

Canterbury 'quakes 2010-12: insurance supervision

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Off the record ...

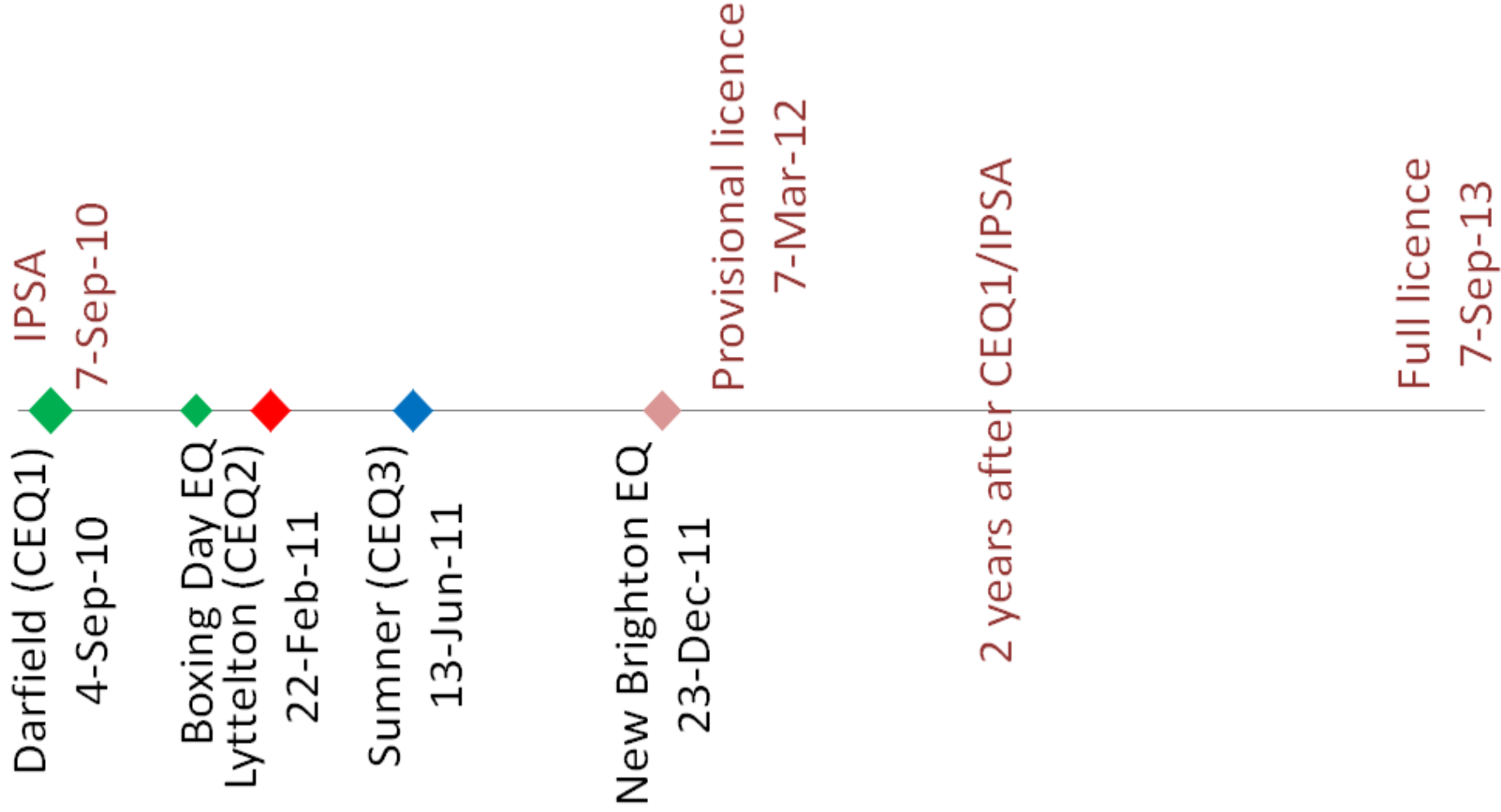
... and this presentation is not financial advice.

