

11 September 2015

Vero Insurance New Zealand (Vero) welcomes the opportunity to make submissions on the Government's proposals for potential changes to the Earthquake Commission Act 1993 (the EQC Act).

Introduction

Vero is one of New Zealand's oldest, largest and most-established insurance companies. It has a heritage in New Zealand dating back to 1878. It has significant, committed capital and resources in New Zealand including dedicated local claims management teams.

As a general insurer, Vero offers a comprehensive range of personal, corporate and commercial insurance and risk management products. Vero insures approximately 400,000 homes and has \$115 billion in home exposure.

The Insurance (Prudential Supervision) Act 2010 requires licensed insurers to have a current financial strength rating that is given by an approved rating agency. Vero has been given an A+ insurer financial strength rating by Standard & Poor's and a rating outlook of stable.

In addition, Vero has recently renewed its Group reinsurance cover, which provides the business with cover to meet the Reserve Bank of New Zealand's requirement under the Insurance (Prudential Supervision) Act 2010 for insurers to hold sufficient reinsurance or capital cover for specified events.

Vero distributes its products through a large broker and adviser network, as well as its partnerships with some of New Zealand's leading financial institutions.

Suncorp Group

Vero is part of the Suncorp Group, a leading trans-Tasman financial services group. Suncorp includes insurance, banking, life insurance and superannuation brands in Australia and New Zealand and has around 14,500 employees and relationships with nine million customers. Suncorp is a Top 20 ASX listed company by market capitalisation and has \$94 billion in assets.

The Suncorp Group has more than 2,700 claims personnel across Australia and New Zealand who are on call when a natural disaster occurs. A key part of Suncorp's disaster management approach is the consultative approach employed with local and national government, including councils and government agencies with disaster recovery responsibilities. During the Queensland floods and Cyclone Yasi natural disasters of 2010 and 2011, Suncorp worked closely with the Queensland Reconstruction Authority and the government taskforces set up to manage the respective disaster responses. The same level of government interaction has occurred with Vero and central and local government agencies, including EQC and the Canterbury Earthquake Recovery Authority, following the Canterbury earthquakes.

Canterbury earthquakes

Vero received 31,050 claims relating to the 2010 and 2011 Canterbury earthquakes, valued at just under \$4.8 billion.¹ As at 30 June 2015, Vero has received claims relating to 7,129² domestic homes and 92% of these have been resolved. This leaves 431 overcap domestic properties to be resolved (including shared properties) and 174 driveways to resolve. This means that Vero has settled and resolved 80% of overcap residential properties and 96% of minor property repairs, a leading industry position.

In addition, Vero received 2,619 commercial property damage claims and of these 240 are to be resolved. Vero has played a lead role in some of the most complex claims, including major settlements such as the University of Canterbury, Port of Lyttleton, Ballantynes retail CBD store, Hotel Grand Chancellor, PwC Building, Holiday Inn, Housing New Zealand and Ministry of Education. Vero has also worked closely with the industry to develop a global solution to progress the complex issue of multi-unit reinstatements in Canterbury.

Vero's position as a locally-led underwriter, its on-the-ground presence, and readily available technical expertise has provided it with an advantage over offshore insurers.

The remaining claims are, in almost all cases, complex, and will continue to take some time to fully resolve. Vero is committed to resolving all claims and playing its part in the regeneration of Christchurch and Canterbury.

Vero agrees that as part of looking to improve New Zealand's response to natural disasters, there are many lessons to be learned following the Canterbury earthquakes, and the recovery that has followed.

Under the leadership of Vero's chief executive Gary Dransfield (until 14 September 2015 when Gary will return to the Suncorp Group in Australia), and supported by the executive general manager of claims, Jimmy Higgins, Vero has been keen to learn from, and share its experience around, the Canterbury earthquakes. It has been active in publicly sharing its experience and learnings as well as with government. Vero commissioned and, in February 2015, released a comprehensive, independent report into its role in the recovery effort. A copy of the report by Deloitte Access Economics and entitled "Four years on: Insurance and the Canterbury earthquakes" is available at www.vero.co.nz or by clicking [here](#). It is also **attached** to this report.

¹ Deloitte Access Economics, "Four years on: Insurance and the Canterbury Earthquakes", an independent report on Vero Insurance, February 2015.

https://www.vero.co.nz/sites/default/files/documents/Vero%20NZ%20Report_Four%20Years%20On%20-%20Insurance%20and%20the%20Canterbury%20Earthquakes.pdf

² Remaining figures in this paragraph are as at 10 August 2015

Vero has drawn extensively on the expertise developed by Suncorp, in particular Suncorp's experience in responding to the catastrophic 2010 and 2011 Queensland floods and Tropical Cyclone Yasi in Queensland. Vero has subsequently shared the experience and expertise it has gained from the Canterbury earthquakes back into Suncorp.

