

**New Zealand Society of Actuaries**  
31 October 2014

**Canterbury Earthquake: Lessons from  
settling Domestic Property claims**



**Presented to the 2014 NZSA Conference**

**Scott Lewis, Craig Lough**



## Co-ntents

1	<b>Introduction / Scope</b>	<b>1</b>
2	<b>Historical context</b>	<b>3</b>
3	<b>Historical review</b>	<b>6</b>
4	<b>Critique of insurers actions</b>	<b>14</b>
5	<b>Suggestions for industry</b>	<b>25</b>

## Appendices

A	<b>Executive Summary of review of EQC's CRP</b>	<b>30</b>
B	<b>Historical review – timeline</b>	<b>36</b>
C	<b>Survey results</b>	<b>39</b>



## 1    **Introduction / Scope**

### 1.1    **Purpose**

To critique the operational practices that eventuated following the Canterbury earthquakes and make meaningful and practical suggestions for insurers / actuaries to implement for future disaster mitigation and describe what immediate beneficial impacts this may have on business as usual underwriting performance.

### 1.2    **In/Out of Scope for the paper**

The Canterbury earthquake events have affected a number of facets of life in New Zealand and it would be practically difficult to review all of these.    For this reason we have restricted the scope of this paper to the following:

- All Earthquakes in the Canterbury Earthquake sequence
- General Insurance industry participants (including Insureds, Insurers, EQC, Reinsurers, Central Government - insurer of last resort)
- General Insurance industry's part in reinstating insured property
- Domestic property claims only
- Interaction with other parties (including CERA, Local Councils, Central Government, etc)

Out of Scope

- Non Earthquake losses in Canterbury
- Other Earthquake events
- Social impacts (other than as a direct consequence of Insurance Industry actions)
- Uninsured losses

### 1.3    **Information sources**

To carry out this review we have interviewed a number of key people associated with the domestic property remediation programme from organisations including:

- IAG NZ
- Vero
- Lumley General Insurance (N.Z.) Limited
- Southern response
- EQC
- CERA
- Reinsurers

We have also distributed a brief survey to a wide range of industry figures to get some quantitative and qualitative views.

## 1.4 Acknowledgements

We would like to acknowledge the time and knowledge of all those who have assisted us with this paper. Whilst there was a general consensus on many issues, it was often the case that a new perspective would meaningfully add to this review.

It is clear to the authors that the Canterbury earthquake remediation process is being carried out by professional people who are passionate about their roles and the impact on Canterbury its residents.

## 2 Historical context

To understand the context of the response it is incumbent to consider the state of the industry prior to the earthquakes.

### 2.1 Industry

Prior to the Canterbury earthquakes, New Zealand had a largely unregulated, competitive general insurance market. The main participants in the domestic property insurance market were:

- IAG Direct channels: ASB, BNZ, State
- Vero Direct channel: ANZ
- AMI
- Tower Direct channel: Kiwi Insure
- Lumley Direct channel: Westpac
- AA Insurance

Pricing was set by each individual participant. There were not a lot of risk measures that were captured except for address, age of property, size of home, occupant status (rental vs owner occupied) and some basic information on structure.

Of note was that almost all domestic property insurance was on a replacement cover based on the size of the house and other structures.

Domestic property claims were typically resolved via cash settlement or by outsourcing to third party contractors.

### 2.2 EQC

On 3 September 2010, EQC was an organisation of 22 staff. Its primary functions were to:

- Provide insurance of residential property against loss or damage caused by earthquake, volcanic eruption, hydrothermal activity, tsunamis and natural landslips, to properties insured against fire in accordance with the Earthquake Commission Act 1993. There is also limited cover provided for land loss by any of the above hazards plus storm or flood.
- Administer the Natural Disaster Fund, including its investment (circa \$6bn) and reinsurance.
- Facilitate research and education about matters relevant to natural disaster damage and its mitigation

EQC pays out on claims from insured New Zealand residential property owners for damage to the residential building and the land on which that building is situated and damage to personal possessions caused by earthquake, natural landslip, volcanic eruption, hydrothermal activity, tsunami and fire caused by any of these. In the case only of residential land there is also cover for storm or flood damage. Claim payments are subject to limits and excesses.

Each claim lodged with EQC may result in repair and/or replacement costs arising from one or more of the following claims types (also known as 'sub-claims' or 'exposures'):

- Land claims (S19 of the Act) to a maximum of the indemnity value of bridges, culverts and retaining walls that are lost or damaged plus the lesser of:
  - the value of the land damaged,

- the value at the site of the damage of an area of 4000m<sup>2</sup>, or
- the value of a parcel of land that is the minimum lot size under the District Plan of land used for that purpose.
- Building claims (to a maximum of \$100k plus GST).
- Personal property (contents) claims (to a maximum of \$20k plus GST).

Cover is only given in relation to land where there is a residential building lawfully situated on the land.

### **2.2.1 CRP review**

In 2009, the EQC commissioned a report to review its Catastrophe Response Operational Capability. Appendix A contains key sections from the report. Some of the findings of the report were:

- EQC is governed by the Earthquake Commission Act 1993 and is constrained in what it can and cannot do by the Act.
- The largest event that EQC could expect would generate 150,000 claims.
- The largest reasonable event that EQC should prepare for would involve 80,000 claims
- EQC expected (and preferred) claims settlement practice was that claims would be cash-settled. Despite this, it did note that there was a possibility that EQC might be expected to take a more 'hands on' role in support of reconstruction activities following a large scale event.
- EQC's Catastrophe Response Programme had responded effectively when it had been activated (admittedly these were relatively small events)

The Executive Summary of that report noted that it was important that EQC had clear direction in terms of its role during a disaster and that its relationship with Insurers was crucial for effective claims settlement.

Some of the recommendations noted which are especially applicable to the Canterbury earthquake events are reproduced below.

#### ***EQC role expectation***

To avoid the possibility of misaligned expectations of EQC's role, EQC canvass and confirm with its Minister, Treasury and wider government agencies expectations of its role in providing support for reconstruction following a major natural disaster.

#### ***EQC's relationship with Insurers***

Commission work with the insurance industry to explore viable options to improve the efficiency and effectiveness of claims handling and processing between EQC and other insurers, with the objective of improving outcomes for claimants. This work should take an overall systems approach, and consider:

- the relative roles of EQC and insurers in initial claims lodgement and verification
- the potential for a single claims lodgement process
- the potential for EQC and insurers to take a joint approach to claims assessment
- the potential for EQC and insurers to establish an integrated approach to claims settlement, including repair and reinstatement
- the potential to provide EQC with live access to the details of people and properties with EQC cover for EQC related purposes



### ***Claims Processing***

It is recommended that EQC:

- pursue the concept of sharing resources with the insurance industry and work towards trialling this concept in smaller events
- pursue strengthening its relationship with large engineering firms to avoid potential bottlenecks following a large scale event to the fullest extent possible
- make provision for claim acceptance authority to be transferred from Gallagher Bassett Services to loss adjuster supervisors
- assess the viability of recruitment of temporary staff in New Zealand to undertake the claims processing role currently carried out by Gallagher Bassett Services

### 3 Historical review

#### 3.1 What happened

##### 3.1.1 *Darfield quake – 4 September 2010*

On 4 September 2010, an earthquake of magnitude 7.1 on the Richter scale occurred, centred at Darfield, 40km west of Christchurch City, at a depth of 11km. It caused significant non-structural damage to residential and commercial property across the region. Particular features of this event were the peak ground acceleration and the many residential areas of eastern Christchurch and to the north (Kaiapoi) that suffered liquefaction and lateral spreading along river banks.

##### 3.1.2 *Lyttelton quake – 22 February 2011*

On 22 February 2011 there was an earthquake of magnitude 6.3, centred 5km SE of Lyttelton, at a depth of only 5km, affecting the CBD and suburbs to the South and East of the city. Many significant buildings in the CBD were severely damaged with 185 deaths and many injuries, and there extensive and severe liquefaction damage in vulnerable areas as well as some landslides and rock falls from cliffs in the Port Hills.



Figure 1: A 185 chair memorial to the 185 people who lost their life in the Lyttelton quake

##### 3.1.3 *Sumner quake – 13 June 2011*

On 13 June 2011 there were two earthquakes of magnitude 5.6 and 6.3 at shallow depth, both centred close to Sumner. The shaking was sufficient to cause further significant damage to already weakened buildings. There was again lateral spreading adjacent to the rivers and a great deal more liquefaction damage in areas previously affected by the February event.

In total there have been in excess of 14,000 earthquake events in the Canterbury Region since 4 September 2010.

In the paper, The Canterbury sequence in the context of global earthquake statistics (A Christophersen et al), the sequence was compared to global earthquake catalogues. The conclusion is that while the length of time of significant aftershocks and distance of aftershock epicentres were somewhat unusual compared to the catalogues they certainly are within the range of what has been previously observed.

### 3.2 4 September 2010 – EQC left to assess

The first Canterbury earthquake created 156,000 domestic property claims for EQC. This was more than the number of claims that were expected to be generated from the largest expected event – a Wellington earthquake.

The event caused widespread liquefaction, which was ‘unexpected’ to most people outside of the geoscience fields.

The Industry and EQC agreed that EQC would be left to assess the domestic property damage. EQC had assessed 80,000 properties by 22 February 2011. This was the number of properties that EQC had expected for a reasonably largest event. As overcap claims were passed to the Industry they were assessed again.

The Government realised that, due to the scale of the event, EQC’s standard operating procedure of cash settlement could cause a number of societal issues, including the possibility that houses would not be repaired properly or at all, leading to a decline in the value of the housing stock and instructed the EQC to establish a managed repair programme.

It is worth noting that prior to this event, there would have been very little expertise in the area of assessing damage to a property. This is not a common practice, unlike building a new house or renovating an existing house.



### 3.3 22 February 2011

The event that struck at 12:50pm on 22 February 2011 was the largest of the Canterbury earthquake events. In fact, it is one of the most expensive insured natural disasters in history in pure dollar terms and is an order of magnitude higher than the next worst if compared to GDP.

It sparked a massive civil defence emergency and generated another 160,000 property claims for EQC and many more for the industry.