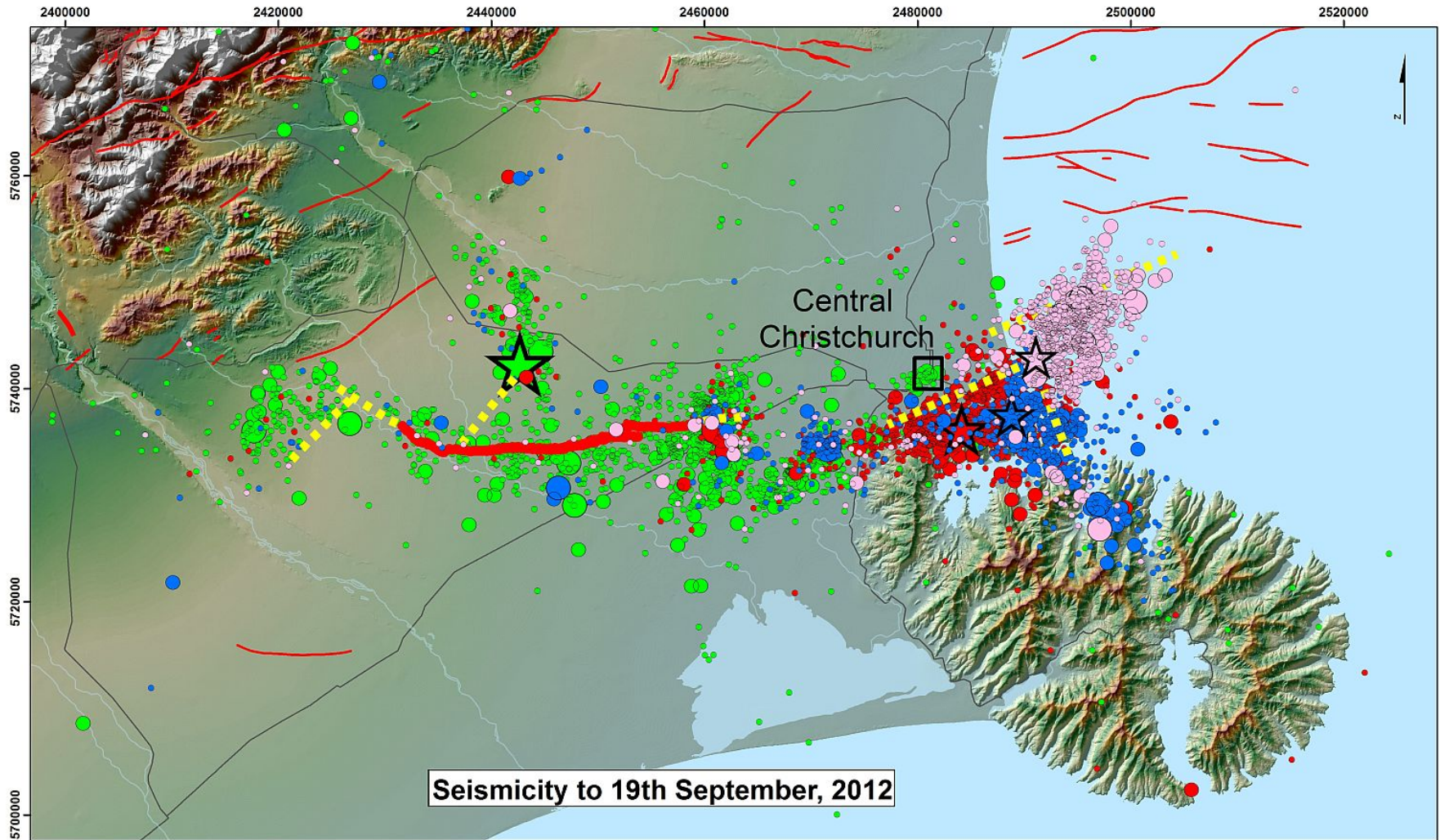


Canterbury 'quakes 2010-12: insurance supervision

1. Introduction
2. Canterbury earthquakes
3. Stress & distress
4. Claims development
5. Reinsurance & capital
6. Conclusion

Timeline





Magnitude

- 3.0 - 3.9 ☆ Mw 5.9 23/12/2011 ☆ Mw 6.2 22/02/2011 ○ Aftershocks from 23/12/2011 ● Aftershocks 22/02/11 - 13/06/11
- 4.0 - 4.9 ☆ Mw 6.0 13/06/2011 ☆ Mw 7.1 04/09/2010 ● Aftershocks 13/06/11 - 22/12/11 ● Aftershocks 04/09/10 - 22/02/11
- 5.0 - 5.9