Social components

Vero notes that the proposed reforms to the EQC Act largely look at the insurance and monetary components of recovery in the event of a natural disaster. Natural disasters, evidenced by the recent experience with the Canterbury earthquakes, have profound social as well as economic impacts, including death, serious injury, personal financial impact, business disruption, ongoing trauma and displacement.

Vero believes it is important that all potential impacts of a natural disaster, including social impacts, are actively taken into account when considering changes to existing legislation.

Proposal for discussion

1 That the purpose of the EQC Act be to establish a Crown-owned natural disaster insurance scheme for residential buildings in New Zealand that:

- ▶ **supports, complements and is closely coordinated with the provision of effective private insurance services to the owners of residential buildings**
- ▶ **recognises the importance of housing in supporting the recovery of communities after a natural disaster**
- ▶ **supports improved resilience of New Zealand communities and an efficient approach to the overall management of natural hazard risk and recovery in New Zealand**
- ▶ **contributes to the effective management by the Crown of fiscal risks associated with natural disasters.**

What do you think?

1a Do you agree that these purposes are appropriate and complete?

Vero largely agrees with the proposed legislative purpose outlined in the discussion document.

Insurance is critical to New Zealand given its high proportion of property ownership and the risks New Zealand faces from earthquakes and other natural disasters. Overall, Vero believes New Zealand's dual insurance model has served New Zealanders well since its introduction in 1945 and Vero supports the continuation of this model. As the government notes, there are areas for improvement and Vero agrees with this observation.

In particular, Vero believes inefficiency surrounding claims management had a significant impact on timely resolution of claims for customers and it is crucial to get this right for the future.

We also agree with the Insurance Council of New Zealand's (ICNZ) submission on this point, which supports the proposed purposes.

1b If not, what changes would you suggest, and why?

Vero's overriding belief is that in the event of a natural disaster, legislation such as the EQC Act should enable public and private sector organisations to put the needs of New Zealanders first and, in the case of insurance companies and EQC, to respond in a timely and effective way to the needs of their customers.

The independent report for Vero on the Canterbury earthquakes by Deloitte Access Economics found the more rapidly an insurance claim is paid by insurers, the more rapid the return to patterns of normal economic activity (Deloitte Report, page 1). The report found that in addition to claims paid, payments by Vero had contributed an additional \$1.7 billion to Canterbury's gross regional product (Deloitte report, pages 37 and 38). The timely payment of claims also positively impacts employment and reduces social hardship.

Vero believes there could be more specific emphasis placed on the need for timeliness in the purpose of the legislation, in particular:

- ▶ *supports, complements and is closely coordinated with the provision of effective and timely private insurance services to the owners of residential buildings*
- ▶ *recognises the importance of housing in supporting the effective and timely recovery of communities after a natural disaster*

What types of perils will EQC cover?

Proposal for discussion

2 That EQC continue to insure against the following perils: earthquake, natural landslip, volcanic eruption, hydrothermal activity, tsunami, and storm and flood (with, in the case of storm and flood, only residential land being covered).

2b If not, what changes would you suggest, and why?

Vero agrees with EQC continuing to insure against the perils listed. Further, Vero agrees with the submission from ICNZ on this point.

What types of property will EQC insure?

Proposal for discussion

3 That EQC building cover continue to be available to residential buildings and dwellings in non-residential buildings.

What do you think?

3a Do you agree that EQC building cover should continue to only be available to residential buildings and dwellings in non-residential buildings?

Vero agrees that EQC building cover should continue to only be available to

residential buildings and dwellings in non-residential buildings. On the grounds of administrative simplicity, we support the continuation of the definition of a residential building being where the dwelling constitutes 50% or more of the total area of the building, part or structure.

Further, Vero agrees with ICNZ's submission on this point.

3b If not, what forms of accommodation or living arrangements do you think should be added or removed, and why?

Vero agrees with ICNZ's submission on this point and emphasises the need for greater (and principled) definitional clarity around which forms of accommodation qualify for EQC cover.

Proposal for discussion

4 That EQC land cover only be available for land associated with residential buildings. Therefore, dwellings in non-residential buildings would not receive any EQC land cover.

What do you think?

4a Do you agree that EQC land cover should only be available for land associated with residential buildings?

Vero agrees that it is consistent with the purpose of the Act for land cover to only be available for land associated with residential buildings and, subsequently, dwellings in non-residential buildings, should not receive any EQC land cover.