What may be considered somewhat unusual about the sequence is that it was an aftershock that was the most damaging. This is purely a function of Christchurch's proximity to the epicentre of the 22 February aftershock and so really should not be surprising. The more recent Cook Strait Earthquake sequence had 3 large earthquakes in July and August 2013. The sequence moved in a south westerly direction (away from Wellington!) with the 3rd major quake being more than 40km away from the first. It seems quite normal that aftershocks will tend to move along a fault line as further energy is released.

So when an earthquake event occurs we should expect aftershocks and they may some distance (many kilometres) from the main quake. If that movement is in the direction of a built up area than we could easily see a repeat of the more damaging aftershock scenario as seen in Christchurch.

EQC and the industry quickly realised that apportioning damage between events would be an issue and rapid assessment programmes were initiated to quickly assess damage at that point.

Liquefaction was again a large issue, but was much more widespread than the Darfield event.

In terms of the financial impact, insurers and the EQC were beginning to fear that their reinsurance programmes may not be sufficient to cover the losses that might be generated.

### **3.4    13 June 2011 and 23 December 2011**

The 13 June 2011 and 23 December 2011 events were much smaller than the first two large events (in terms of damage) but were still significant. In fact, the magnitude of the June 2011 event was the same as the February 2011 event and a similar distance from the CBD.

These events targeted the Eastern suburbs, especially around the Port Hills which has resulted in non-flat land red zones.

Of interest was that for many insurers' reinsurance programmes, the year expired on 30 June 2011, meaning that the programme would have needed to be reinstated a number of times.

### 3.5 Red zone – commercial

Following the 22 February event, the CBD was cordoned off and access was restricted for many months. Although the commercial response is outside the scope of this paper, the uncertainties around many large risks in the CBD (e.g. Hotel Chancellor) did distract from the residential programme.



### 3.6 Land zones – residential

CERA established four residential land zones on 23 June 2011. These were Red, Orange, Green and White. There was no guidance at that point on what these zones meant for insurance assessment.

#### 3.6.1 Technical categories – TC1, TC2, TC3

Later that year, on 28 October 2011, the Ministry of Building, Innovation and Employment ('MBIE') divided green zoned land into three technical categories – TC1, TC2 and TC3.

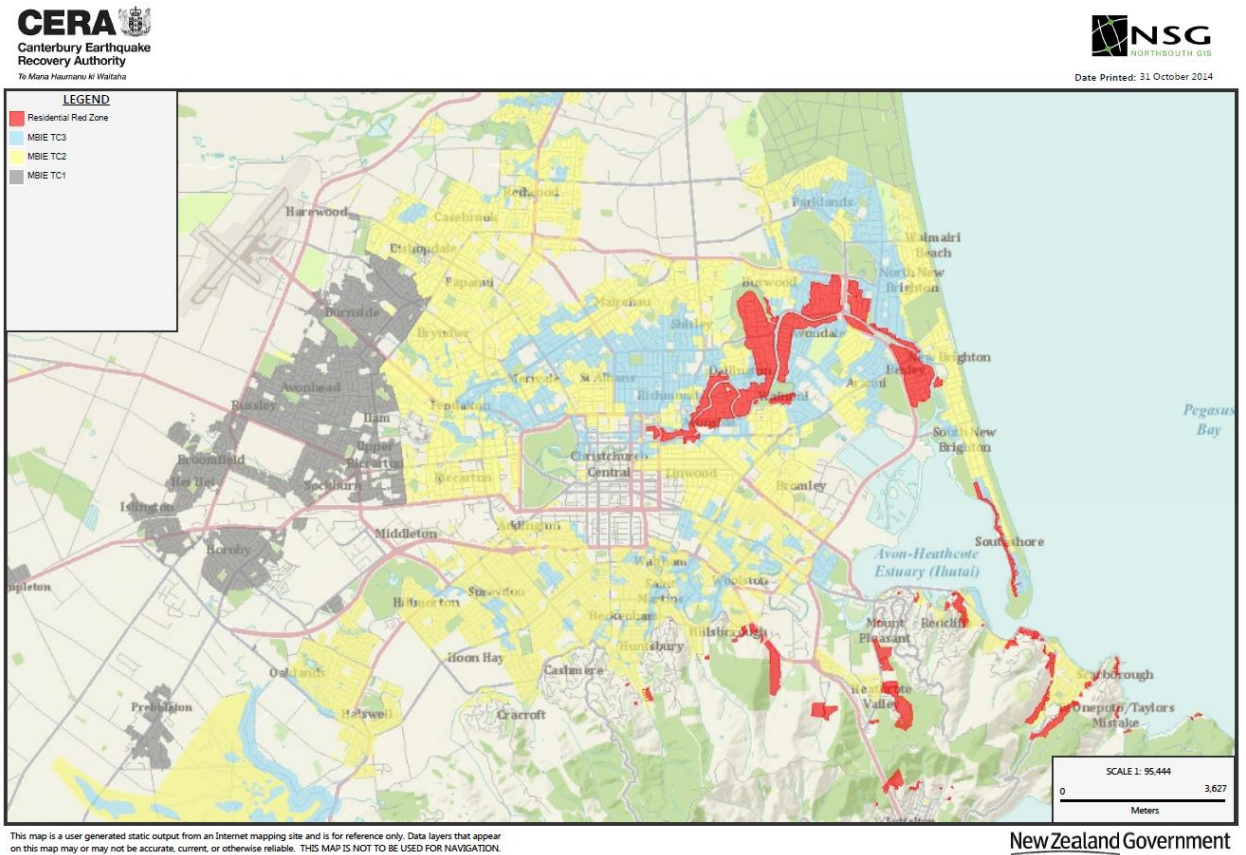
Along with the categorisation, MBIE also detailed the level of investigations that should be carried out and indicated appropriate foundation solutions for each category.

Unfortunately the guidance on foundation solutions, especially for TC3 was limited.

Eventually, the Canterbury region was divided into the following areas:

- Port Hills – traditional land damage
- Flat Land (Green)
  - TC1 –land requiring a standard foundation.
  - TC2 – land requiring an enhanced foundation.
  - TC3 – land requiring an engineering designed foundation.
- Red Zone
  - Flat land. Areas that had land that was deemed to be practicably non-repairable.
  - Port Hills. Areas that were near cliff faces and susceptible to rockfalls or landslip.

The MBIE guidance for repairing houses on TC3 land was released in December 2012. The chart below shows the patchwork of land zones throughout Christchurch.



### 3.7 Emergency works - 2011

On 22 February 2011, ministerial direction allowed EQC to undertake emergency work on residential properties not covered by EQC Act.

EQC and EQR remained in disaster recovery mode due to the oncoming Winter.

### 3.8 Shaking ‘stops’ 2012

Throughout 2011 there was considerable seismic activity throughout Canterbury. The chart below illustrates the number of earthquakes of at least magnitude 4 per week.

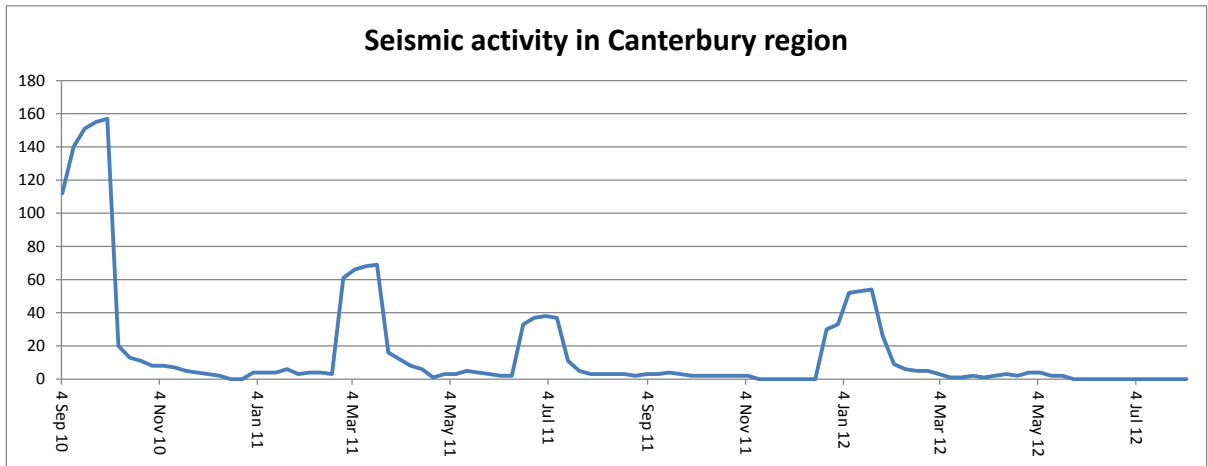


Figure 2: Source: Geonet seismic data

Clearly, it would not make sense to begin remediation work if it was at risk of further damage. An informal criteria of six months period without any events stronger than 4 was established as a benchmark.

As it was, the process of remediation started circa March 2012 (3 months after EQ4).

### 3.9 Red zone offers

As a consequence of the CERA land categorisation, and in recognition of the fact that the Red Zoned land would be unlikely to be suitable for continued residential occupation for a prolonged period of time, offers were made to the owners of insured residential properties in the Red Zone to purchase their land and buildings (Option 1) or land only (Option 2).

Although slightly controversial at the time, this was generally regarded as a necessary action by the Government.

The feedback we have received suggests that the settlement of Red Zone properties has been fairly successful overall.

### 3.10 MBIE

The Ministry of Business, Innovation and Employment (MBIE) was formed on 1 July 2012, bringing together four separate government agencies into one ministry. These agencies were :

- Department of Building and Housing
- Ministry of Economic Development
- Department of Labour
- Ministry of Science and Innovation

MBIE have released many guidance documents on repairing and rebuilding houses affected by Canterbury sequence including:

- Technical guidance on foundations in TC1 and TC2
- Technical guidance on foundations in TC3
- Technical guidance on Multi Unit residential buildings

The general opinion seems to be that MBIE have responded positively to developments and have endeavoured to provide material guidance as timely as practical.

### 3.11 Land remediation

Land insurance is highly unusual, in fact the authors understand that EQC is the only insurer of land in the world.

Unfortunately, the Act did not anticipate land damage that resulted in the land still being there. It was written with the expectation that the land would have been irrecoverable, for example from land slips.



As a consequence, EQC needed to understand what its obligations were under the Act and what this meant in terms of compensation. This is still ongoing with a Declaratory Judgement being pursued in October 2014. It is expected that the outcome of this will be released in early 2015.