- Sub-surface fault rupture ——— Greendale Fault ——— Active faults

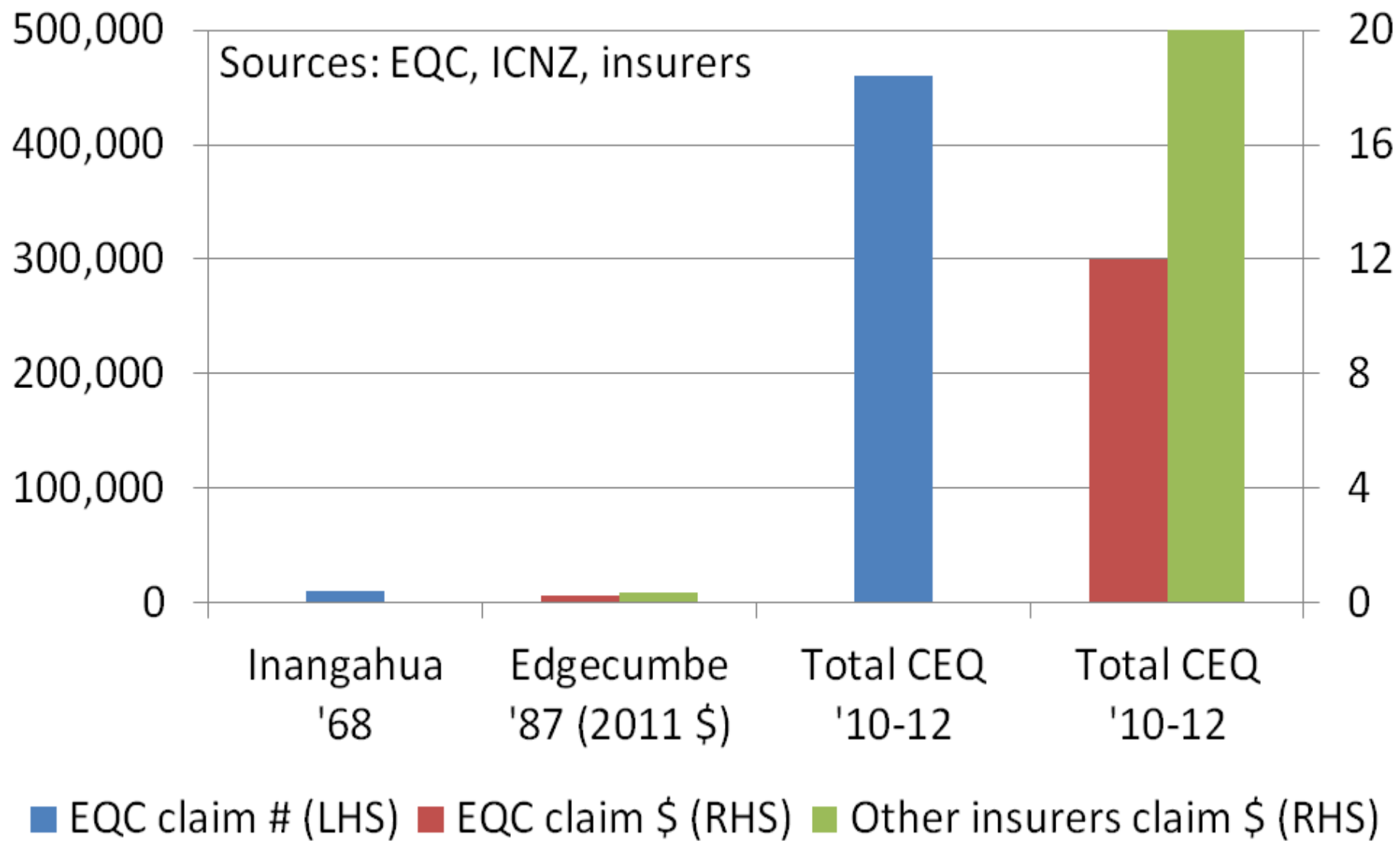


Introduction



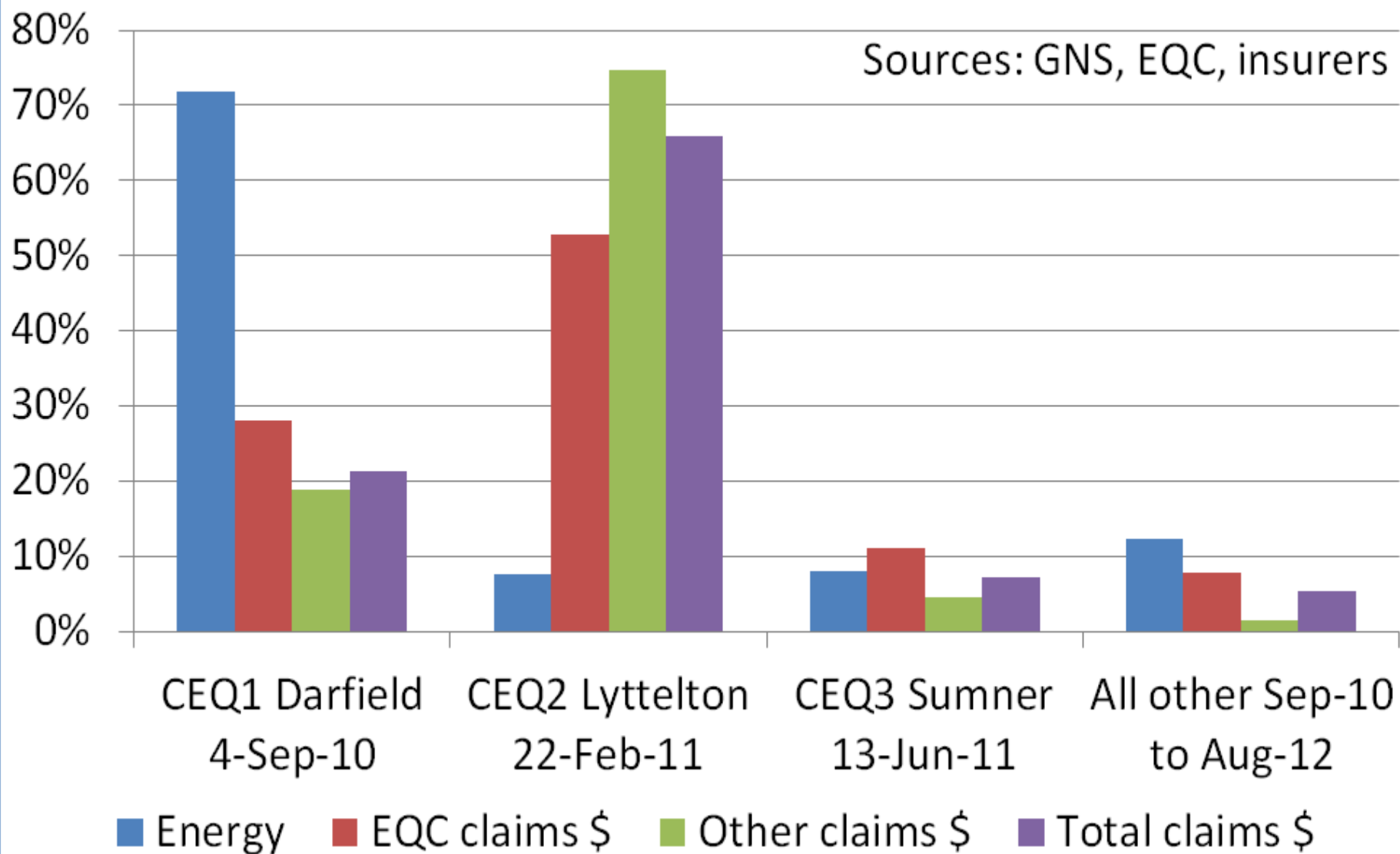
- Policy excluded
- Exempted ACC, EQC, Southern Response*
- CEQ shorthand