Further, Vero agrees with ICNZ's submission on this point.

4b If not, what coverage of land cover would you prefer, and why?

Not applicable.

Extending building cover to include more siteworks and main access way

Proposal for discussion

5 That EQC building cover be extended to include siteworks and the main access to the building.

What do you think?

5a Do you agree that EQC building cover be extended to include siteworks and the main access to the building?

Vero disagrees with the proposal that EQC building cover be extended to include siteworks and the main access to the building. Vero disagrees on the ground that if this proposal were adopted, it could lead to the insured being grossly underinsured in the event of natural disaster damage.

Insuring appropriately for the potential costs of siteworks is extremely difficult and may require an expert assessment and, because of this, the majority or all of the sum insured may need to be applied to siteworks ahead of rebuilding. Even with expert, site-specific input it is very difficult to assess the future potential siteworks required as it will depend on the nature and severity of the catastrophe event. Extensive underinsurance poses a risk not only to homeowners but also to the Crown.

The need for a policyholder to carry out site assessments ahead of establishing a sum insured introduces significant cost and complexity for consumers. In addition to greater levels of underinsurance, it may deter people from seeking the right type and level of insurance in the first place.

In addition to this risk of underinsurance there is a largely insurmountable problem of how insurers (and reinsurers) are able to price for this kind of combined siteworks risk. In the absence of established models and statistical data, private insurers and reinsurers would have to make assumptions erring on the high side, which would inevitably lead to higher premiums for protection.

Further, we agree with the submission from ICNZ on this point which in our view ameliorates the difficulties with the EQC proposal on siteworks and also addresses the more significant complexities experienced in Canterbury.

5b If not, what do you think should be done instead, and why?

Vero agrees with the submission from ICNZ on this point.

EQC to no longer provide contents insurance

Proposal for discussion

6 That EQC no longer offer residential contents insurance.

What do you think?

6a Do you agree that EQC should no longer offer residential contents insurance?

Vero agrees that EQC should no longer offer residential contents insurance. Vero believes that its removal will make post-event claims handling more efficient as it will remove duplication between the insurer and EQC.

Further, it agrees with the ICNZ's submission on this point.

6b If not, what level of contents cover do you think EQC should offer, and why?

Not applicable.

6c For insurers, what do you anticipate the impact would be on premiums your company charges for residential contents insurance, if EQC no longer offered residential contents insurance?

Please note the information in section 1.4 regarding the Official Information Act.

There are a range of factors that impact the price of premiums, including premiums for residential contents insurance. These include reinsurance costs, competitive pressures, commissions and inflationary costs. Further, known risks such as claims history can have a significant impact on premiums at the individual level.

Whether the aggregate level of risk an insurer is carrying goes down or up under the proposed changes to the EQC scheme will depend on a number of factors including the collective nature of the insurance risks it is writing at the time. It is possible that the aggregate risk will increase for some insurers which in turn should lead to a market influenced adjustment to their premiums to reflect this.

For these reasons we are unable to provide additional information in response to this question.

Vero is available to engage with officials to discuss possible scenarios to assist government with understanding potential impacts on premiums.

How much insurance will EQC offer?

Proposal for discussion

7 That the monetary cap on EQC building cover be increased to \$200,000 + GST.

What do you think?

7a Do you agree with the proposed increase in the building cap to \$200,000 + GST?

No. Vero supports the position of ICNZ on this point. Specifically, we agree with ICNZ's proposed building cap of \$150,000. Landworks would have a natural cap of its own determined by the economic value of the land (see 5(a)).

7b If not, what cap would you prefer, and why?

Vero supports the position of ICNZ on this point.

7c Do you have strong views on the merits of a \$150,000 + GST cap versus a \$200,000 + GST cap?

Vero supports the position of ICNZ on this point.

7d If so, what are they?

Vero supports the position of ICNZ on this point.

7e For insurers, what do you anticipate the impact would be on premiums your company charges for residential property insurance, if the proposals in this document regarding changes to building cover were implemented? Please provide this information for a monetary cap for EQC building cover of both \$150,000 and \$200,000.

Please note the information in section 1.4 regarding the Official Information Act.

There are a range of factors that impact the price of premiums, including premiums for residential property insurance. These include reinsurance costs, competitive pressures, commissions and inflationary costs. Further, known risks such as geographic location can have a significant impact on premiums at the individual level.

Whether the aggregate level of risk an insurer is carrying goes down or up under the proposed changes to the EQC scheme will depend on a number of factors including the collective nature of the insurance risks it is writing at the time. It is possible that the aggregate risk will increase for some insurers which in turn should lead to a market influenced adjustment to their premiums to reflect this.