In addition to this, EQC have been managing a land repair programme which has required region wide drilling to understand the state of the land. This drilling was completed in December 2012.

EQC subsequently carried out ground improvement trials to test a variety of methods to remediate land in TC3 land areas. This was concluded in December 2013 although further testing has been carried out.

### 3.12 Declaratory Judgement – EQC reinstatement

On 2 September 2011, a Declaratory Judgement was made that EQC cover reinstated after each event.

This was significant ruling for two reasons. Firstly it meant that EQC would cover more of the liability from properties damaged in multiple events. However it also meant that apportionment of damage would become much more difficult to assess.



Apportionment is very much an ongoing issue for a number of reasons:

- It is very difficult to attribute damage to each event, especially when the quality of the assessment may vary between events or may not exist at all.
- The full extent of damage may not be fully understood until the house is deconstructed.
- Claim systems are typically set up to manage individual claims, not multiple claims on a property. It therefore makes it difficult to interpret a loss adjusters report and adjust each claim associated with a property. What appears to have occurred is that much of the damage is attached to the dominant claim, typically the Lyttelton event.

### 3.13 Failure of AMI

Prior to the Canterbury earthquakes, AMI was one of the larger domestic insurers in New Zealand and had a dominant presence in Christchurch – its home territory. It was one of the few mutual insurers in New Zealand.

It reputedly had a reinsurance programme calibrated to cover 1 in 1,000 year events and had some \$400m of funds in addition to this.

Following the first event, it appeared as if AMI would have enough capital support to cover the claims. Unfortunately, it was quickly apparent after the Lyttelton quake that it would not have enough capital and received capital support from the government in April 2011.

AMI was then divided into two components. The first component consisted of all Canterbury earthquake claims and was renamed Southern Response. The remainder of the business (BAU claims, underwriting etc) was sold in May 2012 to IAG NZ.

### 3.14 Restarts (re-scoping and further earthquakes)

The extended nature of the aftershocks and then subsequent recovery and rebuilding has led to a number of “Restarts” as we have called it. Each of the major earthquakes (and many of the “minor” ones) resulted in reassessments of damage to property and infrastructure.

There have also been Restarts in the Port hills with various delays in the final zoning of properties which was finally completed in mid-2013. In December 2013 the Christchurch City Council provided information on Mass land movement that affected over 700 Port Hills properties.

The purpose of mentioning all of these Restarts is that in some cases they have delayed progress on the Canterbury rebuild. In other cases they have assisted the rebuild by providing clarity however Insurers (and other parties) have needed to pause to consider the implications. It is almost certain that all of the major insurers will over shoot the target completion dates for their domestic rebuild programmes that were announced in late 2012. If we have learnt anything from this it is that we need to expect the kinds of restarts that have been mentioned above. Inevitably there will be delays and plans need to allow for this.

## 4 Critique of insurers actions

### 4.1 It was a massive catastrophe

As outlined in earlier sections the sequence of events in Canterbury amounted to a catastrophe of an unprecedented scale in New Zealand history. Insurers knew immediately after the Lyttelton event that they would be faced with a mammoth task that would take some years. Insurers also knew on 22 February that they did not have the resources in place to deal with it. This is not surprising. Insurers do not have people sitting around ready and waiting for the “big one” so they can immediately mobilise an army of people to start repairing damaged homes.

So insurers needed to scale up operations over time. They also needed to get expertise in certain areas (e.g. Geo tech, foundation design). They needed to have processes in place and organise people so that they knew what to do and when to do it.

Insurers needed to plan their response, and ensure they had the capability and capacity to execute it.

#### 4.1.1 Planning

A reinsurer commented that NZ insurers did not have robust response plans in place at least partly because we have not had any large catastrophe events in New Zealand for some time. We agree with that assessment although we also feel the sheer magnitude of this event would have been beyond even the most robust plans.

Insurers obviously did not know that significant earthquakes would continue throughout 2011. That length of time with further damage (and trauma) certainly made things more difficult. Compare this to the many windstorm events that have been well documented around in the world in the last 15 years. As soon as the wind stops blowing resources are moved to the affected areas and rebuilding starts straight away.

In 2012 when the shaking did largely stop there was an expectation that rebuilding would commence. However for a number of reasons this did not occur. There were a number of restarts that took place which stalled many streams of work.

The Declaratory Judgement from 2 September 2011 meant that many policy holders were stuck in apportionment limbo, MBIE building guidelines would not be released until 2012, Geo tech drilling did not commence till well into 2012 and was running into 2013, Multi unit buildings were just too difficult until 2014.

One piece of consistent feedback we have heard from insurers is that the planning phase could have been better executed. A lot of activity took place that subsequently had to be repeated as more information came to hand. There were many cases where policy holders had absolutely no idea of what was happening and had no communication from either their Insurer or EQC (more about this in the communication section). This was not a good look for the industry.

With the benefit of hindsight we can see that it was not realistic to expect much rebuilding to occur in large parts of Christchurch before 2013. However we think that should have been apparent at the time and this was the opportunity to ensure that good planning was completed.

#### 4.1.2 **Capability**

By capability we mean having the right people with the right skills to undertake the required tasks. By capacity we simply mean that there are enough of these people and other resources to execute plans in the expected timeframes. These 2 elements must work hand in hand.

With respect to capability Insurers rapidly joined up with other parties such as Building companies, Building project managers, Engineering firms and Lawyers amongst others. This provided access to expertise although there have been challenges. Settling an insurance claim is not simply the same as rebuilding a house.

For example it seems to be an expected practice in the building industry that where a component of a build is not specified then a "PC Sum" is inserted into the scope costing. That is a simply a default cost that will be varied when the actual build is undertaken. The actual cost could be higher or lower but is typically higher as the PC Sum often only allows for a basic component. That is a problem for Insurers trying to lock in the cost of the rebuild and may complicate any cash settlement offer to the policy holder. However, cash settlement means nothing to the builder - they build houses!

Another example provided by an Insurer was the role of the Building PMO in the planning of the rebuild (back to planning again!). They pointed out that these organisations are very good at planning and executing large construction projects and do so using a "top down" approach. That is they successively chunk down the project into smaller and smaller parts until they have a large number of manageable subtasks that fit together into a programme of work. However the domestic Canterbury rebuild needs to be viewed with a "bottom up" approach. That is a large number of small projects (individual repairs and rebuilds), each with its own start date, which is dynamically changing as further over cap properties are added and existing properties exit through cash settlement. Insurers want to know the periods of peak activity (is there capacity?) and how long will it take? Operationally Insurers want to use this to schedule each house reinstatement and communicate with Insureds about what is happening.

Insurers initially thought that this would all be managed by their building PMO however it seems that this capability gap has been managed (or at least co-managed) by Insurers.

It is at the point where different industries meet that challenges typically arise. This is not just about experts in their own fields not understanding each other but also differences in processes and culture.

One capability gap that has taken time to fill is the area of managing these different industries to produce a coherent response. It is not surprising that there are not 'Disaster Project Managers' available to be deployed immediately following a catastrophe. Effectively Insurers have had to train people to be Earthquake Response specialists.

#### 4.1.3 **Capacity - 'quality is not scalable'**

The Insurance Industry does seem to have had the people capacity to manage the Earthquake response although it has been very stretched at times. There have been many examples of 'burn-out' due to the strain and have either left the industry or been re-deployed. This is a significant challenge for the employer to effectively manage both their earthquake response and their normal business activity.

We have also had feedback that capacity and quality are not scalable. We have heard examples where bringing more people in creates bottlenecks elsewhere in the process. Also there is only a limited supply of resources at the required quality. It is possible to get more resources, just not necessarily at the right level.

Certainly there are many people employed by Insurers directly in the earthquake response. A lot of these people have some from within the industry but many others have come from related industries or unrelated areas.

At any point in time there is always some capacity to absorb further work though reprioritisation away from less important tasks and also increases in the efficiency and workload of the existing workforce. A lot of this capacity has been utilised over the last 4 years.

## 4.2 Policy Terms and Conditions

Events such as the Canterbury Earthquakes test the real meaning of the commitments made by Insurers through their policy wordings and related documentation. We include in this the obligations of the EQC through the Earthquake Commission Act 1993 (ECA1993), as this interacts with Insurers' policy wordings.

While it may be the meaning of the words in the policy documents that are interpreted by courts as to the obligations of Insurers, we believe we should start with the reasonable expectations of Insureds as to what has been covered.

It has been pointed out to us that while terms and conditions of current dwelling policies may perform well on individual losses this does not necessarily scale up to catastrophe losses.

For example we have been advised that engineers initially took a highly conservative approach to foundation design. This is evolving into more practical solutions which cost less. While the reaction of Engineers is understandable this means that engineered foundation solutions take time to emerge which slows down the reinstatement process. This would not be the same issue on a single dwelling claim.

Another example is where people just want to leave their current home after a disaster. They don't want their house rebuilt they just want the cash and then they will leave the area. Some policies will pay indemnity value only if the Insured elects to take a cash payment. Again this is not such an issue for a single dwelling claim.

The following are some of the major issues that we believe have emerged with respect to Policy Terms and Conditions:

- Open ended cover on residential property. At the time of the Canterbury Earthquakes most dwelling policies were based on the size of the house with no limit on the Sum Insured. This has resulted in a large amount of extra costs that were not anticipated. The insurance industry has already moved quickly to change this and introduce policies with a Sum Insured limit. This has transferred the risk of higher than expected rebuild costs to the Insured.
- The cover provided by EQC with respect to multiple events was the subject of a Declaratory Judgement (see section on Insurer/EQC interaction) however it is somewhat disappointing that this needs to be sorted out after an event rather than being anticipated before it. This should be addressed as part of the review of the ECA1993.
- Similarly the Land cover provided by EQC under the Act does not really envisage the kinds of land damage that occurred in the Canterbury Earthquake. It was geared more towards landslip. While this is separate from any cover provided by Insurers (i.e. Insurers do not cover land) there are interactions between the covers. As we write this paper a Declaratory Judgement is being sought with respect to what constitutes damaged land in flood prone areas. The irony is that without land cover from EQC the situation would probably have been a lot clearer. Insurers would have picked up some extra costs but probably most of it would have been borne by the Insured. This probably would have triggered many more cash settlements. So while Insureds may be better off with their EQC land cover there are further

complications in understanding how that will work with the Insurer cover. This is an area that could be clarified in the ECA1993 or via clarification in Insurers Policy documents.