Largest prior NZ insured event vs total CEQ



CEQ % of earthquake energy & claims \$ by event

Sources: GNS, EQC, insurers



Stress



- CEQ1 “Darfield” major event ...
- ... but estimated claims \ll reinsurance
- Costs = retention + reinstatement

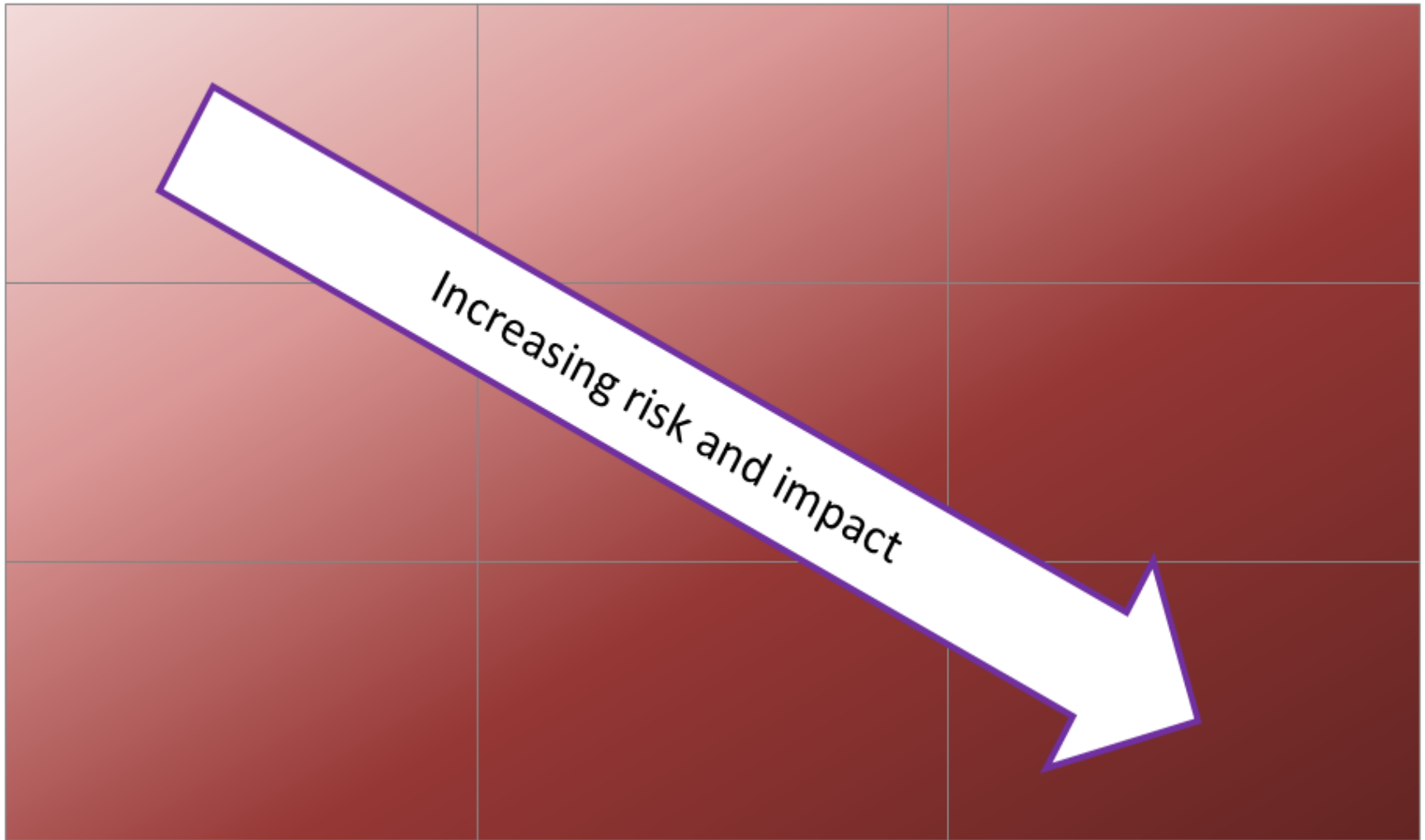
Stress



- CEQ2 “Lyttelton” massive event
- Operational impacts
- Life & accident insurance
- Further costs = further retention + further reinstatement

Simple initial risk assessment

Catastrophe reinsurance measure



Size measure or CEQ1/2 claims estimate

Distress



- Western Pacific – liquidation, s9 of LRA, never licensed
- AMI/SR – Crown support, restructure & sale, SR licence cancelled
- Ansvar/ACS – in run-off, s126 report, CSOA, provisionally licensed
- (EQC – Crown guarantee, review, exempt)

Stress or distress?



