2016 KAIKŌURA/HURUNUI EARTHQUAKE CLAIMS SETTLEMENT RESEARCH:

Key principles and considerations for residential claims settlement following future events

DISCUSSION PAPER

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2016 Kaikōura/Hurunui earthquake claims settlement research
Summary of research stages

Full references and weblinks to these reports can be found in Section 6.

REPORT TITLE	SUMMARY
Understanding the Outcomes of Managed Residential Repair Following the Canterbury Earthquakes (*Literature Review Report*)	This report summarises the outcomes, challenges, and benefits of the managed repair process following the Canterbury earthquakes of 2010/11, as a basis for informing broader considerations of appropriate insurance settlement models in future large-scale disasters and supporting research method design.
Evaluating the Impacts of Cash Settlements on the Long-Term Quality of the Housing Stock (*Housing Quality Report*)	This report investigates the impacts of cash settlement of insurance claims following the 2016 Kaikōura/Hurunui earthquake. In particular, the report focuses on the impact on the long-term quality of housing. The research draws on insurance claims data, building consent data, real estate data, and results from a 2022 claimant survey carried out by the research team. The analysis in this report focuses on the most significantly impacted districts of Kaikōura, Hurunui and Marlborough.
Claimant and Community Experiences and Impacts from the Kaikōura/Hurunui Earthquake Residential Repair Process (*Impacts Report*)	This report builds on this previous work by exploring the wider impacts of cash settlement. It looks at the process of cash settlement from multiple stakeholder perspectives (claimants, builders, professional services, building control authorities, insurers (including assessors), and real estate agents). The analysis is based on a series of interviews with key stakeholders and is complemented by results from a 2022 claimant survey carried out by the research team. The analysis explores issues such as timeliness of repair works, cost, claimant experience (including impacts on claimant wellbeing) and property transactions.
Key Principles and Considerations for Future Residential Recovery (*Discussion Paper*)	This discussion paper outlines key principles and considerations to inform decision-making for future residential recovery strategies. This draws on findings from previous reports and evaluates the advantages and disadvantages of cash settlement following a major disaster. The features and attributes that underpin an effective residential claim settlement approach are suggested, acknowledging the spectrum of approaches from claimant-led to third party-led. Key factors for early-stage decision-making as to the optimum claims settlement approach for a given event are also proposed.

CONTENTS

1.0 INTRODUCTION

In New Zealand, damage to residential dwellings and land from natural hazards is covered by a combination of private insurance and the state insurance entity, Toka Tū Ake EQC (Earthquake Commission). The currently preferred method of Toka Tū Ake EQC and private insurers for resolving residential insurance claims following an event is through cash settlement. There is however some uncertainty over the extent to which cash-settling insurance claims could lead to poor outcomes for housing quality due to the reliance on property owners to manage and ensure repairs are completed. In addition, there may be other impacts of cash-settlement that should be considered, such as negative impacts on claimant wellbeing.

The Public Inquiry into Toka Tū Ake EQC (referred to hereafter as the Public Inquiry) was tasked with investigating and reporting lessons from the entity's operational practices, past claim settlement approaches, and to "make recommendations to improve the Commission's readiness to respond to future events".[1] Within the report's recommendations relating to the process for settling claims, two related to research on the impact of cash settlement of insurance claims:

> ***[5.1.3]*** *Conduct a detailed assessment of the impacts of cash settlement of claims in the example of the Kaikōura/Hurunui earthquake, including the longer-term impact on quality of the housing stock.*
>
> ***[5.1.4]*** *Incorporate the findings of the detailed assessment of cash settlement for the Kaikōura/ Hurunui earthquake into a larger and ongoing study that tests the advantages and disadvantages of cash settlement, the results of which could be drawn on when deciding the best response to future natural disaster events.*

In 2020 Toka Tū Ake EQC commissioned research to address Recommendation 5.13. and contribute toward Recommendation 5.1. The overall project aims to understand the impacts of applying a cash settlement model following the 2016 Kaikōura/Hurunui earthquake, with particular consideration to the long-term quality of housing stock; and provide lessons for residential recovery following future events in Aotearoa New Zealand. Preceding phases of this research project focused on Recommendation 5.1.3, and are summarised in the *Literature Review Report*, *Housing Quality Report*, and *Impacts Report*, as summarised in the Table on page ii.[2] This discussion paper provides input to assist others in the response to Public Inquiry recommendation 5.1.4.

