

08 MAY 2018



Rachael Harris  
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Dear Ms Harris

**Official Information Act 1982 Request – Apportionment Model Paper**

Thank you for your request for information received on 9 March 2018. You requested that the Earthquake Commission (EQC) make available to you the following information under the Official Information Act 1982:

*Please provide a copy of the discussion paper noted in [stuff.co.nz](http://stuff.co.nz) article 'Apportionment model debated' by Alan Wood published on 20 June 2012, which stated:*

*"EQC had a few weeks ago sent a discussion paper, to its reinsurers to help get them to agree to the 'model approach', EQC CEO Ian Simpson said".*

Please find enclosed the requested information.

This response completes your request for information. You have the right to ask the Ombudsman to investigate and review my decision. The Ombudsman can be contacted at PO Box 10 152, Wellington 6143, or on Freephone 0800 802 602, or at <http://www.ombudsman.parliament.nz>.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Renée Walker', is written over a circular blue stamp.

**Renée Walker**  
General Manager, Government Relations and Strategic Partnerships

**Building Apportionment team discussions**

Present the current apportionment process – any amendments

Details of the pilot

Statistics – how many building claims need apportioning, how many completed to date, timeframes/targets for all claims to be apportioned [subject to no further events]

Is it a robust process, or subjective?

Are there any issues resulting from implementation of the process? How are you overcoming them?

Discussions with insurers – differences / resolutions

What is the variance that is within range?

There are reports in the press stating there are differences, but dialogue & joint assessments are taking place for resolution – how many claims are we talking about?

How are payments allocated to events?

How are estimates allocated to events?

Auditors will want to see some claim files which have been apportioned. Can we produce a list of about 50 claims where the process is complete? They can then be reviewed during the “claim file review” part of the audit.

Details provided to Reinsurers in the January Loss Update:

### **Apportionment of Building Damage**

Apportionment of repair cost estimates: The Canterbury earthquakes have created a unique situation where, for the first time EQC has been tested with a sequence of events in the same area. A large proportion of buildings suffered damage caused by multiple earthquake events, and in most cases homeowners lodged a separate claim with EQC each time their building suffered damage. The volume of claims received, disruption to the assessment process by further events and the involvement of private insurers on larger claims has meant a robust methodology of apportioning the damage to each event had to be established by EQC.

In early December 2011, EQC began a large project to apportion damage across all events. EQC also plan to retrospectively apportion claims that were paid prior to December.

Building damage will be apportioned:

- across all events (not just the major events)
- to events even where the claimant has not lodged a claim but there is evidence that damage was caused. This will not be recoverable.

The apportionment of repair cost estimates is currently a manual process, involving a review of available sources of information on damage to the building. The priority source of information used by EQC to determine apportionment is the EQC Full Assessment reports. Every household property with a claim has had a full assessment post June 2011. In many instances an assessment of damage exists from multiple events. In some cases a property has been assessed after each event.

Secondary sources of information that will be considered in the apportionment decision are:

- Insurer Full Assessment reports
- Statistical sample of apportioned claims
- Claimants report of the pattern of damage and lodgement behaviour
- EQC Rapid Assessment report
- Preliminary and Elemental Private Insurer Assessment reports
- Neighbouring dwellings damage information
- EQC Geotech Land Assessment report

While in the majority of cases, full assessments have been loaded into ClaimsCentre against the latest claim lodged by the claimant, there is a significant workload for EQC to clean loss data with absolute apportionment of damage between all relevant events. The pilot project for apportionment showed the manual review could take up to 2 hours per claim and EQC are currently working on the expected to complete all settlements to date.

EQC has commenced discussions with private insurers around developing a statistically-based apportionment tool to support the manual process. The model would consider a property's locations, land damage, dwelling attributes (such as foundation and cladding materials) and claim pattern to derive a typical apportionment pattern for that property. This would allow faster claim processing, which in turn would allow claim settlement and repairs to occur earlier, and would provide an earlier view of the total damage across all properties for each event. EQC intends to present details of the apportionment tool to reinsurers once the concept has been more fully defined, and before any decision is made to develop and implement the tool.

Actuarial Cost Forecasts: EQC's actuaries are currently updating the Insurance Liability Valuation using a statistically chosen sample of properties which are being apportioned using the apportionment model approved by EQC on 5 December 2011. This is expected to improve the accuracy of total costs per event.

Apportionment of Payments: All payments have been apportioned. Apportionments conducted before the 5 December 2011 were completed before EQC had an approved apportionment process. Therefore, some claim payments may need to be reviewed to confirm that the allocation of costs per event is accurate. One of the objectives of the project is to review and ensure accurate apportionment of the payments that have been made.

As at 12 January 2012, EQC have completed apportionments of 43,000 building repair estimates, and we estimate there are some 120,000 buildings which have suffered damage from multiple events.