Failed insurer	Claims > assets (e.g. Western Pacific, AMI/SR)
Exiting insurer	In run-off (e.g. ACS)
Reliant on parent	Claims > reinsurance &/or high cumulative retentions (e.g. EQC)
Possible stress	Claims < but near reinsurance limits
Not stressed	Claims << reinsurance

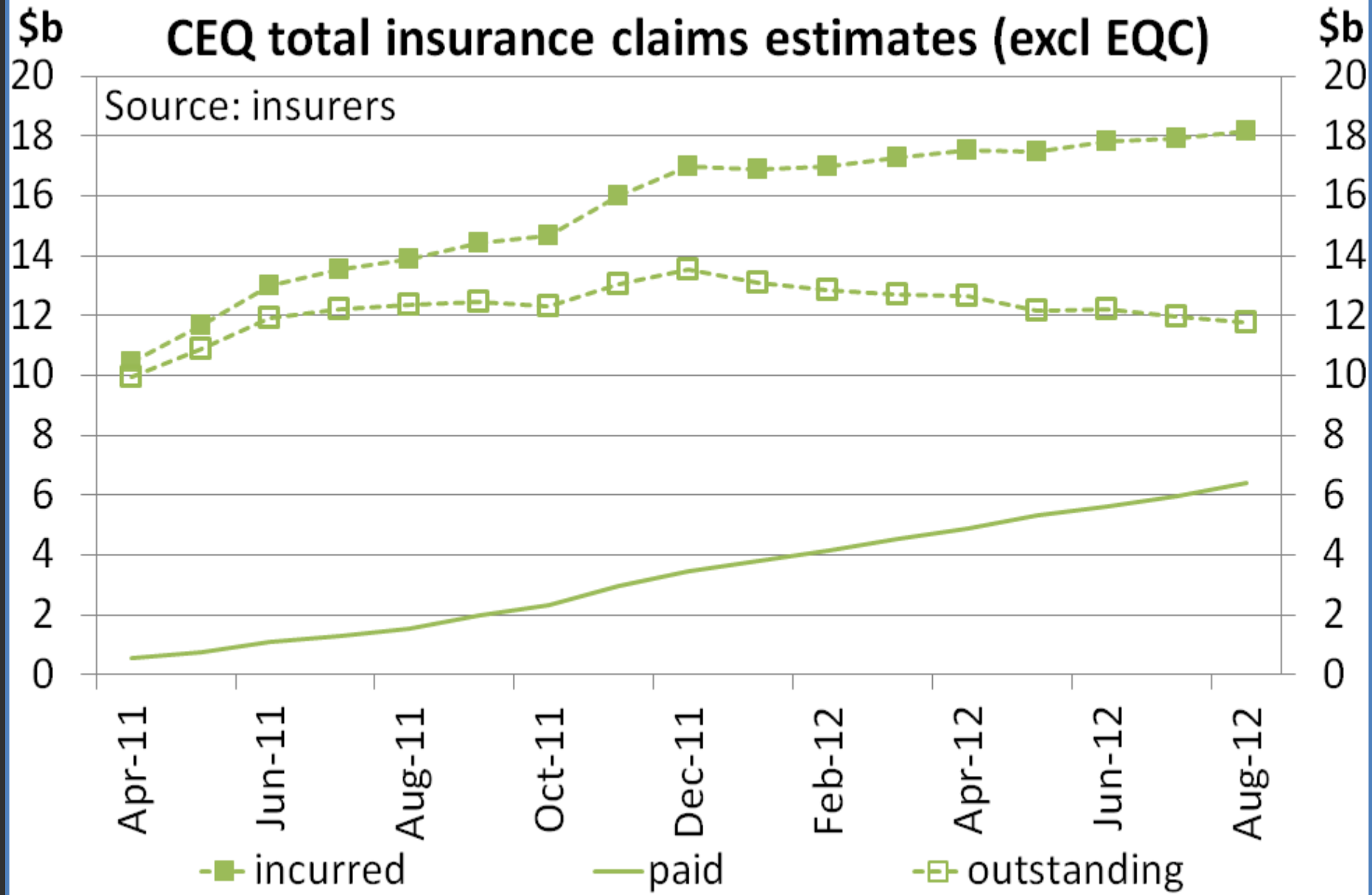


Some complicating factors

- significant damage on damage
- lengthy closure of CBD
- EQC interaction
- reinstated cover (or not)
- multiple retentions & reinstatements
- 2-3 insurance/reinsurance contract periods