This discussion paper draws upon the reports from the preceding phases of this research project and highlights the features and attributes underpinning an effective residential claims settlement approach, irrespective of where the approach adopted sits on the spectrum from claimant led to third-party led repairs. The capability elements that are considered to be required for the effective execution of the house repair and reconstruction component of the residential recovery are outlined. The advantages and disadvantages of cash insurance settlement following a major disaster are discussed. A framework for early-stage decision-making as to the optimum claims settlement approach for a given event is then proposed for further consideration.

[1] Public Inquiry into the Earthquake Commission. (2020). Report of the Public Inquiry into the Earthquake Commission.
[2] References to these reports can be found in Section 6

2.0 UNDERPINNING COMPONENTS OF RESIDENTIAL REPAIR AND REBUILD PROCESSES

2.1 KEY FEATURES

In order to support quality outcomes for housing and the wellbeing of claimants, there are key features that should be common to claims settlement and subsequent repair processes. These are considered applicable regardless of the primary insurance settlement method (cash settlement or managed repair, or a combination of both).

The following list of key features is taken primarily from the *Impacts Report* and is based on a survey of claimants following the 2016 Kaikōura Earthquake and interviews of claimants and key stakeholders involved in the residential recovery process:

- Choice/autonomy/control/active participation for homeowners.
- Quality repair scopes/assessments (including clear point of contact) and access to (or funds to facilitate) an independent check.
- Capacity to come back where additional damage is discovered (with clear expectations of when repairs need to be completed by i.e. what is reasonable given context of the event).
- Clear information on potential consequence of inadequate repairs (future insurability, property sales, risk for damage in future events).
- Access to support persons and information on process (potentially also providing assurances on quality of tradespeople).
- Clear information on building consent requirements specific to earthquake repairs.
- Clear expectations on likely recovery timeframes.
- Quality checks on completed repairs.

It is understood that these points will also have been addressed under Public Inquiry Recommendation 2.1 Treatment of People:

> *Claimants should be dealt with respectfully, fairly and professionally and with a sensitivity to the post-disaster pressures they might be facing. EQC's operational policies must put the needs of claimants first and at the centre of what it does and ensure people get what they are entitled to.*

These key features can be distilled into the following important attributes of a claims settlement approach to repair and rebuild damaged residential property:

1. Process visibility that enables claimants to be able to understand and navigate the process, including roles and responsibilities and access to relevant information.
2. Damage assessments that are adequately detailed from the outset.
3. Ensuring claimants have some degree of control, choice and autonomy over decision-making.
4. Effective quality assurance processes to reduce potential for long-term housing quality issues.

2.2 OVERSIGHT AND CO-ORDINATION

The first of the attributes in the previous section relating to visibility over the residential claims process highlights the importance of having structured oversight and appropriate co-ordination and communication of the residential claims process. The ability to inform community groups on how the process and various sub-steps are intended to operate – particularly in relation to quality assurance processes - and the options for homeowners is seen as a key aspect of residential claims settlement processes generally.

Having the involvement of homeowner representation in an oversight group established early in the recovery process is another important element. Establishing appropriate homeowner representation in events that affect multiple communities is however challenging, and requires specific consideration.

An associated element includes providing access for claimants to timely claims resolution services. A linkage with the new National Claims Resolution Service should be therefore established from the outset of future events. This service is relevant to either or any mode of claim settlement. While claims resolution services were not available in the early stages of the Canterbury Earthquakes, the Greater Christchurch Claims Resolution Service (GCCRS) has been effectively involved in recent major weather events.

Collectively the attributes in the previous section point to the need for an active feedback loop to be established to identify any common process issues as they unfold. The development of a more collective repair monitoring process requires the establishment of agreed process markers.