For these reasons we are unable to provide additional information in response to this question.

Vero is available to engage with officials to discuss possible scenarios to assist government in understanding potential impacts on premiums.

Reinstatement of EQC cover after an event

Proposal for discussion

8 That EQC building cover reinstate after each event.

What do you think?

8a Do you agree that EQC cover should reinstate after each event? If not, what is your preferred alternative, and why?

Vero supports ICNZ's submission of an alternative option that EQC would pay the full costs of accumulating damage in each event until it reached the cap, and not pay anything more until the repair was fully completed. This alternative approach is better aligned with the insurance industry, reduces the complexities of damage apportionment issues between insurers and EQC, and provides certainty to homeowners.

8b Do you agree with retaining the current definition of an event?

Vero supports the ICNZ's submission on this point.

8c If not, what is your preferred definition, and why?

Not applicable.

EQC land cover

Proposal for discussion

9 That land cover be limited to situations where the insured land is a total loss meaning it is not practicable or cost-effective to rebuild on it.

What do you think?

9a Do you agree that the proposed enhanced building cover, combined with restricting land cover to situations where the site of the insured building cannot be rebuilt on, would resolve, for future events, many of the recent difficulties with the interaction between land and building cover?

Vero disagrees with the proposal to restrict land cover and supports the submission of the ICNZ.

In respect of EQC cover for appurtenant structures, Vero agrees that EQC should continue to provide cover for appurtenant structures but that further clarity could

be provided in terms of the definition of appurtenant structures and the schedule of property that is not covered by EQC, which is Schedule 2 of the current Act.

Vero disagrees with the alternate view raised in ICNZ's submission that appurtenant structures could be entirely excluded from EQC cover. Insurers, homeowners and EQC are accustomed to the way that appurtenant structures are currently dealt with. Experience from the Canterbury earthquake sequence illustrated that the cover being structured in this way was appropriate (once additional definitional clarity was achieved through the Protocol 5 document agreed between ICNZ and EQC). If appurtenant structures were not included in EQC cover, there would be an inconsistent result. For example, a dwelling with an attached internal access garage would be covered by EQC, whereas a free-standing garage would not.

9b If not, what is your preferred alternative, and why?

See Vero's response to question 9(a) above.

9c Do you agree that restricting land cover to situations where the site of the insured building cannot be rebuilt on is appropriate, given the EQC scheme's focus on providing homeowners the resources to repair, rebuild or re-establish homes elsewhere?

Vero disagrees that land cover should be restricted to situations where the insured's land cannot be rebuilt on for the reasons outlined in 5(a) above. In particular, Vero believes that seeking to include siteworks within building works will undermine, not support, the EQC scheme's focus on providing homeowners the resources to repair, rebuild or re-establish their homes. This is largely due to the potential additional costs and complexities involved with siteworks for some policyholders and the negative impact this may have on rebuilding homes in those areas.

Further, Vero agrees with the submissions of ICNZ on this point. Vero agrees that the EQC scheme's focus should be on providing homeowners the resources to repair, rebuild or re-establish homes elsewhere.

It is critical for the homeowner to understand how their land will be determined as unfit to be rebuilt on. This is particularly so since their home is dependant on the land underneath. If the land is treated as a total loss but the home itself has little or no damage, the homeowner may be left without the resources to repair, rebuild or re-establish elsewhere.

From an economic standpoint, the total value of the property is the obvious measure of value that is being restored. If the combined costs of landworks and building damage are less than the value of the property, then it is economically responsible for the work to be carried out. If the combined costs exceed the value of the property, the property should be deemed a total loss. A "rational property owner" with the funds to do the work would always choose the least cost option.

This test brings a logical and easily understandable formula to determining the outcomes for an individual property.

The level of funding for land or landworks is for the Government to ultimately decide. If it restricts land cover to the value of the minimum lot size in the district plan, this will lead to 3 basic scenarios.

1. The land can be repaired for less than the value of the land. In this scenario, the homeowner is fully compensated.
2. The land cannot be repaired for less than the value of the land and the home is also badly damaged. In this scenario, a combination of funding from EQC and insurers will give the homeowner the necessary resources to be able to re-establish elsewhere.
3. The land cannot be repaired for less than the value of the land and the home has little or no damage to it. In this scenario, there is a gap between the value of the land and the cost to remediate it. This cost falls to the homeowner.

Scenario 3 above occurs under the current legislation. It may also feature largely in a Wellington scenario as many of the homes are hillside. And it may impact lower value properties more than higher value properties. This is because the land is worth less and there does not need to be much damage before the repair solution is too expensive.