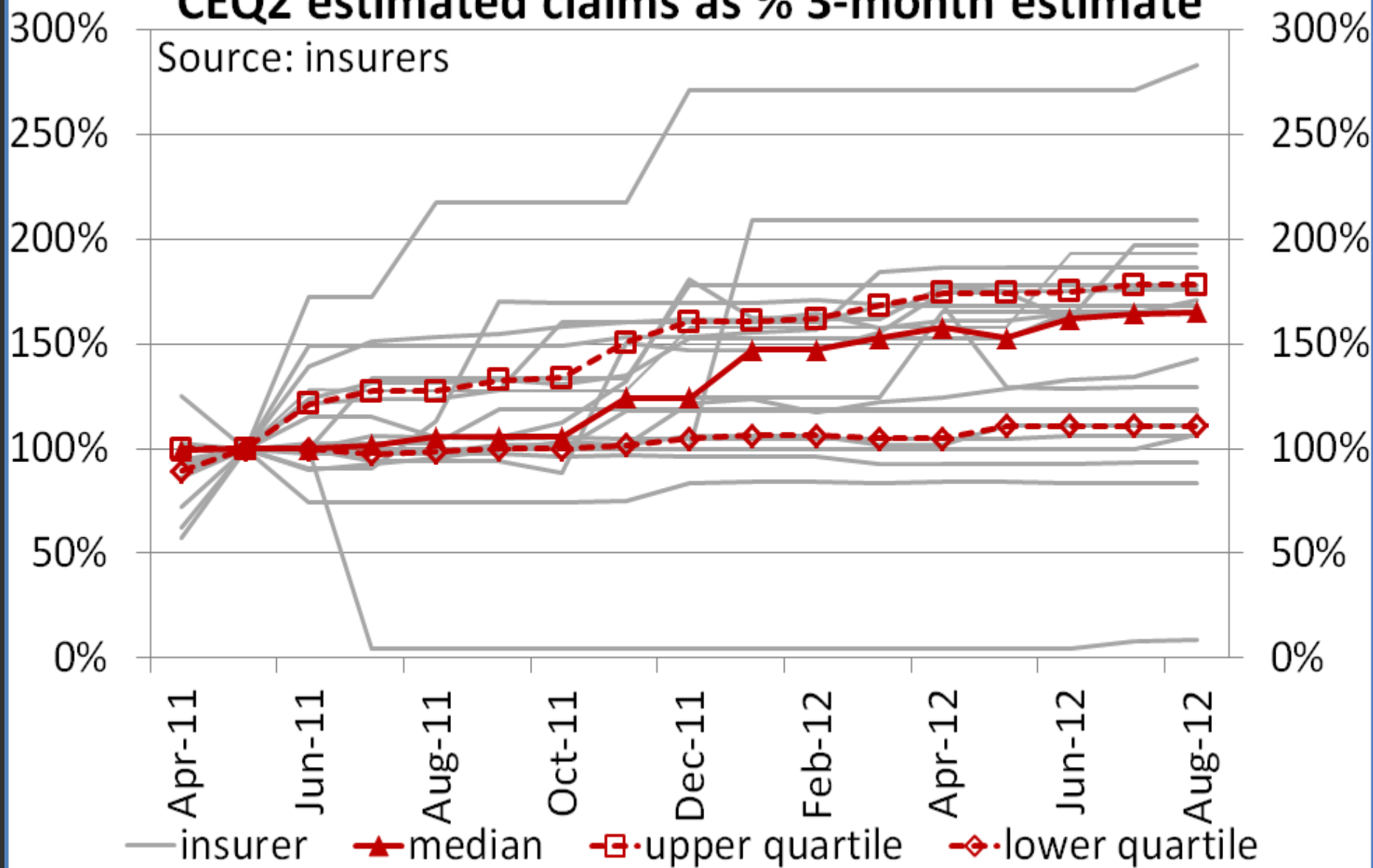
CEQ total insurance claims estimates (excl EQC)

Source: insurers



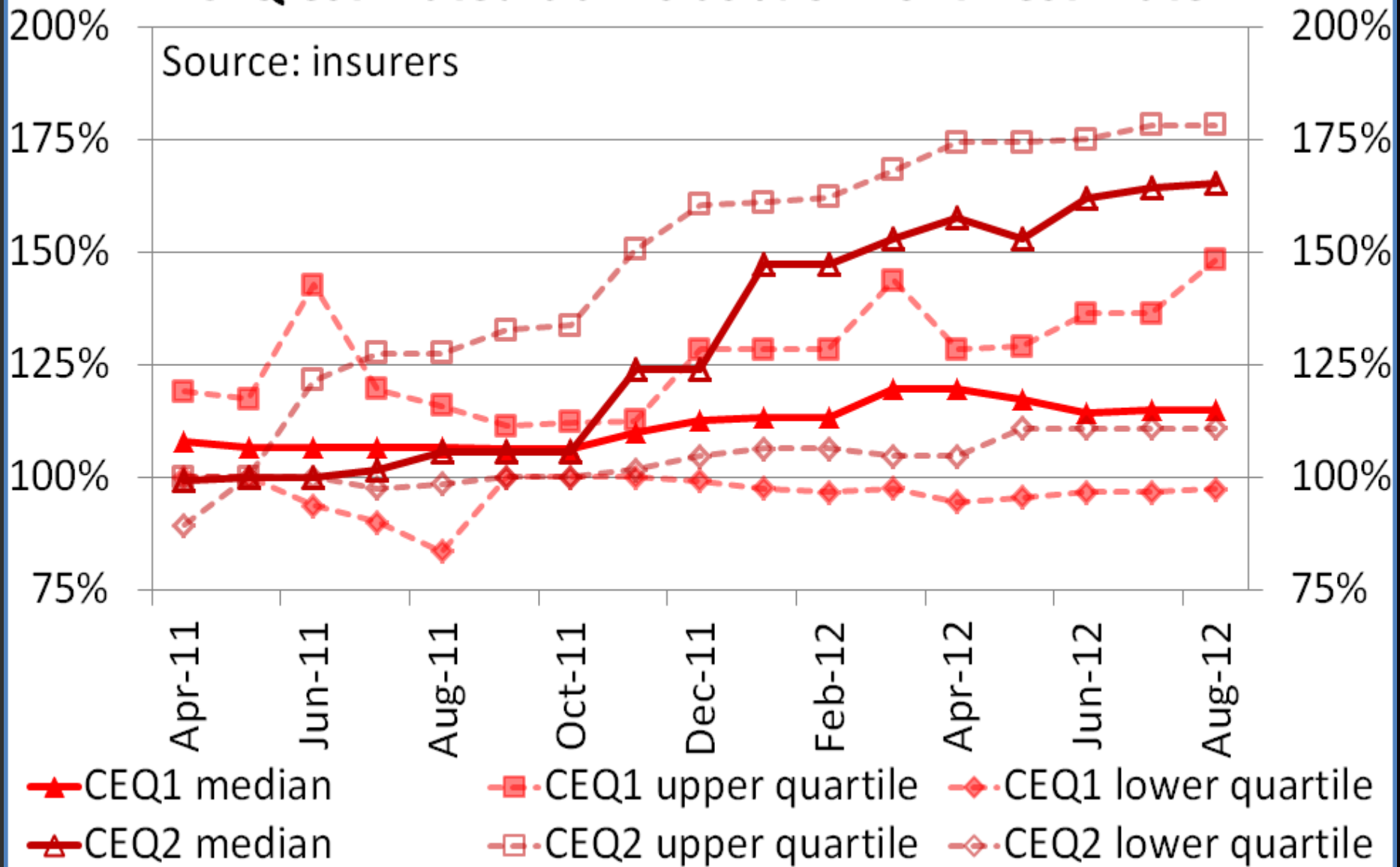
CEQ2 estimated claims as % 3-month estimate