2.3 CAPABILITY ELEMENTS

The capability elements required for the effective execution of the house repair and reconstruction component of the residential recovery are:

- Claims management (incl. loss adjusting)
- Repair scoping and engineering assessment
- Costing and repair scoping
- Consent navigation and processing
- Construction sector capacity and capability

It is noted that these elements must be present for both cash settlement and managed repair (or any combination). Under a managed repair programme, the party managing the repair/rebuild work has the primary need to access these capability sets. Under cash settlements, the homeowners must have access to these capabilities.

For each of these areas of capability, there is the corresponding issue of capacity. How the consequences of lack of capacity in any of these areas plays out needs to be evaluated on an event-specific basis for the different claims settlement models.

The core sectors associated with the above capability elements need to have an event induction and background training in earthquake damage assessment and repair, including the key regulatory aspects of responding to natural disaster damage. This also highlights the merits of establishing a key stakeholder group, including local government, and prior relationships with the lead organisations for each sector.

For some, this should form part of general professional training (notably loss adjusters and engineers); for all sectors this will require specific post-event induction. This 'induction' should form part of the process oversight referred to above.

3.0 CLAIMS SETTLEMENT PROCESS OPTIONS

3.1 MANAGED REPAIRS VS CASH SETTLEMENT?

For many, discussion of a managed repair programme initiates memories of the model used following the Canterbury earthquakes. We note however that there are many potential options for managed repairs that do not necessarily imply a replica of Canterbury earthquake model (i.e. insurer-led). For instance, a managed repair programme could be led by a government agency or a private-public partnership. Additionally, there are different aspects of a managed repair programme that could be implemented as part of the spectrum of options. This could include having pre-approved contractors with the capability to manage the whole repair process, or a project management organisation that manages certain aspects (such as interactions with contractors, insurers and councils) with homeowner involvement, or a full managed repair programme led by a single organisation.

Many options therefore exist for how a managed repair programme could be configured, and the model adopted for a particular event will depend on some of the factors discussed below.

Additionally, our research highlighted that it is not necessarily a binary decision requiring either cash settlement or managed repair as the delivery model. A number of interviewees and survey respondents reflected on the value of choice: simply having the ability to decide the process for completing their repairs, whether self-managed or through a third party, would be valuable.

It is important to identify where the responsibility for decision making on cash settlement or managed repairs sits. Insurance policies may dictate certain outcomes, so it may be that a managed repair programme could follow the insurer's cash settlement of claims.

The process implications of the recent increase in the Toka Tū Ake EQC cap to $300,000 also needs to be considered further.

3.2 ADVANTAGES AND DISADVANTAGES OF CASH SETTLEMENT

There are particular advantages of cash settlement, which include:

- Cash settlement provides the homeowner with autonomy and choice on when, how and who carries out repair work. Interview and survey findings indicated that homeowners generally valued the ability to choose the timing of their repairs, select the building contractor, or carry out parts of the work themselves.
- Cash settlement also generally enables faster and more efficient settlement of insurance claims. Where the insurer's role is focussed on claims processing, damage assessment, repair scoping and costing, and claim settlement, it enables efficient and timely settlement of claims.

The disadvantages associated with cash settlement include:

- It relies on the homeowner to manage their own repairs. For homeowners unfamiliar with the construction industry, this requires a heavy reliance on certain parties for the quality of the outcome. In some cases, the repair work may be complex and involve a number of trades and professions. This can potentially result in poor quality and can be stressful for claimants to manage.
- Whilst not observed following the Kaikōura event, cash settlement potentially subjects homeowners to inflated costs due to the high demand for materials, repair contractors or other professions (such as engineering). Unless there are provisions in place to claim top-ups, this can lead to incomplete or inadequately completed repairs and is a particular risk where contracting resourcing is limited and repair timeframes are lengthy.
- It does not provide any overall visibility on whether housing has been repaired, unless specific reporting provisions are put in place.

Those particularly at risk in a cash settlement model are homeowners that could unknowingly undertake sub-standard repairs and/or be significantly negatively impacted by the insurance settlement and repair process. Whether this is a widespread risk or not is dependent on a number of factors, discussed in the following sections. Subsequently, future owners could be at risk from poorly repaired houses, including risk of damage in future events.