To enable property owners to re-establish themselves elsewhere, the minimum fair value, as in the Christchurch residential redzone, could be the most recent capital value. Where properties fail the “rational homeowner test” and fall into scenario 3, the government should consider providing EQC the ability to pay up to the capital value of the property less insurance proceeds for the damage to the home with the minimum level of payment being the land value.

9d If not, what is your preferred alternative, and why?

Please see answer to 9(d)

9e Do you have any concerns regarding the proposed change to the configuration of building cover in light of the move by most insurers to provide sum insured home insurance policies?

Vero has significant concerns regarding the proposed change to the configuration of building cover because of the proposed inclusion of siteworks within building cover. Including siteworks could, in some instances, result in significant underinsurance following a natural disaster including less of the New Zealand public applying for insurance cover due to the perceived complexities and costs associated with carrying out sitework assessments before they are able to determine a suitable sum insured amount.

Vero believes including siteworks within the building cover does not support, and risks undermining, the second proposed legislative purpose of the legislation, which says it “recognises the importance of housing in supporting the recovery of communities after a natural disaster”.

Further, we support the response made by ICNZ in its submission on this point.

9f If so, what is your preferred alternative, and why?

Not applicable.

Better aligning EQC and private insurers’ standard of repair

Proposal for discussion

10 That EQC’s current statutory repair obligation already appears broadly consistent with industry practice.

What do you think?

10a Do you agree with the Government’s assessment that EQC’s legislated standard of repair is broadly consistent with current industry norms?

Vero disagrees with the Government’s assessment that EQC’s legislated standard of repair is broadly consistent with current industry norms. Further, it supports ICNZ’s submission on this point. We agree with the proposal in the ICNZ submission for EQC cover to follow that of the insurance policy on the site. Adopting this approach will:

- Provide homeowners with clarity about the scope and extent of the reinstatement work which will be carried out on their home
- Eliminate any dispute between EQC and private insurers as to scope and quantum of reinstatement work
- Provide time and cost efficiencies as assessors will be able to carry out one scope (to one standard) across the entire site and certainty will be achieved in terms of the amounts payable by EQC or the insurer. The benefits resulting from this reduction in double-handling of assessments and elimination of a need for joint review between EQC and insurers cannot be overstated
- Improve customer experience, helping them gain certainty of their claim sooner
- Avoid negative public disputes and sentiment around cap status
- Mitigate the level of litigation experienced in the Canterbury earthquakes, particularly around residential repair standards
- Provide confidence in capital markets such as reinsurers as it enables better prediction of risk and Ultimate Losses following major disasters.

Concerns around different obligations on EQC depending on the site are unfounded. Market competition ensures that wordings across the industry are relatively aligned. Any potential difference between one homeowner and the next

will result from their own choice as to insurance product purchased and all homeowners pay the same levy and receive the same EQC monetary cap so inequality does not result.

Similarly, feedback from reinsurers has shown that they are supportive of following the insurance policy on site as they are already well experienced in dealing with numerous policy wordings across New Zealand.

EQC does not take on any greater exposure in adopting the recommended approach as its liability is still subject to the monetary EQC cap.

10b If so, do you have views on why EQC's standard of repair is seen as markedly different from current insurance industry norms?

Vero supports ICNZ's submission on this point.

10c If not, do you have suggestions for reforms that you consider would move the EQC standard of repair closer to current insurance industry norms for residential property?

Vero supports ICNZ's submission on this point.

Simplifying EQC's claims excess

Proposal for discussion

11 That EQC has a standard claims excess of \$2,000 + GST per building claim.

What do you think?

11a Do you agree that EQC's building claims excesses should be standardised and simplified to a flat dollar amount?

Vero agrees that EQC's building claims excesses should be standardised and simplified to a flat dollar amount. This will also reduce low-level claims and increase the efficient management of claims above \$2,000 +GST.

11b If yes, do you agree that \$2,000 + GST is the appropriate claims excess on building claims?

Vero agrees \$2,000 +GST should be the maximum claims excess. Overall, this will help to keep levies lower, assist with efficient management of claims and increase the incentive on homeowners to mitigate minor damage where possible. Further, Vero agrees with the submission by ICNZ on this point.

11c If not, what would you prefer, and why?

Not applicable.

Proposal for discussion

12 That EQC have no claims excess on land claims.

What do you think?

12a Do you agree that EQC should have no claims excess on land claims?

Vero notes its previous comments that site and landworks should remain separate to building cover. If site and landworks remain separate to building cover, Vero would support a low excess on land claims. Further, it supports the points made by ICNZ on this point.

