



# PROSPERITY

## Country Presentation **New Zealand**

Property Catastrophe  
Insurance



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# Overview of the scheme

- Established in 1945, EQC (now Natural Hazards Commission (NHC)) was reformed in 1993 to focus solely on natural catastrophe insurance for residential property.
- NHC is a New Zealand (NZ) Crown Entity fully underwritten by a NZ Government Guarantee that provides home insurance to help communities get their lives back on track after an event.
- NHC provides “first loss” solidarity cover on residential dwellings and land per event against specific natural hazard perils. Building cover above the NHC cap is provided by the homeowner’s private insurer, as outlined in their policy.

## About the scheme



### Perils covered

- Earthquakes
- Landslides
- Volcanic activity
- Hydrothermal activity
- Tsunamis
- Storm or Flood (Land cover only)
- Fire caused by any natural hazards listed above.



### Level of coverage

- NHC is indemnity cover
- NHC provides cover for damage up to the cap of \$NZD 300,000 (+General Service Tax (GST)) for each natural disaster event
- NHC will pay the cost to repair the damaged land or the value of the land



### Households covered till date

- NHC Cover is provided when an annual Fire Insurance policy is purchased
- A fire and home policy is required to obtain a mortgage
- Premium is collected by the private Insurers on behalf of NHC
- 95% of households are covered with insurance



# Institutional Framework for Catastrophe Insurance

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## How is the program organized

- NHC oversees the private Insurers handling and settling of all claims in accordance with the NHC Act.
- NHC invests in research and the infrastructure to support research, hazard monitoring and modelling and recovery planning.
- EQC also supports the Government's fiscal position through its reinsurance programme.
- NHC undertakes the functions of Risk Financing, Fund and Investment management, Reinsurance, Premium setting, NHC Cover definition and product administration.

## Who are the stakeholders

- NHC is a Crown Entity with an independent Board and a Chair who reports to a Minister.
- NHC is responsible to Parliament for performance and produces a publicly available Annual Report.
- NHC is audited by both an independent auditor and the Auditor General.
- The Private Insurers are key stakeholders along with Reinsurers, Government Agencies (such a National Emergency Management Agency), Regulators, Data and Modelling entities, Local Government and the NZ Public.

## What is the implementation structure

- NHC operates under an Act of Government and has legislative obligations to Central Government through the Crown Entities Act.
- The Private Insurers handle and settle all claims on NHC's behalf through an Insurer Agency Framework Agreement.
- The Private Insurers through a Deed, act as an Agent of EQC.

# Issues, challenges and reflections

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## What are the key issues/ challenges faced in the design and development of the scheme?

- NHC Scheme required extensive collaborative engagement to design the complex integrated model across Central and Local Government and Private Insurers.
- Creating deep relationships with the Private Insurers and Reinsurance markets to ensure ongoing support.
- Recovery and Event management planning to ensure resources are available to run a rebuild programme and manage inflationary pressures.
- Investment in scientific Research and Loss Modelling – know your risk.
- Careful contingency management between EQC and the Government to ensure that the significant accumulated funds in the Natural Disaster Fund are maintained.
- Maintaining 95% Insurance Penetration.