As a result of cash settlement providing homeowners choice, there will always be individuals that choose not to repair their properties. One of the challenges of a cash settlement approach is that these properties are not readily identifiable, both at a portfolio level, and at an individual house level.

3.3 FACTORS INFLUENCING THE NEED FOR A MORE ACTIVELY CO-ORDINATED APPROACH

There are various factors that might influence the need for a more actively co-ordinated repair process following future events. This could be due to geography or construction industry constraints, or that due to community demographics there could be a greater demand for managed repair services by claimants.

Relevant factors include:

- Extent of damage (i.e. number of properties, geographical spread of damage)
- Density of damage (e.g. urban areas, potential for cross boundary issues)
- Vulnerability of population/confidence and capability to manage repairs including understanding damage and quality of repairs
- Complexity of damage (e.g. repair options, technical skill required for assessment and repairs, need for consents (an opportunity for group consents/exempt work packages))
- Availability/capacity of local workforce (those trusted by community and have vested interest in quality – more applicable for smaller communities)

4.0 DECISION CRITERIA

Cash settlement and managed repair sit on a continuum of approaches to residential recovery - from claimant-let to third-party led. A more co-ordinated and managed approach is likely to be required when certain conditions are in place that may impact on housing quality and claimant wellbeing.

As part of the early consideration of the primary claims settlement mode following future events, a list of key criteria to support decision-making is suggested in Table 2 below. This includes key criteria that need to be weighed up based on the immediately available information and modelling as part of considering cash settlement vs managed repair as the primary settlement modes.

Where the combination of these factors suggest that there is a high likelihood of widespread negative outcomes for cash settled homeowners tasked with managing their own repair work, a managed repair programme is likely to be required.

Table 2: Possible Framework for Claims Settlement Approach Decision-making

CRITERIA	FACTORS	PARAMETERS
1. Scale of the Event and Nature of Communities Impacted	Numbers of houses impacted (Claims)	• Numbers of people impacted • Total value of claims
	Geographical spread of houses impacted	• Access to contractors • Number of Building Control Authorities involved
	Urban centres vs rural relativity	• Numbers of multi-unit buildings and apartments
	Cross-boundary issues	• Land movement
	Community characteristics, Vulnerability of populations	• Either displaces people or creates health issues • Number of people requiring support for repairs
2. Complexity of Damage	Ages and types of houses most affected	• Complexity of repairs
	Superstructure type	
	Foundation form	
	Nature and extent of land damage	
	Linkages with available technical guidance	
3. Current Construction Market Characteristics	Capacity: Relativity of repair workload to construction sector base workload	• Market capacity to deliver the required repair work
	Capability of market-engineering, construction	• Related to complexity of repairs- does the market have the requisite skills?

5.0 SUMMARY

The important attributes of a claims settlement approach to the repair and rebuilding of damaged residential property are common to both cash settlement and managed repair, and are as follows:

- Process visibility that enables claimants to be able to understand and navigate the process, including roles and responsibilities and access to relevant information.
- Damage assessments adequately detailed from the outset.
- Ensuring claimants have some degree of control, choice and autonomy over decision-making.
- Effective Quality Assurance processes to reduce potential long-term housing quality issues.

There are particular advantages of cash settlement, most notably autonomy and choice on when, how and who carries out repair work. There are however corresponding disadvantages, including requiring homeowners unfamiliar with the construction industry to organise a number of trades and professions.

The factors that influence the need for a more targeted managed repair process in certain geographic areas or community demographics include:

- Extent of damage (i.e. number of properties, geographical spread of damage)
- Density of damage (e.g. urban areas, potential for cross boundary issues)
- Vulnerability of population/confidence and capability to manage repairs including understanding damage and quality of repairs
- Complexity of damage (e.g. repair options, technical skill required for assessment and repairs, need for building consents (an opportunity for group consents/exempt work packages))
- Availability/capacity of local workforce (those trusted by community and have vested interest in quality – more applicable for smaller communities)

Where the combination of these factors above suggest that there is a high likelihood of widespread negative outcomes for cash settled homeowners tasked with managing their own repair work, a managed repair programme is more likely to be required.

6.0 PROJECT REPORT REFERENCES

Research reports

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