12b If not, what would you prefer, and why?

Vero supports ICNZ's submission on this point.

Regularly reviewing main monetary settings of cover

Proposal for discussion

13 That the EQC Act require monetary caps, premium rates and claims excesses on EQC cover to be reviewed at least once every five years.

What do you think?

13a Do you agree that monetary caps, premium rates and claims excesses on EQC cover should be reviewed at least once every five years?

Vero agrees with the proposal that monetary caps, premium rates and claims excesses on EQC cover should be reviewed once every five years. It notes that changing systems, processes, policy terms and wordings is a time intensive and expensive process and that therefore changes should be made only when they are material and based on sufficient need.

Further, it agrees with ICNZ's submission on this point. It is important to note that insurers will need minimum implementation periods for any changes arising from these reviews to make any resulting policy wording, pricing or process changes. Insurance policies are annual contracts and so when changes to wordings or prices are required due to legislative changes, depending on the timing of a homeowner's policy inception date, there is a period of up to 12 months for a homeowner to be able to be moved onto a new policy or any new pricing terms

and conditions. Vero also submits that it is essential that insurers are involved with any review.

13b If not, what alternative would you prefer, and why?

Not applicable.

How will homeowners access EQC insurance cover?

Proposal for discussion

That EQC cover continues to automatically attach to fire insurance policies on residential buildings, as defined in the EQC Act; or

That EQC cover automatically attach to insurance policies on residential buildings, as defined in the EQC Act, on a peril by peril basis; so if a peril covered by EQC is excluded from the private policy, it is also excluded from the EQC cover.

What do you think?

14a Do you agree that EQC cover should continue to automatically attach to fire insurance policies on residential buildings?

Vero agrees that EQC cover should continue to automatically attach to fire insurance policies on residential buildings although notes and agrees with the ICNZ's comments that fire-only policies are rare in New Zealand today. Further, we support the comments made by the ICNZ.

15a Do you agree that EQC cover should automatically attach to insurance policies on residential buildings, and EQC cover should exclude any natural disaster peril that is excluded from the fire insurance policy it attaches to?

Vero supports ICNZ's submission in relation to this issue. EQC cover should not exclude any natural disaster peril that is excluded from a private insurance policy. EQC cover should be available to all. In addition, if EQC cover could be excluded from policies this could provide opportunities for policyholders to seek to avoid paying the EQC levy by requesting natural disaster perils be excluded from policies. In addition, multi-tier type cover arrangements could be introduced to avoid paying EQC levies.

15b If you do not agree with either of these options, what alternative arrangement do you prefer, and why?

See answer to 15a.

Proposal for discussion

16 That EQC continue to have the ability, but not the obligation, to directly provide EQC cover to homeowners who request it.

What do you think?

16a Do you agree that EQC should continue to be able, but not be obliged, to directly provide EQC cover to homeowners who request it?

Vero agrees there may be limited circumstances where EQC, in line with the purposes of the legislation, provides EQC cover to homeowners who request it, particularly where not to do so would result in unconscionable outcomes. Further, Vero supports the submission from ICNZ on this point. See also answer 15a.

16b If not, what alternative arrangement would you prefer, and why?

Not applicable.

Who will handle EQC claims in future?

Proposal for discussion

17 That all EQC claims be lodged with claimants' private insurers.

What do you think?

17a Do you agree that EQC claimants should be required to lodge all EQC claims with claimants' private insurers?

Vero agrees that EQC claimants should be required to lodge all EQC claims with claimants' private insurers. However, Vero believes the legislation should go further in establishing a claims management model that provides greater certainty for New Zealanders, the insurance industry and EQC under New Zealand's unique dual insurance model.

Vero supports a legislative framework that requires insurers to be the first and ongoing point of contact for New Zealanders in the event of a natural disaster and to be responsible for the management of under and over cap claims. Vero believes that any risks within this system can be appropriately managed by a government-

designed and administered framework and that, in any event, any risks are far outweighed by the benefits policyholders will experience as a result of insurers being responsible for claims management.

Need for further certainty

The feedback Vero has consistently received from customers in the five years since the first Canterbury earthquake is that customers want a much simpler and more efficient process, particularly around claims management.

While the dual insurance model is valued, there is widespread acknowledgement that having EQC and an insurer being involved in lodging, assessing and managing a property owner's claim above \$100,000 has prolonged claims resolution and extended emotional and financial hardship. An example was the volume and varying quality of assessments and scopes conducted by EQC, and separately by insurers, that created differences of opinion and required both parties to agree scopes and liabilities before progressing property owners' claims.