- There appears to be a gap in the cover provided by EQC and Insurers. This can leave an Insured with what the Insurer has as an over cap claim and the EQC has as an undercap claim. As it is the payment of the Cap that triggers the Insurers involvement this may leave the Insured with both an under and over cap claim but only an undercap settlement. We believe that this is not acceptable and that Insurers need to clarify the "Top Up" cover they are providing.
- The level of the EQC Dwelling Cap was determined to be \$100,000 when the Act was implemented in 1993. It was not inflation linked and has not been amended since. Had the Cap been linked to the House Price Index then based on the movement from January 1994 June 2014 it would now be \$345,000 (just under \$400,000 including GST). If the Canterbury Earthquakes had occurred in say 1994 the vast majority of dwelling claims would have been solely the responsibility of EQC. However at current levels of cost the Cap is low enough that many badly damaged houses exceed it. If it were currently at a lower level, say \$50,000, then most EQC repairs would have been cosmetic only and almost all structural damage would have passed to Insurers.

The failure to adjust the Cap over time means that it is now at a level that does not naturally cover just cosmetic damage or all damage but is somewhere in between. This does not make sense to the Authors and needs to be reviewed

## 4.3 EQC / Insurer interaction

### 4.3.1 Background

One of the unique features of natural disaster domestic insurance in New Zealand is the coinsurance arrangement between EQC and Insurers.

While Coinsurance arrangements are common enough in the insurance industry they tend to be proportional where each party receives a proportion of the premiums and pays the same proportion of any claims. The lead coinsurer (with the largest share) collects the premiums and manages the claims on behalf of all coinsurers (and may charge an administration fee for doing so). EQC cover is non-proportional which changes the coinsurance dynamic.

In previous events there have been few over cap claims for insurers so most of the burden of managing losses has been borne by EQC. The sheer size of the Canterbury Earthquakes means that a significant number of properties are over Cap. Once over Cap the EQC has no real interest in managing cost as its liability is at the maximum limit so it becomes the responsibility of the insurer. Also there is a significant amount of claims for insurers on the non-EQC components they cover such as temporary accommodation and paths, driveways and fences etc.

Also EQC has generally cash settled claims in previous events. However in this event the EQC determined it would physically repair damage above \$15,000 (but below Cap).

### **Apportionment**

Overlaying all of this was the question of how the EQC cover responded to damage from multiple events. In a Declaratory Judgement (2 September 2011) the High Court ruled that EQC cover does reinstate after every Event. This effectively meant that the EQC would have some liability on every event which caused further repair costs and was effectively an overall increase in EQC's liabilities.

It also meant that in order to determine whether a property exceeds Cap and is therefore passed to the Insurer it is necessary to determine the cost of the damage from every event applicable to that property. A property only exceeds Cap if the cost is greater than Cap for at least one event. It was no longer a matter of looking at the total cost of the damage after all events and checking if this was over cap - an assessment was needed for every event. Now costs needed to be apportioned across events and the term "apportionment" was coined.

Apportionment has undoubtedly slowed down the process of determining which Properties are over cap. It was pointed out by one insurer that while the Declaratory Judgement may have favoured Insurers financially it has certainly hindered them operationally.

### ***Privacy breach vs Insured information***

As if the above were not complicated enough the EQC had a major Privacy breach on 22 March 2013. A document with details about more than 90,000 claims was accidentally sent to a third party. This document was then made publicly available via an upload to a website. EQC systems were locked down and information flows to and from Insurers stopped while an investigation took place. Information flows were reactivated but in a different format and this had the effect of reducing the effectiveness of communication between the two parties.

The Privacy breach occurred at a time when EQC was being overwhelmed by Privacy Act and Official Information Act requests about Insured information. This ultimately led to a joint report being released by the Privacy Commissioner and the Chief Ombudsman on 19 December 2013 which found: "an overcomplicated and risk averse approach to responding to information requests; and a tendency to be reactive rather than proactive in the dissemination of claim-related information." The purpose of mentioning these issues is not to place blame on EQC, but rather to document the events that occurred and to recognise that this did have an impact on the EQC/Insurer/Insured relationship.

From the feedback we have received one of the most consistent messages has been the difficulty of the Insurer/EQC relationship. We have attempted to assess the key factors for these difficulties:

## **4.3.2 Key issues**

### ***Different priorities***

It has been pointed out by more than insurer that there are competing priorities between the EQC and Insurers. One description was that having a single Insured being served by 2 different organisations (an Insurer and EQC) with competing stakeholders was always going to create difficulties.

### ***Dual customer facing roles***

Both EQC and the Insurer are in contact with most Insureds. Even where the Property is clearly under cap there are non-EQC covered benefits payable.

Where there is uncertainty about whether the property is over cap the situation becomes much more difficult. From a customer perspective it is better to be dealing with just one insurer.

### ***Duplication of effort***

With 2 insurers managing the claims and assessing a property there is significant duplication of effort before any work is actually done in reinstating the property. This leads to greater handling costs and also more opportunity for different views which takes greater time and effort to resolve.

### ***Determination of whether a property is over cap***

As the EQC is the first loss insurer it was fallen to EQC to determine whether a property is over cap. Once a determination is made that the property is over cap the EQC pays the Insured for the EQC assessed liability and advises the Insured and the Insurer that the property is over cap. It is at this point that the Insurer takes over. While this seems straightforward the reality is that properties are still being assessed to determine whether they are over cap. It is our view that regardless of how we have ended up in this situation that this should be rectified so that it cannot happen in the future. It is not acceptable that Insureds should have waited this long to determine whether their reinstatement will be managed by EQC or their Insurer.

### ***Gaps between EQC an Insurer cover***

There have been numerous reported cases where EQC are adamant that a property is under cap yet the Insured believes the property is over cap. The Insured may even have an assessment from their insurer showing the cost to be greater than the Cap. One reason put forward for these differences is that the cover provided by the EQC is different to that provided by Insurers. While this may be the correct legal interpretation it remains a very bad look for the industry. It seems unbelievable that any Insured would reasonably expect that their house policy to have a gap between the coinsurance covers (especially when this is mandated through legislation and the Insured has no choice about this).

### ***Cooperation on key projects***

There have been some projects where cooperation between Insurers and EQC may have helped to facilitate the speed of reinstatements and/or reduce the total costs to all parties. One example was the Drilling programme where the EQC and insurers ran separate programmes. More recently Insurers have developed a common database for Multi-Unit Buildings (MUBs) however EQC is not involved in that initiative.

### ***EQC has no prior customer relationship***

It has been pointed out that the EQC has no relationship with the insured prior to an event. In fact EQC does not even know what properties it is insuring. It does not receive property specific information when it receives the premium from insurers. As part of the EQC claim verification process it is necessary to confirm that the Insured does have a valid insurance policy by contacting the insurer involved. This step in the process could be removed if EQC had this information in advance.

### ***Complexities with Land***

As mentioned earlier the EQC land insurance is quite unique and while this does provide valuable insurance for Insureds it does appear to create further complexity between Insurers and the EQC. Some of this is only starting to be addressed in 2014 and we expect this will be the subject of considerable further work in the next year and beyond.

### ***Summary***

As has been mentioned earlier many of these issues were clearly identified in the Cosgrove report that was completed before the September 2010 quake.

We believe that Insurers and EQC have maintained some good working relationships at individual levels however we think that overall there has been a lack of trust between EQC and Insurers and this has made the relationship difficult and cumbersome. This lack of trust is hardly surprising given some of the competing objectives that the different parties have.

#### 4.4 Customer Choice - Reinstatement or Cash?

It is well recognised that New Zealand has some of the highest levels of domestic catastrophe insurance penetration in the world. This is in large part due to the existence of the EQC. It has also been pointed out to us that this high penetration coupled with a relatively high degree of customer choice has led inevitably to a protracted reinstatement programme. In our interviews we have asked various parties how long the Domestic programmes will run. Responses have varied and we have seen a range of 2015 to 2017 as the timeframe when programmes will finish. We have heard comments that even to finish in these sorts of timeframes will require significantly more cash settlements than are currently being completed. If that does not happen there may yet be significant demand surge as there will need to be high ramping up of activity in the next 2 years.

We have feedback that the Canterbury Earthquakes have taken significantly longer to settle than similar major events overseas. The table below was from an ICNZ presentation in November 2013 and compares recent events.

Event	Date	Closed	Elapsed time	Percentage Paid
Chile	27 Feb 2010	30 June 2012	28 months	100%
Christchurch 1	3 Sept 2010	?	39 months	26%
Tohoku	11 March 2011	?	32 months	91%
Sandy	29 Oct 2012	?	12 months	65%

Figure 3: <http://www.icnz.org.nz/wp-content/uploads/icnz-conference-2013-mo-tooker.pdf>

We have also had confirmed from Reinsurer's that both the Chilean and Tohoku events are largely closed yet the Canterbury Earthquakes which occurred at roughly the same time still has some way to run.

What is not evident in reporting these numbers is the level of cash settlements involved. Both of these events have been largely cash settled. In Tohoku the settlement of claims followed a straight forward formulaic approach. We also understand that in Japan today in the affected region there still remains a large amount of rebuilding to be completed. The difference is that the insurers have cashed out of it.

##### 4.4.1 New Zealand characteristics

The easiest and simplest solution for insurers is to cash settle these claims. However there are a number of reasons why this is not so straightforward:

- Many Insureds don't want to manage the claim either and would rather leave all of the risk with the insurer even if it means forgoing control of the rebuild and the option of making their own variations.



- Insurers realise that if cash settlements do not go into reinstating properties there will be future insurance issues in the future. Houses may be uninsurable or future claims may arise from unfixed earthquake damage.
- Political pressure to ensure that houses are properly reinstated. In the case of repairs an Insured may not choose to spend all of a cash settlement on house reinstatement. Insureds can choose to only complete limited repairs or can undertake repairs to a lower standard (including unconsented work). the remainder of the cash received could be used for anything. Leakage of insurance cash payments into consumer spending will create inflationary pressure on the economy. The sheer size of insurance claims relative to the size of the economy means that this is a real problem.
- Banks do not want their mortgage customers to repay some or all of their mortgage with an insurance pay-out. Insureds may not be particularly disposed to drawdown their mortgage to effect repairs if they can choose to only conduct limited repairs particularly if their financial position is not secure. A reasonable amount of the domestic market is insured through banks and so they have some influence over insurers actions.

