

EARTHQUAKE INSURANCE

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Property owners in New Zealand obtain indemnity against loss or damage occurring as a direct result of earthquake shock or earthquake fire under a compulsory extension to a contract of fire insurance. A special earthquake and war damage premium is levied under fire insurance contracts made in New Zealand and is paid by the insurer into a fund which is administered by the Commission under the Earthquake and War Damage Act 1944.

During the Second World War, when Government had to face the prospect of private property in New Zealand being damaged as a result of hostilities, a War Damage Fund was set up with a compulsory war damage premium levied on contracts of fire insurance. As the threat of war damage in New Zealand diminished the assets of the War Damage Fund, which had grown to some 8 Million Dollars, formed the nucleus of the Earthquake and War Damage Fund when the Earthquake and War Damage Act was introduced in 1944. An earthquake and war damage premium of 5 cents for every \$100 of fire insurance cover, has been levied over the past 24 years and notwithstanding that one-tenth of this compulsory premium was subsequently diverted to an extraordinary disaster account within the Earthquake and War Damage Fund, as at the 31st March 1968, more than 101 Million Dollars was available to property owners in New Zealand for earthquake damage to insured property.

Up to the time of the Inangahua earthquake on the 24th May 1968, 11,491 earthquake claims had been made on the Commission since the earthquake fund came into existence in 1944. A little over 1 Million Dollars has been paid out of the fund in settlement of these claims at an average cost of \$89 per claim. Although the advantage of some form of earthquake insurance is evident, it is perhaps fortunate that during this period only three shocks of any real damaging consequence were recorded, namely the Westport earthquake on the 10th May 1962 of magnitude 5.9, the Gisborne earthquake on the 5th March 1966, magnitude 6.2 and the Seddon earthquake on the 23rd April 1966 with a shock of magnitude 6. Nearly 6000 claims were recorded for these three events and \$684,000 was paid from the fund in settlement of these claims.

The Inangahua earthquake created a special problem for the Commission. At the time of this earthquake, the Commission was already involved in processing and investigating some 10,000 claims which had been made under the extraordinary disaster provisions of the Act, following cyclonic storms which devastated many parts of New Zealand only six weeks earlier. For investigation and adjustment of the losses, the Commission, along with the Insurance Industry must rely on the services of Insurance Assessors. Every available Assessor within New Zealand was at that time heavily committed in assessing storm damage claims.

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First news of the earthquake received by the Commission came through a national news broadcast and although information available from subsequent enquiries was fragmentary, it was evident that a shock of some magnitude had hit the West Coast and steps were immediately taken by the Commission to have staff, engineers and assessors on standby, ready to be flown into the area as soon as possible. By mid-day on the 24th May 1968, assessors and engineers were already surveying the West Coast and offices had been set up in Greymouth and Westport for the receiving and recording of claims and the distribution of these claims to assessors. Assessors were allotted specific areas in which to operate and completed assessments were forwarded to the Commission daily for processing and settlement. The Commission's field supervision was controlled by Dr. B.H. Falconer who also made engineers available to assessors in the various areas, as required.

More than 10,000 claims have been lodged with the Commission as a result of the Inangahua earthquake and the many after-shocks. The cost of these claims to the Commission has been tentatively estimated at \$2.5 Million and although this particular earthquake has produced nearly as many earthquake claims as had been recorded over the previous 24 years since the fund came into existence, the overall cost will barely exceed 50% of the current year's earthquake premium with an average cost per claim of approximately \$250.

To facilitate processing, the Commission claims are completed in triplicate and the only information required from a claimant is the name of the owner of the property, the situation of the property, brief details of the damage and details of the fire insurance cover on the property. The offices set up on the West Coast for the receiving of Commission claims allotted a claim reference number to each claim, forwarded the original of the claim to the Commission's office in Wellington and passed the duplicate to the assessor so that he could report direct to the Commission. The triplicate was forwarded to the Insurance Company concerned with instructions that insurance details be forwarded to the Commission. This greatly reduced the work in processing claims and speeded up claim settlements. However, it was frequently found that information supplied by claimants was inadequate and considerable difficulty was experienced in confirming insurance details under many claims.

At the time of the Inangahua earthquake, New Zealand, and in particular the West Coast, was suffering an economic recess and many repairers were not in a position to carry book debts. In consequence repairers required settlement for repair work as soon as work was completed. Many claimants were financially unable to pay repairers until such time as settlement monies were available from the Commission. To overcome this, settlements were made on an assessed estimate of the cost of repairs and where the actual cost of earthquake repairs did in fact exceed the settlement made, a further payment was frequently necessary. However, in some cases it was found that all earthquake repair work was not being carried out, with the possibility that some, if not all of the settlement monies being used for other purposes. However, mortgagees were protected inasmuch that settlements in respect of encumbered property were paid direct to the mortgagee to be held until the mortgagee was satisfied that all necessary repairs had been carried out.

Under the Earthquake and War Damage Act, the Commission's liability is limited to the amount of cover under the contract of fire insurance, providing the property is not over insured. Where the pre-earthquake indemnity value of the property is less than the fire insurance cover, the Commission's liability is limited to the indemnity value. Some cases have occurred, especially at Inangahua Junction, where the cost of reinstatement would exceed the Commission's liability under the Act, and in these cases the owner of the property has had to meet the uninsured portion of his loss. Other property owners have suffered damage to property which is uninsured, but no financial assistance is available from the Commission for damage to uninsured property.

The damaging effect of this earthquake was mainly confined to the West Coast, but approximately 20% of the claims recorded by the Commission were for damage to property outside this area. Property in close proximity to the epicentre suffered more extensively and the average cost per claim in the Inangahua/Reefton area, which is mainly residential and farming, is estimated at \$550, more than double the overall average for all claims received as a result of this earthquake.

The following area breakdown of claims reflects population density only and does not give an indication of the damaging effect in each area -

Inangahua/Reefton Area	750
Westport and North of Westport	2250
Greymouth and environs, including Coastal strip	4250
Hokitika and environs	750
Nelson/Murchison	900
Christchurch	1100
Total Claims :	<u>10000</u>

Assessors did report some difficulty in isolating earthquake damage from pre-existing damage and delayed maintenance on many West Coast properties. Some reports further indicated the inadequacy of repairs carried out following damage from earlier earthquakes and suggest some measure of greater control by local authorities in reinstatement of property following earthquake damage.