On the speed of settlement, the Deloitte Report (page 2) found:

“The post-earthquake recovery process has been extremely complex and lengthy for Canterbury residents and businesses. Understandably, there has been vexation expressed by policyholders regarding the time taken to settle claims and repair properties. This is a sentiment acknowledged and shared by Vero.

“Factors such as some aspects of New Zealand’s dual insurance model, unclear protocols, coordination issues between government and private insurers, and the time it has taken for quality information to emerge about changed land formations have all served to extend property settlement times. Indeed, many of these factors are unique to the New Zealand insurance market and are compounded by the unprecedented size of the earthquakes and the number of substantial aftershocks.”

Experience across the Suncorp Group with disaster management is that on average 80% of claims are settled within the first 12 months of the disaster. Vero's experience in regard to Canterbury is that it has taken significantly longer to reach this number. While there were other external complexities that led to a significantly slower settlement rate, the duplication on claims management was a significant factor.

Defining principle

In their moment of truth, customers are entitled to get their lives back to normal as quickly as possible. This needs to be a defining principle of the claims management component of New Zealand's insurance framework.

The Canterbury earthquakes revealed that all players involved in disaster recovery have good intentions. But the overriding goal should be a system that assists in providing effective and timely outcomes.

An unfortunate by-product of the Christchurch recovery is an unprecedented

increase in the litigation of matters related to private insurers and the EQC. While Vero has fewer cases than its market share of matters being litigated, it has been exposed to proceedings that would not have eventuated had the dual management of claims not existed. The claim resolution timeframes (and approaches) have caused some property owners to seek alternative (and adversarial) avenues to achieve the resolution of their claim. In some cases, advice provided by claim advocates to policyholders has led to unrealistic expectations regarding settlement outcomes.

Benefits of private insurer claims management

For Vero, claims management is a fundamental part of Vero's service delivery.

Vero, like all insurers, is incentivised to continually monitor and improve customer satisfaction to ensure customer retention and growth. This ongoing competitive pressure is an advantage of private sector management of claims and makes the private sector more suited to be the principal point for customers and claims management in the event of a natural disaster. An example of where the private sector has been able to be flexible in its response and provide customer-centric responses is Vero's decision in 2013 to proactively take over the management of claims where the damages were believed to exceed the EQC cap, ahead of official notification from the EQC. This contributed to a significant reduction in processing times.

The components of a quality and timely claims management function includes:

- **Easy lodgement of claims.** The first step for customers who have suffered loss. It involves capture of loss details, validation of policy cover, and an explanation of the private insurer's next steps to resolve the customer's claim.
- **Damage or loss assessment.** For non-catastrophe losses, this phase generally involves an assessment of the damage or loss suffered by the policyholder. In Vero, the claims management process is typically divided into two areas – simple 'one-touch' claims and major or complex losses.
 - For simple claims such as minor property repairs or replacement of low value contents, the intention is to have minimal handling of these claims and quick settlement timeframes.
 - For more complex claims or major losses, case managers are typically appointed that have accountability for resolving the customers' claim.
 - The appointment of loss adjustors will be dependent on the type of loss. Vero engages both internal and external loss adjustors and calls on the resources within Suncorp in time of catastrophe losses.

- **Claims fulfilment.** Replacement of lost or damaged contents and property. Vero has supply contracts with major retailers across New Zealand for the contents items that need replacement – electrical, telecommunications, white goods, brown goods and so forth. These contracts provide economies of scale. Vero has a panel of suppliers that provide building-related services such as engineers, building contractors, quantity surveyors, architects and project managers. These services are typically engaged for major property damage and are scalable when responding to catastrophe losses.

Quality assurance and claims risk management. Vero has a dedicated quality assurance team embedded within the claims management process. The program is focused on compliance to operational process and regulations as well as fraud prevention and detection. Vero’s earthquake program received positive acknowledgement from a number of global reinsurers on having a dedicated quality assurance program specifically focused on earthquake claims leakage and fraud risk.

The claims management function within Vero is supported by a broader infrastructure that is scalable in future recovery efforts. This infrastructure includes IT systems, telephony, payroll, recruitment processes, procurement, supply chain management, reinsurance management, claims reporting, finance and actuarial expertise, employed solicitors, and corporate affairs.