For these reasons and others, the Industry is largely undertaking a managed repair programme.

#### **4.4.2 Repair inexperience**

Despite the cover that is provided Insurers are not experienced in reinstating domestic properties, especially for repairs. Of all of the domestic claims that insurers settle there are relatively few for the rebuild of a house (and almost none for major repairs).

For example the largest event over the 10 years prior to September 2010 was the Manawatu floods where it was noted that 290 houses were destroyed or rendered uninhabitable. As insurance penetration was low in some of the affected areas the number of houses covered by insurers was less than this. As a result an insurer with 10% market share will have less than 30 rebuilds. This shows that not only are the Christchurch earthquake losses many times larger than anything seen in recent history it also helps to demonstrate that even with the next largest loss insurers have had no need to develop processes for rebuilding houses.

#### **4.4.3 Comment**

The desire of Insurers to reinstate claims has led to significant complexity. If all claims had been cash settled much of the complexity would still have existed but would have been managed by the Insured rather than the Insurer

There is a growing appetite amongst Insurers to cash settle claims as reinstatement programmes lengthen. The issue is that, given the open ended replacement wording, it is difficult to negotiate a mutually acceptable settlement with the insured.

### **4.5 Stakeholder pressure**

There are a number of stakeholders that have an interest in the actions and performance of insurers.

#### **4.5.1 Insureds**

The Insured is a key figure in the settlement of their claim and for the most part, the Insurers strived to keep the Insured as informed as possible. This was at times exceedingly difficult given that there were periods when the Insurers themselves were not well informed.

In addition to this, the project management process is very complex and it can be very difficult to incorporate the idiosyncrasies of each Insured into the process.

Lastly, in any process, there will be a small percentage of cases that are too hard, too litigious or just unfortunate.

The Insurance industry has received an ongoing degree of criticism form a variety of sources. Some of this may be warranted while a lot is definitely not. How much is the industry willing to accept?

#### **4.5.2 Reinsurers**

It was quickly realised after the September 2010 Earthquake that reinsurers would be playing a major part in the Christchurch Rebuild. This became much larger after the February 2011 event. While the Christchurch Earthquake sequence has some quite unique features (total timespan of damaging earthquakes and the EQC arrangements) reinsurers are otherwise quite used to dealing with situations like this. Reinsurers recognise they are one step removed from the reinstatement process and are highly reliant on the action of Insurers.

Many of the reinsurance lines on the February event have been completely exhausted by the Canterbury Earthquakes and so Reinsurers' liabilities will generally not change if there is an increase in cost. However it has been pointed out that reinsurers are still maintaining a very active interest as they still have lines that could have increased costs and they are watching these closely. In particular Reinsurers are interested in the apportionment between events. Determining the final apportionment of costs to the various events looks like it will yet take some time but to the credit of all stakeholders in this it is not holding progress on settling Insureds' claims.

From the feedback that the Authors have heard there seems to be good communication and consultation between Insurers and Reinsurers.

#### **4.5.3 Government and Government Agencies (CERA, EQC and Southern Response)**

A significant amount of cost has fallen to central government through a number of areas:

- Red zone Settlements
- Running CERA
- Backstop for EQC
- Bailout of AMI
- Compulsory property acquisitions in the Frame (CBD - mainly commercial)

These activities have made the Government a financially interested party, with a different alignment of interests to the Industry. The Government has taken a stance in a few areas that has put pressure on the response from Insurers.

There has been a clear desire from the Government to see full reinstatement of housing in Christchurch rather than cash settlement. EQC normally cash settles claims however in this case a decision was made very early that EQC would manage the reinstatement of all but the smallest under Cap claims.

It is expected that insurers would be generally be quite keen to cash settle claims however all have put in place the facilities to manage reinstatements for Insureds.

## 4.6 Communications

Communication between all of the parties involved in the reinstatement process is critical. In particular the customers of insurers who are expecting to have their house reinstated (or otherwise receive a cash settlement) need to know what is happening.

As has been pointed out earlier, the dual role played by Insurers and the EQC has complicated the reinstatement process and would make communication all the more important. Unfortunately it seems the dual role of these parties has also complicated the communication process which is hardly surprising.

The Authors do not pretend to be communication experts however there are some basic principles that we feel should have been applied:

### ***Keep it simple:***

This has not always been possible due to the complicated nature of the reinstatement process. We have definitely seen an improvement in this over time as Insurers and EQC have developed and refined their processes. For example we can now see very clear and simple steps and guides on the EQC and some Insurer websites.

### ***Be consistent:***

This has been one area of communication where it is clear to Insureds that various parties involved in their claim are not communicating with each other. In particular the over Cap - under Cap difference between EQC and Insurers.

Some inconsistency is inevitable as Insureds don't receive the message, don't understand or promptly forget it.

### ***Communicate in an appropriately frequent manner:***

There have been many reported cases where Insureds have been left waiting and do not know what is happening. A group of Southern Response policyholders banded together and renamed their insurer as Southern No Response which gained widespread Media attention. This is not to say the Southern Response is any better or worse than other insurers however it does show a level of dissatisfaction amongst Insureds that they are not being adequately informed.

The reverse can also be true too as bombarding the Insured with information can lead to apathy from the Insured and important messages can be missed.

### ***Listen to your customers and communicate back what you are going to do.***

A lot of feedback has come via the media and while this does not necessarily represent a balanced view there has been considerable negative publicity about insurer performance. It was pointed out by one insurer that, unlike EQC, Insurers have a brand that has to be maintained. While the Authors don't necessarily agree with the comment about EQC it does demonstrate a clear understanding that Insurers need to manage customer expectations. The same insurer also pointed out a number of actions they take to meet customer needs.

It has also been very easy for the Media to find cases where Insureds have communicated with their insurer (or EQC) and have had no response. Again such stories are not always that balanced however the underlying point is that many Insureds do not feel they have adequate communication and when they contact their Insurer it is common that no one can help them move forward through the process.

We have certainly had feedback from Insurers that communication is something they could have done better. We also believe that pressure from stakeholders to show progress has led to insurers making commitments that were not realistic. When these are not met then credibility is damaged and further communication becomes more difficult as the messages are not believed.

We have also had feedback that Insured inertia is slowing down the rebuild program. By Insured inertia we generally mean that when Insureds are taking longer than expected to make decisions and this is having a flow on impact into the execution of reinstatement programmes. There seem to be a number of reasons for this but some of it seems to be that they are not ready to decide in the timeframes Insurers expect. This lack of readiness is in part due to having become used to the way they currently live but also seems to be in part that the Insured did not really believe that the insurer was actually ready to commence work because they “heard it all before”.

## 5 Suggestions for industry

### 5.1 Database – unique ID

Identification of a unique property location has not been a very straightforward task. There are various identifiers that currently exist, such as QPID but they each have shortcomings and there is no universally accepted identifier for insured dwellings.

This leads to matching by address which often has an inconsistent format or is simply wrong. Multi-Unit dwellings seem prone to irregularities in address formats. However Insurers do provide insurance over building and should know where they are. Similarly local councils identify properties for collecting rates and other purposes.

It seems to the Authors that a universally accepted insured property identifier would be invaluable in Insurers agreeing with EQC which property they are dealing with. It would also help for example when it comes to identifying Multi Unit Dwellings (and in particular which dwelling at the site belongs to which Insurer).

### 5.2 Data base exposure info

An extension of the point above is the development of a database of exposure information about each domestic property in New Zealand.

Such a database could collate all of the active insurance risks which could then be used by EQC to confirm cover rather than checking with insurers in every case. Furthermore it would give EQC better insight into the risk profile that it is co-insuring.

The database could contain information about the dwelling at each site (e.g. size, construction). It could also contain information about vulnerable Insureds. The ICNZ already maintains a claims register (ICR) which is common across the industry and can be used by insurers under controlled conditions. A property database could be developed along a similar line. Alternatively such a database could be developed by the EQC

### 5.3 Single point of contact for Insureds

One big improvement we believe could be made is to create a single point of contact for Insureds. This would require a more seamless transfer of information between the EQC and the Insurer but would remove the frustration for the insured in dealing with multiple parties.

This may require some sort of co-operation or protocol between Insurers in the case where an insured moves cover between events.

This would also help mitigate the issues of whether a property is under or over cap. The Insured should not need to be worried about that. The Insured simply has a contract of insurance that covers the replacement value of their house in an Earthquake. This will probably require a change to the Act unless the EQC and industry can form a set of agreed binding protocols.

#### **5.4 EQC Act – clear up coverage (not fail safe as things always crop up)**

There are a number of coverage issues that need to be tidied up. Notably the reinstatement of cover after each event that has led to apportionment issues. The Authors believe that even with the knowledge of the Declaratory Judgement if we were faced with another series of Earthquakes the apportionment issues would still be a significant bottleneck under the current legislation.

Also the land cover provided by EQC has been written with landslip in mind. A large amount of time has already been spent interpreting what this means in the context of the Canterbury Earthquakes and it is not finished yet.

#### **5.5 Policy wordings – gaps EQC / insurers**

Apart from changes to the ECA1993 there are improvements that could be made to policy wordings to clarify what coverage is provided. We have already noted that Insurers have introduced SI policies to replace policies based on the house size. This has made it easier for Insurers and reinsurers to understand their maximum risk exposures and make cash settlements in the future. It has however transferred risk to Insureds.

Another improvement would be to find a way of ensuring that the “Top Up” does exactly that and there is no gap between what is provided under the ECA1993 and the insurance contract with the insurer.

#### **5.6 Level of EQC Cap**

The current EQC Cap is based on a level set in 1993 and has not been indexed to cost of housing. While it was adequate to cover most reinstatement costs in 1993 that is not the case in 2014. It now falls at a point where a significant number of properties fall over it. A review of the Cap level needs to be incorporated into the review of the Act and whatever new level is determined this needs to be linked to the price of housing costs (or at least inflation).

#### **5.7 Earthquake definition in Reinsurance Treaties**

A key issue that has made remediation difficult is trying to apportion damage between the various events that occurred.