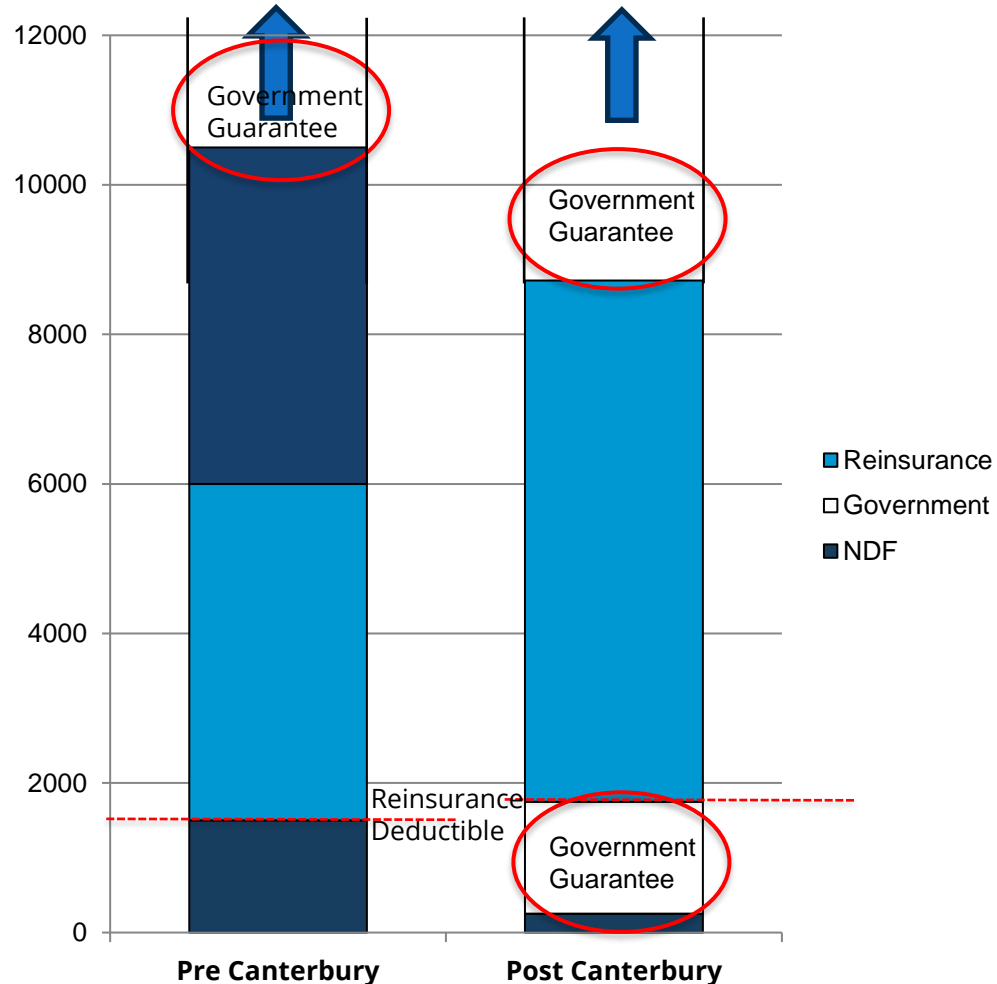
## Reflections on implementation, successes of the scheme

- Private insurers handle all claims to remove duplication and optimise available resources.
- In any Public Private Partnership (PPP) design the operating model first then build the commercial contract.
- Readiness planning and scenario testing should be undertaken jointly with key stakeholders annually.
- Implementation of shared Information and data systems are crucial to share premium and claims data and provide a single source for claim settlement progress and to support the building of resilience policies.
- Contingency plans in place to ensure assessor and construction resources, capability and capacity is available.
- Customers have access to a low cost, low stress dispute resolution service.

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# Critical role of government's support in PPIPs – Canterbury Earthquakes

EQC's Financial Position Pre and Post Canterbury



- NHC's risk financing strategy is aimed at ensuring there are sufficient assets to meet their financial liability in the event of a natural disaster.
- The Canterbury Earthquake sequence comprised of a 7.1 magnitude earthquake in September 2010, a 6.3 magnitude earthquake in February 2011, a 6.3 magnitude in June 2011 and 5.8 magnitude in December 2011. There were more than 11,200 aftershocks
- The earthquakes generated over 470,000 claims for NHC out of a total of 650,000 claims for the event.
- There was also a 7.8 magnitude earthquake in Kaikōura in November 2016 that generated a further 40,000 claims for EQC.
- There are four sources of finance for EQC which are:
  - Premium income from insured home-owners
  - Investment income for Natural Disaster Fund (NDF)
  - Reinsurance
  - The Crown guarantee
- The Canterbury and Kaikōura earthquakes exhausted the Natural Disaster Fund.