Requiring insurers to manage all under and over cap claims from claims lodgement through to claims settlement would have the following significant benefits:

- Simplification of the claims management process for New Zealanders in the event of a natural disaster, reducing confusion and negative economic and social outcomes
- Faster recovery times for individuals and the affected region, leading to substantially improved economic and social outcomes
- Redistributes pressure on EQC to a number of different insurers
- Reduces competition for scarce resources such as loss adjustors, claims handlers and engineers
- Allows Government to focus on resources key to restoring critical infrastructure such as roads, water and power, social welfare and disaster relief policies.
- Improves customer experience, helping them gain certainty of their claim sooner
- Avoids negative public disputes and sentiment around ‘cap’ status
- Mitigates the level of litigation experienced in the Canterbury earthquakes, particularly around residential repair standards
- Provides confidence in capital markets such as reinsurers as it enables better prediction of risk and Ultimate Losses following major disasters.
- Creates a more competitive landscape around claims management practices and outcomes as Insurers look to differentiate themselves on service, quality and products.

17b If not, what alternative arrangement would you prefer, and why?

Vero recommends legislation that sets out guiding principles on the role of insurers and the EQC following a natural disaster, with the system to be enacted through regulation.

Vero is concerned that the proposal in the discussion document does not go far enough to provide the certainty that New Zealanders will be seeking from any legislative change and this could lead to greater levels of confusion and delay in the event of further natural disasters.

Vero believes it is critical that these changes should be determined within the legislative process either through the primary legislation or regulation or both and these changes are determined without undue delay. Vero does not accept that the issues are of sufficient complexity to entirely address them in isolation from the legislation.

Vero recommends:

- Guiding principles be set out in the legislation to allow regulations to be enacted with specific details regarding claims management responsibilities
- The legislation sets out specific guidelines for appropriate risk management frameworks to be established and administered by an appropriate government agency.

Further, Vero supports the submission made by ICNZ in relation to 17(a) and 17(b).

Deadline for reporting claims

Proposal for discussion

18 That the current three-month time limit for claims notification be retained, but EQC be able to accept claims up to two years after an event, unless doing so would prejudice EQC.

What do you think?

18a Do you agree that the current three-month time limit for claims notification should be retained, but EQC should be able to accept claims up to two years after an event, unless doing so would prejudice EQC?

Vero supports the current three-month time limit for the notification of claims and a discretion for EQC to accept notification of claims up to two years after an event period (where there is no prejudice to EQC in doing so). Further, it agrees with the submission from ICNZ on these points.

18b If not, what alternative arrangements would you prefer, and why?

Not applicable.

Ensuring the scheme meets its expected costs

Proposal for discussion

19 That the new EQC Act contain pricing and transparency principles requiring the scheme to adequately compensate the Crown for its expected costs and risks.

What do you think?

19a Do you agree that the new EQC Act should contain pricing and transparency principles requiring the scheme to adequately compensate the Crown for its expected costs and risks?

Vero agrees that the new EQC Act should contain pricing and transparency principles requiring the scheme to adequately compensate the Crown for its expected costs and risks. Further, it agrees with the submission by ICNZ on this point.

19b If not, what alternative arrangements would you prefer, to ensure the scheme's future financial sustainability, and why?

Not applicable.

Allow but do not require differentiated EQC premiums

Proposal for discussion

20 That the current legislative flexibility to charge flat-rate or differentiated EQC premiums be retained.

What do you think?

20a Do you agree that the current flexibility to charge flat-rate or differentiated EQC premiums should be retained?

Vero agrees that the current flexibility to charge flat-rate or differentiated EQC premiums should be retained. In particular, a straight-forward pricing structure makes it easier to explain to customers and to support this in systems and processes. Further, it supports the ICNZ submission on this point.

20b If not, what alternative arrangement would you prefer, and why?

Not applicable.

20c Do you agree with the Government's intention to continue charging EQC premiums at a universal flat rate?

Vero agrees with ICNZ's submission on this point.

How will EQC finance its risk?

Proposal for discussion

21 That the Natural Disaster Fund be retained in broadly its current legislative form.

What do you think?

21a Do you agree that the Natural Disaster Fund should be retained in broadly its current legislative form?

Vero agrees with ICNZ's submission on this point.

21b If not, what changes would you like to see considered?

Vero agrees with ICNZ's submission on this point.

Proposal for discussion

22 That the Act enable EQC to use other forms of risk transfer, in addition to traditional reinsurance.

What do you think?

22a Do you agree that the Act should enable EQC to use other forms of risk transfer, in addition to traditional reinsurance?

Vero agrees with the ICNZ submission on this point.

Do you have any other feedback?

Other feedback

23a Are there any issues not discussed in this document that you would like to bring to the Government's attention at this stage?

Vero supports ICNZ's submission on this point and, in particular, the issues raised under the subject of 'Technical Issues' on page 45 of the discussion document.

23b What submissions would you like to make on those issues?

Vero refers to ICNZ's submissions on this point.