Typically, damage relating to an earthquake event is defined in terms of the number of hours after the ‘first event’. We understand that 72 hours is a common metric.

However, earthquake events typically result in many aftershock events that continue for years and so apportionment would seem to be an issue that would occur again. Consequently, it has been proposed that an earthquake event definition of 2 years would materially resolve the apportionment issue. Clearly, this would require agreement from reinsurers and would result in different pricing but in principle it has some merit.

The downsides are that for smaller events, or where the events appear to be moving away from the exposure base, there may be an incentive to not start remediation until the two year window has passed.

## 5.8    **Review of EQC's CRP**

The executive summary of the review of the EQC's Catastrophe Response Operational Capability is shown in Appendix A. In our opinion, the recommendations shown there are all commendable, particularly the following:

- EQC's relationship to private sector.
- Claims processing.
- Communications.





**New Zealand Society of Actuaries**  
31 October 2014

**Canterbury Earthquake: Lessons from  
settling Domestic Property claims  
Appendices**



## A Executive Summary of review of EQC's CRP

The Earthquake Commission (EQC) has responsibilities under the Earthquake Commission Act 1993. Essentially these can be condensed into three key functions.

- Provide insurance of residential property against loss or damage caused by earthquake, volcanic eruption, hydrothermal activity, tsunamis and natural landslips, to properties insured against fire in accordance with the Earthquake Commission Act 1993. There is also limited cover provided for land loss by any of the above hazards plus storm or flood.
- Administer the Natural Disaster Fund, including its investment and reinsurance.
- Facilitate research and education about matters relevant to natural disaster damage and its mitigation.

One of the ways in which EQC meets these responsibilities is through its Catastrophe Response Programme (CRP). In late 2008 the Board of EQC considered it was appropriate to conduct a review of the operational capability of the CRP to provide confidence that it will achieve its objectives.

EQC needs to know whether, in the event of a major and widespread natural disaster, the CRP and the way it is implemented will enable EQC to meet its obligations as set out in the Act, to a standard acceptable to the government and public of New Zealand.

This review covers:

- soundness of the CRP itself in terms of the relevance and coverage of the arrangements planned for enabling EQC to meet its statutory obligations
- adequacy of EQC's own internal disaster response arrangements
- soundness of the preparations for the acquisition, management and control of the resources of labour, equipment and materials needed to meet the objectives of its CRP in the event of a major natural disaster
- adequacy of the quality control mechanisms and performance measures employed to gauge the extent to which success is being achieved
- adequacy, accuracy and utility of documentation and record keeping associated with the CRP; in particular, how well the documentation enables procedures to be followed by successors to current personnel or those being brought in with minimal training
- assessment of whether economical gains could be made without reducing readiness to an unacceptable degree

### A.1 Key findings

#### A.1.1 Strengths of the CRP

The concept of the CRP is sound in that it recognises that the day-to-day and crisis-response requirements of the Commission are similar in function but greatly different in scale and urgency. It seeks to identify, resource and prepare functions for quick response to relevant events. It also acknowledges there will be significant pressure on some of the desired resources from other quarters of the insurance industry.

There is no doubt it has been effective in the events to date - anecdotal evidence and Insured reactions indicate this. However, there has been no comprehensive, formal evaluation of the CRP's performance in some of the out-of-the ordinary but less than large scale events. This led the review panel to question the robustness and efficacy of arrangements for less likely but catastrophic events, such as a major Wellington earthquake.

It was evident to the panel that the CRP has a number of key strengths:

- the CRP has been activated on a number of occasions and it has been effective
- a constant improvement process has ensured the CRP is a living document
- highly committed and knowledgeable EQC staff
- excellent relationships with providers (e.g., Wheeler Campbell, DTZ, Corporate Call Centre)
- contracted staff (loss adjusters, office managers) are loyal and professional.

### **A.1.2 Review panel observations**

The panel observed that:

- there is a misalignment of role expectations between some areas of government and EQC
- there is minimal guidance from government on what constitutes acceptable processing times for a moderate or large scale event
- there is some duplication of effort in processing and claims approval
- EQC has a small number of staff therefore the loss of one or more could compromise the activation of the CRP
- provider organisations have limited internal capacity and the loss of one or more of their staff could compromise activation of the CRP
- CRP documentation is difficult to navigate and the presentation does not take advantage of current document production techniques
- there is only an informal debrief and reporting process following activation events
- there is minimal collaboration with private sector insurers.

The panel made the following strategic findings based on the above observations.

### **A.1.3 Role expectations**

Apart from the requirements of the Earthquake Commission Act 1993 (which provide for qualifying claims to be settled by payment, replacement or reinstatement) there is no clear direction to EQC from government about its expectations of the organisation in:

- supporting whole-of-government processes of disaster management and recovery
- providing support to home owners (in addition to cash settlements) in their replacement or reinstatement of damaged property.

EQC's current assumption, and preference, is that it settles claims in cash.

Interviews with stakeholders identified the possibility that EQC might be expected to take a more 'hands on' role in support of reconstruction activities following a large scale event, such as a Wellington earthquake.

Such a role would mean that, rather than just settling claims in cash, EQC might be expected to actively work with other local and central government agencies and Insurers to provide a coordinated approach to supporting home owners in replacing or reinstating damaged property.

Reasons offered for this view included the following:

- funds for reconstruction work, together with the supply of builders and materials, will likely be scarce
- government will be under pressure to ensure that available funds are effectively used in support of reconstruction work (and not spent by home owners on other purposes or absorbed by inflated building costs)
- while Insurers currently ensure their funds are used for reinstatement, in the event of a large scale event they may not have the capacity to do this and may settle claims by cash instead
- as a Crown owned entity, the government may expect EQC to work with other government agencies and insurance companies to facilitate reconstruction work.

Any such expectation would have significant planning, human and other resource implications for EQC, which are not currently factored into the CRP.

Any misalignment in role expectations between government and EQC could lead to confusion and friction at both political and operational levels and in the public arena. This is a risk unless alignment is achieved by either greater understanding before an event or by role adaptation by EQC following a large scale event (which it is currently unprepared for). It is important that EQC can clearly articulate its role, both before and during an event, to the public and its various stakeholders.

#### **A.1.4 Resources versus timeliness**

A key challenge for EQC is to be able to ‘gear up’ quickly following a disaster to meet an unknown level of demand for its services.

EQC’s response to this challenge is to contract with various providers for additional capacity, up to specified levels, in the event that disasters occur. Providers put in place arrangements to provide or procure this capacity for EQC, and EQC pays monthly or annual fees for these arrangements, regardless of whether disasters occur. Examples of companies contracted to provide support in this way are Gallagher Bassett Services, Wheeler Campbell and DTZ. In the event that a disaster does occur EQC pays the direct costs for the contracted service or resources.

In entering into these arrangements EQC makes an important judgment about the cost that it is prepared to pay for capacity *versus* the likelihood that the capacity will be needed. If too much is contracted for, EQC bears the costs of maintaining arrangements for surplus capacity that it may not need for some considerable period. If too little is contracted for, EQC must arrange for additional capacity after an event occurs or accept delays in processing and settling claims, and manage public and stakeholder expectations accordingly. Delays in processing claims and making payments would also be likely to delay private sector insurers’ processing of claims above EQC thresholds, leading to further delays to reconstruction efforts.

EQC staff currently make this judgment without particular guidance from any other body on what would constitute acceptable processing times in the event of a particular disaster. Would, for instance, a delay of several years before settlement be acceptable in the case of a major disaster?

So far the adequacy of EQC’s arrangements has only been tested against disasters involving up to a few thousand claims.

The CRP currently assumes ‘scalability’ of resources depending upon the size of the event. However, there is currently little understanding of the point at which ‘total resources available’ is reached which would then lead to claims processing times extending. Consideration needs to be given to the CRP having a ‘plan B’ – what changes are made to procedures to reduce the gap of resource availability and claims processing time?

### **A.1.5 EQC's relationship to private sector insurers**

The quality of the relationship between EQC and private sector insurers is important for the following reasons.

- EQC depends on private sector insurers to provide it with timely information on the insurance policies they hold so EQC can validate and process claims against them.
- Home owners with damages over the EQC caps depend on settlements from both EQC and their private sector insurer to finance replacement or reconstruction.
- Private sector insurers who receive claims for damages over the EQC caps must wait on EQC to make decisions about settling claims before they can settle.
- In the event of a moderate or major disaster generating tens of thousands of claims, capacity to process claims will be scarce and EQC will compete against private sector insurers for it.

A number of issues in the current relationship could cause delays and inefficiencies in settling claims, both by EQC and private sector insurers, and could delay the release of funds for reconstruction following a disaster.

These issues include the following.

- EQC does not have direct access to information on the details of the people and residences it covers. Instead, EQC must iteratively and manually verify with private sector insurers, claim by claim, that a claimant has a valid insurance policy. This adds cost and time to EQC's claims processing. In a large scale event it could cause a bottleneck. Direct access to this information would enable EQC to better target information to uninsured home owners on the benefits of EQC cover.
- Processing of claims between EQC and other insurers is inefficient in the following ways:
  - claimants with large claims are required to deal with two insurers
  - there are multiple call centres – for EQC cover and private sector cover
  - claimants are required to provide similar information twice
  - multiple assessments of damage are carried out by two teams of loss adjusters
  - there is potential for dispute over assessments of damage between the insured and EQC
  - there is potential for bottlenecks as private sector insurers await the conclusions of EQC settlement decisions before undertaking their own assessments
- In a large event inefficiencies in the use of scarce resources would contribute to delays in settling claims.

### **A.1.6 Statutory claims lodgement**

Claims must currently be lodged with EQC within a period of three months.

While this period appears sufficient for minor events it may be too short in the case of a moderate or major disaster that generates tens or hundreds of thousands of claims. In such an event home owners' capacity to lodge claims may be constrained as may EQC's ability to accept claims. The panel understands the ombudsman and EQC have in the past made representation to government to extend the lodgement time period. The panel feels representation should again be made to look at providing more flexibility around the lodgement period.

