is likely to be asked for comment on residential property owners taking legal action over insurance delays and claim issues.

**14 September 2012**

## **COMMUNITY WELLBEING**

#### **Paragraph 42**

**Insurance Support for Residents** - The first of two meetings has been held with insurers, EQC, Community Law, the Law Society and CanCERN to agree on what the actual need is for support for residents. A report has been prepared outlining the findings of this meeting. A further meeting is scheduled for the 13 September to explore the different options and solutions available. Officials will provide further advice to you once the outcomes of that meeting are finalised.

**RESIDENTIAL RED ZONE**  
**Paragraph 64**

**Relocations** - The first Option 1 residential red zone property, suitable for relocation has had its apportionment issues resolved. It is anticipated that this may lead to a gradual release of similar properties.

**12 October 2012**

**POLICY MATTERS**  
**Paragraph 1**

**Insurance Advisory service** - Progress continues with the advisory service, to which insurers seem committed. They have agreed to produce a detailed flow chart of steps and decisions required to settle a claim. This will help identify where the advisory service needs to focus, and will be a tool that the service can use in clarifying which problems particular homeowners are facing. The next step from CERA's point of view is to work on governance and funding. We consider this should be largely funded by insurers/EQC, as the service aims to benefit their clients.

**RESIDENTIAL RED ZONE**  
**Paragraph 2**

**Relocations** - There has been some progress with relocations scoping but the EQC/insurance apportionment hurdle still needs to be unlocked.