Source: insurers



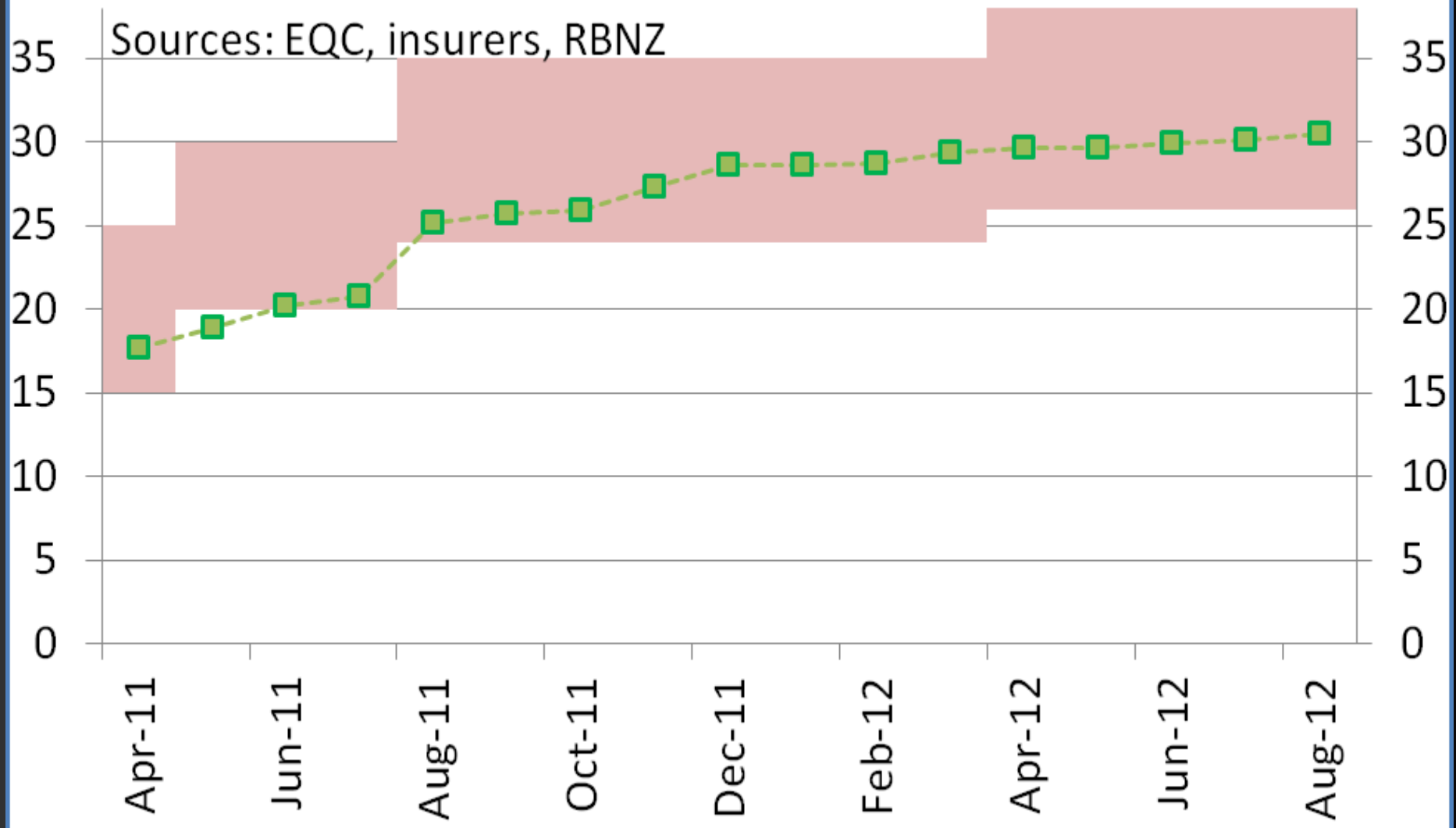
CEQ estimated claims as % 3-month estimate