## **A.2    Key recommendations**

### **A.2.1    EQC role expectations**

It is recommended that, to avoid the possibility of misaligned expectations of EQC's role, EQC:

- canvass and confirm with its Minister, Treasury and wider government agencies expectations of its role in providing support for reconstruction following a major natural disaster
- consider promoting the establishment of a 'cluster' of agencies likely to have complementary roles in reconstruction following a large scale event, including the following:
  - EQC
  - Insurance Council of New Zealand
  - Department of Building & Housing
  - Local Government New Zealand
  - Ministry of Civil Defence & Emergency Management
  - Department of Internal Affairs.

### **A.2.2    Resources versus timeliness**

It is recommended that, in relation to expectations regarding the timeliness of settling claims in the aftermath of a large scale event and in the light of a possible evolution in the EQC concept (see above), EQC:

- establish the timescales around claims processing in a large scale event (80,000+ claims) that could be achieved with current CRP arrangements
- propose and seek agreement from its Board and responsible Minister of an indicative timeframe for finalising claims in the aftermath of minor, moderate and large scale events and have these timeframes included in the Statement of Intent
- undertake a strategic piece of work to understand how the above expectations can be met through changing procedures around processing of claims in moderate and large scale events.

### **A.2.3    EQC's relationship to private sector insurers**

It is recommended that EQC:

- commission work with the insurance industry to explore viable options to improve the efficiency and effectiveness of claims handling and processing between EQC and other insurers, with the objective of improving outcomes for claimants. This work should take an overall systems approach, and consider:
  - the relative roles of EQC and insurers in initial claims lodgement and verification
  - the potential for a single claims lodgement process
  - the potential for EQC and insurers to take a joint approach to claims assessment
  - the potential for EQC and insurers to establish an integrated approach to claims settlement, including repair and reinstatement
  - the potential to provide EQC with live access to the details of people and properties with EQC cover for EQC related purposes.

### **A.2.4    Statutory claims lodgement**

It is recommended that, given the pressures that will follow a large scale event:

- consideration be given to extending the current provisions of the Act to include more flexible timeframes while retaining 'without prejudice' provisions.

#### **A.2.5 Claims processing**

It is recommended that EQC:

- pursue the concept of sharing resources with the insurance industry and work towards trialling this concept in smaller events
- pursue strengthening its relationship with large engineering firms to avoid potential bottlenecks following a large scale event to the fullest extent possible
- make provision for claim acceptance authority to be transferred from Gallagher Bassett Services to loss adjuster supervisors
- assess the viability of recruitment of temporary staff in New Zealand to undertake the claims processing role currently carried out by Gallagher Bassett Services
- make provision for the appointment of one or more (depending on the geographical spread of the event) contract structural engineers to advise loss adjusters whether a full engineering inspection/report is required.

#### **A.2.6 Adequacy of documentation**

It is recommended that EQC:

- engage external specialist expertise to develop CRP documentation using appropriate software which provides a more efficient and effective method of document development and ongoing management.

#### **A.2.7 Alignment with national Civil Defence Emergency Management**

It is recommended that EQC:

- engage with national Civil Defence Emergency Management (CDEM) to determine expectations of EQC (e.g. staffing at National Crisis Management Centre, availability of Minerva data)
- determine likely transport arrangements and availability following a large Wellington event and how EQC might take advantage of national CDEM arrangements rather than its current contractual arrangements with Helipro.

#### **A.2.8 Communications**

It is recommended that EQC:

- review the CRP communications plan to ensure it is strategically focused and, in a large scale event, communications would be co-ordinated across public information, EQC operations, media relations, stakeholder relations and Ministerial servicing
- review the arrangements for public communication support to ensure they would provide the depth and breadth of skills and capacity needed to take a proactive approach on the ground and pre-empt or manage crisis situations as they occur
- include the contracts for public communication support in the CRP for regular review

## B Historical review – timeline

### B.1 Key timeline

The table below contains a detailed list of notable milestones in the Canterbury earthquake remediation process.

Date	Source*	Comment
<b>4 Sep 2010</b>		<b>Darfield Earthquake (EQ1)</b>
14 Sep 2010	Legislation	Canterbury Earthquake Response and Recovery Act 201. Repealed 19 April 2011
21 Oct 2010	EQC	EQC stage 1 land reports
1 Dec 2010	EQC timeline	MBIE issues guidance on repairing and rebuilding houses affected by the Canterbury Earthquake sequence. (Version 1)
1 Dec 2010	EQC	EQC stage 2 land reports
<b>26 Dec 2010</b>		<b>Boxing Day Earthquake</b>
<b>22 Feb 2011</b>		<b>Lyttelton Earthquake (EQ2)</b>
23 Feb 2011	Wikipedia	State of National emergency declared
9 Mar 2011	Beehive	AMI approaches govt about concerns it may not have enough reinsurance and reserves to cover claims
29 Mar 2011	EQC Timeline	CERA established under the State Sector Act 1988.
31 Mar 2011	EQC Timeline	Gerry Brownlee appointed Minister Responsible for the Earthquake Commission
1 Apr 2011	Stuff	Western Pacific Insurance placed in liquidation
7 Apr 2011	Beehive	Govt announces back up financial support package for AMI.
18 Apr 2011	Legislation	Canterbury Earthquake Recovery Act (date of assent)
30 Apr 2011	Beehive	State of national emergency expires
<b>13 Jun 2011</b>		<b>Sumner Earthquake (EQ3)</b>
23 Jun 2011	CERA	Land Recovery Program announced by CERA. Announcement of 4 residential zones (Red, Orange, Green, White)
22 Jul 2011	EQC Timeline	All of Selwyn District and large parts of Waimakariri District rezoned from White to Green.
18 Aug 2011	CERA	Announcement that 940 properties in Kaiapoi and Pines Beach changing from Orange to Red.
19 Aug 2011	CERA	Initial 3000 red-zone offers mailed out.



Date	Source*	Comment
2 Sep 2011	Interest	Declaratory judgement by High court confirms EQC cover applies for each earthquake event.
5 Sep 2011	CERA	More than 9700 Port Hills properties rezoned from white to Green
14 Oct 2011	CERA	All but 20 properties in Banks Peninsula rezoned from White to Green
28 Oct 2011	CERA	6430 properties rezoned from Orange to Green
28 Oct 2011	CERA	Technical zones (1-3) announced
1 Nov 2011	acsclaimservices	Ansvar announces it is withdrawing from NZ.
1 Nov 2011	EQC Timeline	MBIE issues "Guidance on repairing and rebuilding houses affected by the Canterbury earthquake sequence (Version 2a)". Information for TC1 and TC2 foundation repairs
17 Nov 2011	CERA	8300 non residential properties rezoned from white to green
17 Nov 2011	CERA	758 residential properties rezoned from Orange to Green
16 Dec 2011	Beehive	IAG agrees to buy AMI with Crown taking over Canterbury Earthquake claims.
19 Dec 2011	CERA	1600 properties in Port hills rezoned from white to green
20 Dec 2011	EQC Time line	EQC and EQR announce repair timeframes
<b>23 Dec 2011</b>		<b>Chch Quake (EQ4)</b>
1 Jan 2012	EQC Timeline	MBIE issues updated guidance on house repairs and reconstruction in Canterbury.
10 Feb 2012	CERA	255 residential Orange zoned properties were rezoned - 213 Red, 42 Green.
1 Mar 2012	MBIE	MBIE report on ground improvement trials
1 Mar 2012	EQC Timeline	EQC commence geotechnical drilling programme in TC3.
23 Mar 2012	CERA	251 residential properties rezoned from orange to red.
27 Apr 2012	EQC Timeline	MBIE issues "Guidance on repairing and rebuilding houses affected by the Canterbury earthquake sequence (Version 2b)" which included interim guidance for foundations in TC3.
18 May 2012	CERA	822 residential orange properties rezoned red or green.
1 Jun 2012	EQC Timeline	Introduction of joint EQC/Insurer Scoping
20 Jun 2012	acsclaimservices	ACS scheme of arrangement put in place to manage runoff claims.
29 Jun 2012	CERA	Rezoning of 1558 Port Hills properties (1107 green, 285 red and 166 remain white)
1 Jul 2012	EQC Timeline	EQC commences systematic process for prioritising claims for vulnerable people
17 Aug 2012	CERA	Rezoning of 126 Port Hills properties (121 Red, 5 green and 37 remain white)
1 Sep 2012	EQC Timeline	MBIE issues "Guidance on repairing and rebuilding houses affected by the Canterbury earthquake sequence (Version 2c)"
5 Sep 2012	Press	Tower raises claims reserves to 338m which is above RI cover

Date	Source*	Comment
13 Sep 2012	CERA	Govt offers to purchase red zone properties not already covered by Crown offer
13 Sep 2012	CERA	Remaining 37 Port hills properties rezoned red.
31 Oct 2012	CERA	Final 8 Port Hills properties rezoned green
31 Oct 2012	CERA	132 Port Hills properties have applied for zoning review
1 Nov 2012	EQC Timeline	EQC begins to proactively identify vulnerable people and sets target of repairing 100 houses for vulnerable people each month.
12 Dec 2012	Press	Southern response on track to wind up in mid 2016.
21 Dec 2012	EQC Timeline	EQC completes geotechnical drilling in TC3.
24 Dec 2012	IAG	IAG confirm all repairs/rebuild will start before end of 2014. All complete by Dec 2015
1 Jan 2013	MBIE	MBIE issues "Guidance on repairing and rebuilding houses affected by the Canterbury earthquake sequence (Version 4)."
1 Feb 2013	MBIE	MBIE publishes guidance for rebuilding under Section 175 of building Act.
22 Mar 2013	EQC Timeline	Privacy Breach at EQC
12 Jun 2013	Press	IAG confident of hitting Dec 2015 and Southern response confident of hitting Dec 2016
30 Jun 2013	Wikipedia	CBD rebuild zone (Red zone) cordon removed
15 Oct 2013	EQC Timeline	Ombudsman releases 12/13 annual report and highlights number of complaints it has investigated against EQC.
31 Oct 2013	EQC Timeline	EQC completes all standard building claims under \$15,000 (excluding complex cases)
7 Nov 2013	Stuff	Mass land movement report released by CCC. Approx 700 properties, 134 class I, 446 class II and 120 class III.
18 Nov 2013	MBIE	MBIE publish guidance for repairing house in Port Hills in class II and III areas in toe slump areas of mass land movement.
3 Dec 2013	EQC Timeline	EQC Home repair targets slip
19 Dec 2013	EQC Timeline	Chief Ombudsman and Privacy Commissioner publish report on EQC
31 Dec 2013	EQC Timeline	EQC Ground Improvement testing concludes
11 Mar 2014	MBIE	MBIE provide guides on various foundation remediation methods
5 Apr 2014	Press	Southern response on target for Dec 2016
10 Apr 2014	EQC Timeline	EQC announces how it will settle Multi Unit buildings

#### Sources\*

EQC Timeline – detailed timeline courtesy of EQC

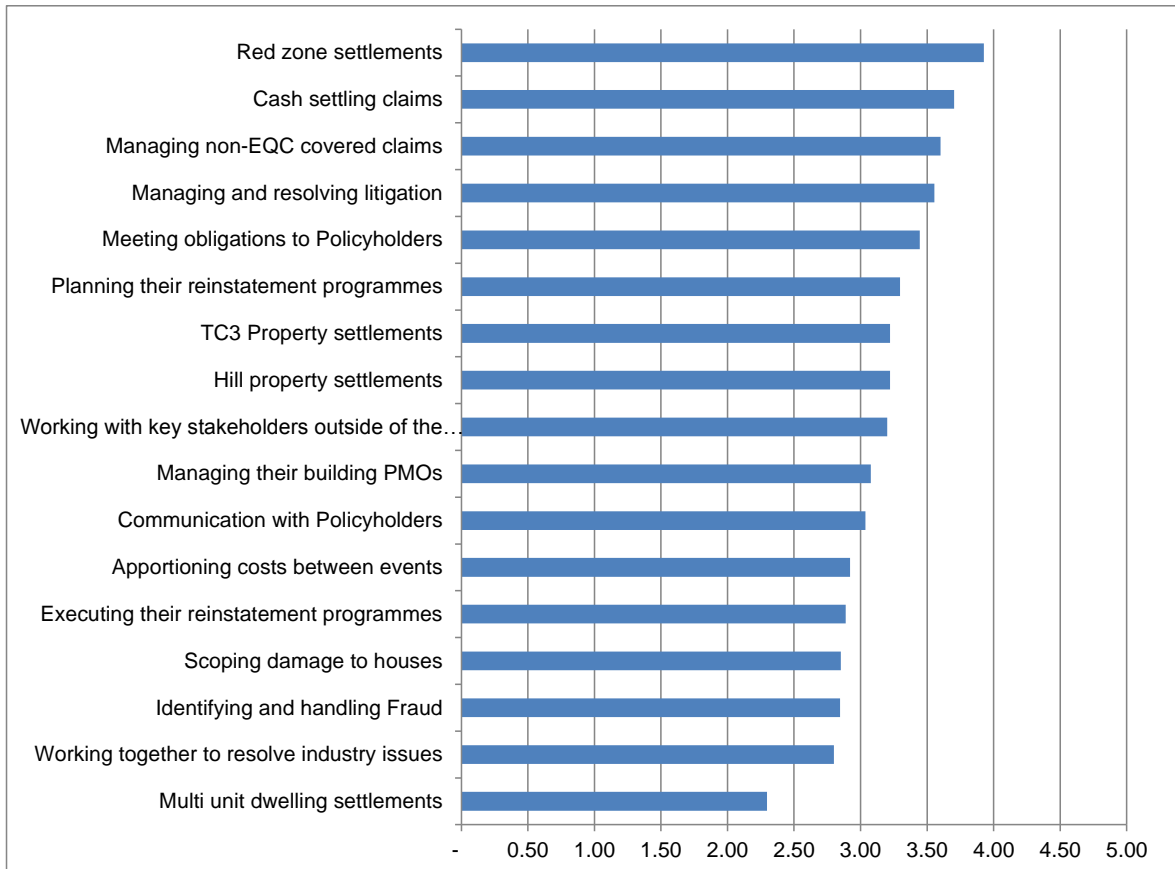
Other sources publicly available on websites

## C Survey results

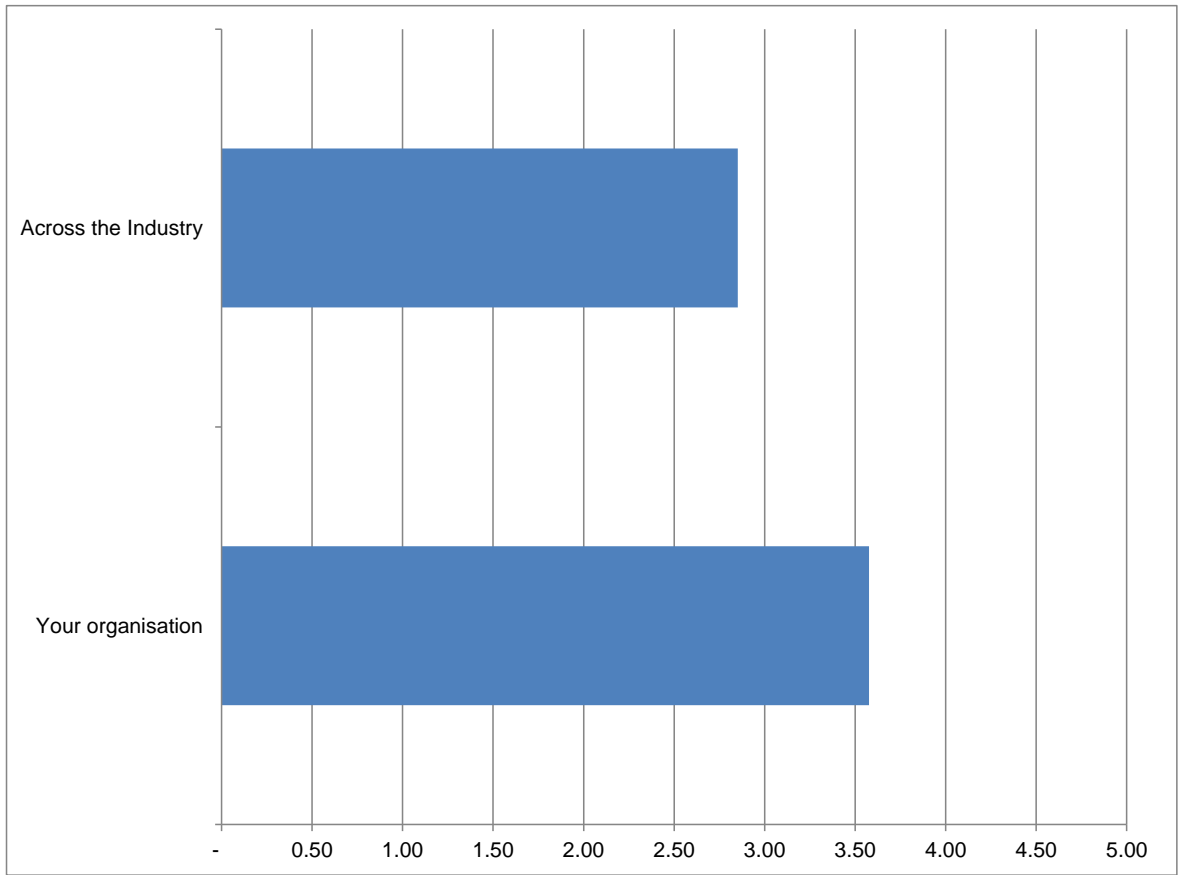
We have produced some of the results of the survey here. More will be provided at the Conference.

Many of the comments that were made reinforce the comments that were conveyed at the interviews that we carried out.

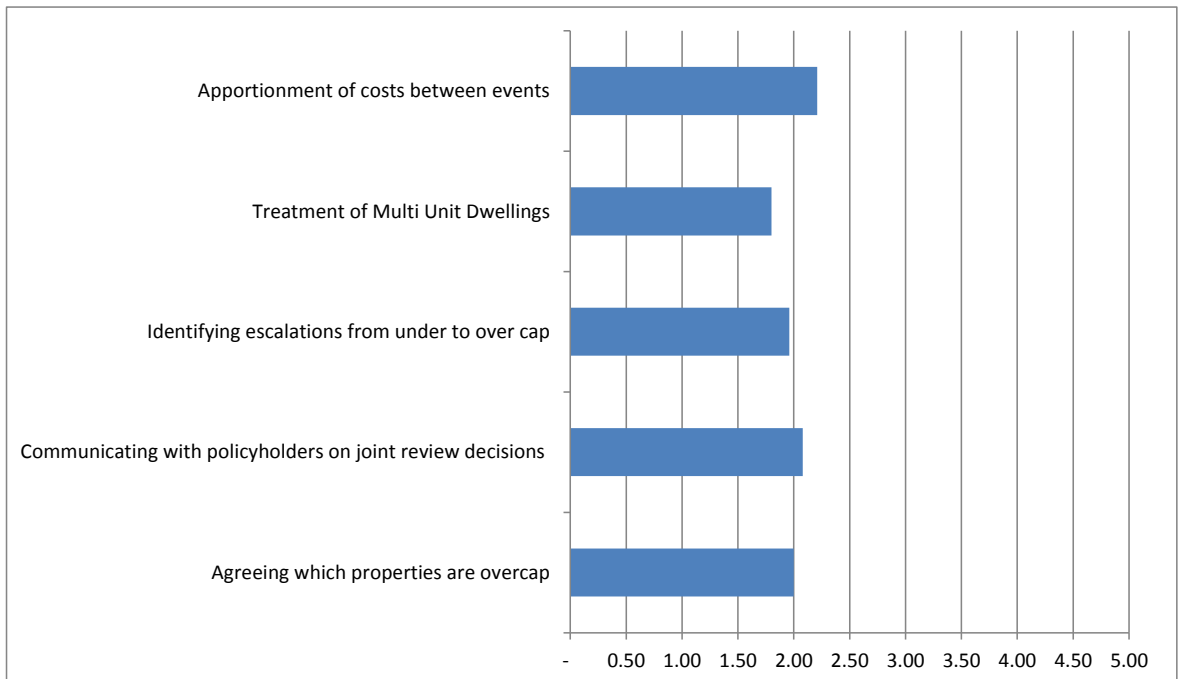
### C.1 How well do you think Insurers have handled the following:



**C.2 Overall how well do you think Insurers have responded to the Canterbury Earthquakes?**



**C.3 How well do you think EQC and Insurers have worked together to handle the following:**



**C.4 How effective do you think the EQC / Insurer coinsurance arrangement has been?**