Source: insurers



CEQ total insurance claims estimates (incl EQC)

Sources: EQC, insurers, RBNZ



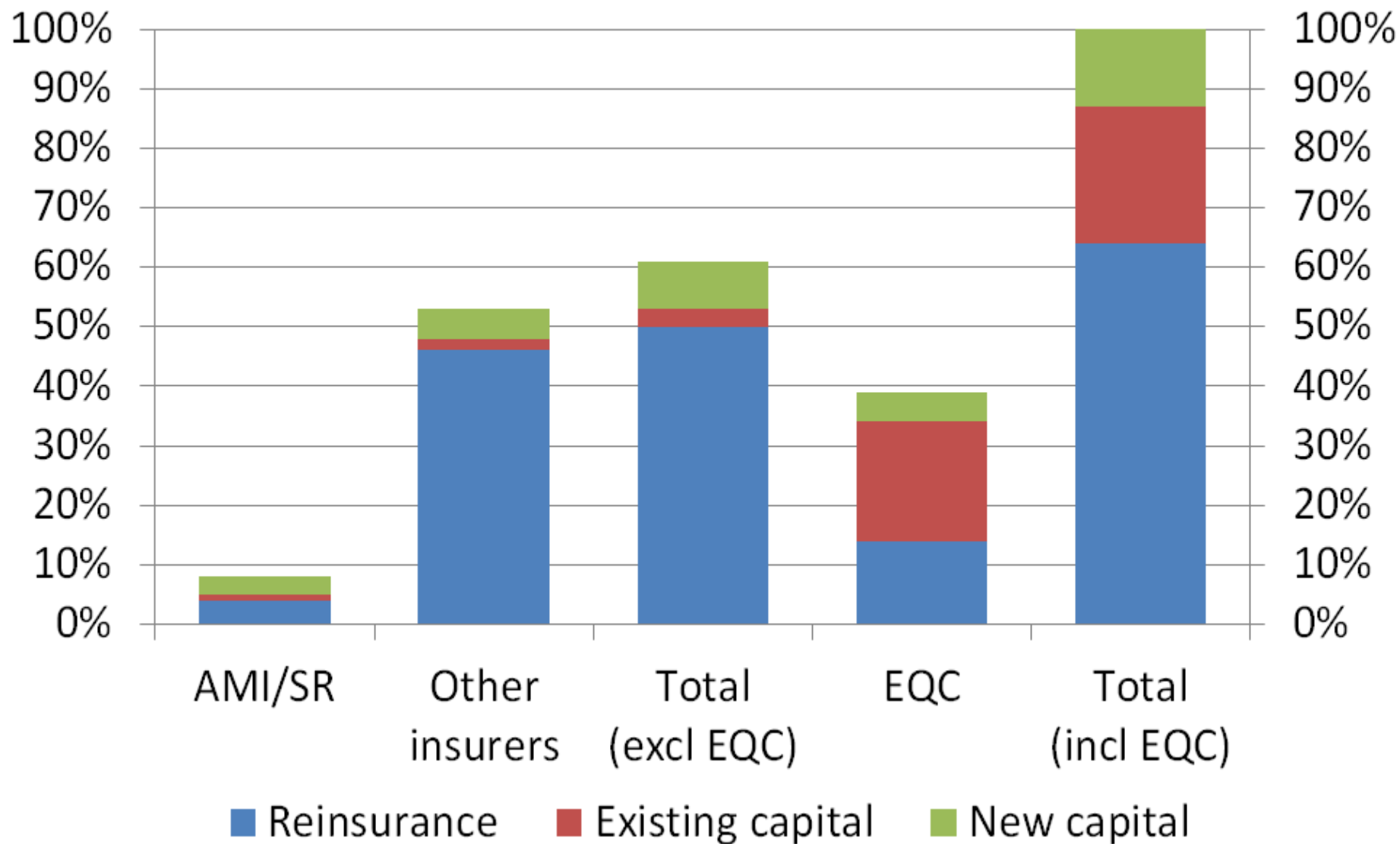
RBNZ (range) insurers



Reinsurance & capital

- Retention – generally small
- Reinsurance – biggest component by far
- Capital (existing)
- Parent – direct or indirect (e.g. stop loss RI)
- Crown – EQC guarantee, AMI/SR support
- Other – e.g. IAG purchase of new AMI

CEQ estimated insurance claims funding





Reinsurance

- 2011 & 2012 renewals successfully placed
- Exceptions (generous terms, key reinsurer)
- Premiums up, retentions up, limits up
- Reinsurer capital high despite 2011 catastrophes, so still competitive with plenty of capacity

Reinsurance



- Directly held by NZ insurer?
- Interactions, gaps, currency issues, etc.
- Disputes?
- Weaknesses in program?
- Processes – RI needs, renewals, reinstatements, changes in circumstance



The next 2 years

- Claims settlement ongoing
- Any more surprises?
- EQC review
- Replacement cover? Insurability?
- A rebuilt Christchurch is lower risk?
- Changes to cat models & risk assessment

Conclusion



- Extreme event ... industry resilient
- Substantial funder of rebuild & recovery
- Costs shared globally through reinsurance
- Many surprises ... hopefully less in future
- Full licensing in progress
- Insurance now front of mind for NZers!