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# 2016 KAIKŌURA/HURUNUI EARTHQUAKE CLAIMS SETTLEMENT RESEARCH

## PROJECT SUMMARY REPORT

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May 2023

Resilient  
ORGANISATIONS 

 *kestrel*  
group

  
Tonkin+Taylor

  
Infometrics

Funded by  
Toka Tū Ake 

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# RESEARCH HIGHLIGHTS

This Toka Tū Ake EQC funded research project aimed 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. Claims and consent data analysis, a claimant survey and stakeholder interviews provide some key lessons.



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# 1.0 INTRODUCTION

## 1.1 Background

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). Following on from the challenges experienced during the residential recovery after the Canterbury earthquakes, 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. In addition, there may be other impacts of cash settlement that should be considered, such as impacts on claimant wellbeing.

The Public Inquiry into Toka Tū Ake EQC<sup>1</sup> (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". Within the report's recommendations relating to the process for settling claims, two related to research on the impact of cash settlements 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 December 2021, Toka Tū Ake EQC engaged Tonkin + Taylor, Resilient Organisations, Kestrel Group and Infometrics to help address these recommendations. The research programme specifically addressed Recommendation 5.1.3, and also provided an evidence base to support subsequent work to address Recommendation 5.1.4. While the research focused on analysis of the Kaikōura/Hurunui earthquake, background knowledge and experience from the insurance residential recovery process following the Canterbury earthquakes, were utilised to ensure the implication of findings from this research could be interpreted within a wider context.

The approach taken by the research team involved looking holistically at the post-disaster residential repair process and outcomes in order to inform best practice approaches to residential recovery in future events. This included a detailed assessment of the impact of cash settlement on housing quality as well as impacts on mental health, and contextual factors such as building sector capacity, and community capacity and capability.

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<sup>1</sup> Public Inquiry into the Earthquake Commission. (2020). Report of the Public Inquiry into the Earthquake Commission.

## 1.2 Scope

The research sought to address the following:

- The nature of damage and claim values of housing impacted by the Kaikōura/Hurunui earthquake.
- The resulting quality of housing following the cash settlement of claims from the Kaikōura/Hurunui earthquake.
- The key experiences and issues in the Kaikōura/Hurunui earthquake cash settlement process, including ability to find suitably qualified repairers, standard of repair, information availability, changes in repairs cost, sale and purchase of property, consenting and building compliance, claimant experience, and ongoing insurance cover.
- Implications for the application of cash settlement following future disaster events.

The research was undertaken during the period December 2021 to December 2022.

This report summarises the key findings from the research and provides an overall perspective on residential claims settlement processes.

## 1.3 Research team

The research was undertaken collaboratively by Resilient Organisations, Tonkin & Taylor, Kestrel Group and Infometrics.

The research team comprised the following people:

- Charlotte Brown, Resilient Organisations Ltd (Project Lead)
- Dave Brunson, Kestrel Group Ltd (Project Director)
- Eric Bird, Tonkin & Taylor Ltd
- Sophie Horsfall, Resilient Organisations Ltd
- Cameron Eade, Resilient Organisations Ltd
- Nick Brunson, Infometrics

The research team was supported by a Project Steering Group, comprising:

- Natalie Balfour (Toka Tū Ake EQC) (Chair)
- Andrea Gluyas (Toka Tū Ake EQC)
- Danijela Tavich, Siobhan Duncan and Steve Cantwell (Treasury)
- Darren Wright (Greater Christchurch Claims Resolution Service)
- Sarah Beaven (University of Canterbury)
- Ross Barnes (Hurunui District Council)
- Dan Beilski (Insurance Australia Group)
- Tony Colquhoun (Vero)

The Steering Group met online on five occasions during the course of this project and steering group members provided feedback on research method, analysis and reporting.

## 1.4 Research outputs

The research work was undertaken in progressive stages, involving a literature review, claimant survey, analysis of claim and consent data, and sector-based interviews.

The key stages and corresponding output report titles are summarised below:

- Understanding the Outcomes of Managed Residential Repair Following the Canterbury Earthquakes (*Literature Review*)
- Evaluating the Impacts of Cash Settlements on the Long-Term Quality of the Housing Stock (*Housing Quality Report*)
- Claimant and Community Experiences and Impacts from the Kaikōura/Hurunui Earthquake Residential Repair Process (*Impacts Report*)
- Key Principles and Considerations for Future Residential Recovery (*Discussion Paper*)

The scope of each of these reports is provided in Table 1 following. This report represents a summary of the key findings from the four stages of the project.

This report provides a brief overview of the research methodology (Section 2.0) and draws the overall findings from the research into a summary of key findings (Section 3.0).

The full references to these reports are provided in Section 5.0.

Table 1: Key stages of project and project outputs

TITLE	SUMMARY
<b>Understanding the Outcomes of Managed Residential Repair Following the Canterbury Earthquakes</b> ( <a href="#"><i>Literature Review Report</i></a> )	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.
<b>Evaluating the Impacts of Cash Settlements on the Long-Term Quality of the Housing Stock</b> ( <a href="#"><i>Housing Quality Report</i></a> )	<p>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.</p> <p>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.</p>

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**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.

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**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.

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## 1.5 Ethics and information confidentiality

Given the sensitivity of the information collected during this project, specific steps were taken to ensure ethical standards were met and that confidential information was protected at all times.

The key aspects of this included:

- A review of the project ethics was jointly conducted by the research team and their external reviewer Will Allen and Associates.
- The research was carried out in accordance with the Royal Society Code of Professional Standards and Ethics, Te Ara Tika Guidelines for Māori Research Ethics, and the Ethical Guidelines for Post-disaster Research.
- Particular care was taken with confidential information ensuring that relevant data security standards were met.



## 2.0 RESEARCH METHODOLOGY

This section summarises the methodology adopted for the research programme. Further information on the research methodology within each stage is provided within the reports listed in the previous section (see Section 5.0 for full list of references).

### 2.1 Desktop review of residential recovery following the Canterbury earthquake

A desktop review of the Canterbury earthquakes residential repair process was undertaken using secondary data sources, such as Residential Advisory Service reports, CERA wellbeing survey results, Greater Christchurch Claims Resolutions Services data, and Toka Tū Ake EQC Briefing Documents to the Public Enquiry.<sup>2</sup> The qualitative review focused on the impacts of the insurance settlement process, including impacts on housing quality, claimant wellbeing, building sector response, and resale implications (including As-Is-Where-Is sales). Published information on the proportion of repair and rebuild work that was managed by insurers or cash settled by insurers was also reviewed and summarised.

Carrying out this review at the inception of the project supported project design and ensured that the survey and interview questions captured the experiences from the Kaikōura/Hurunui event in a way that would enable some degree of comparison with past events, such as the Canterbury earthquakes, and provide meaning for future events.

This phase of the research is reported in the [Literature Review Report](#).

### 2.2 Claim and consent data analysis

This phase involved the collation of insurance claim information, namely Toka Tū Ake EQC claims data, from the 2016 Kaikōura/Hurunui earthquake. This was matched with national building information datasets. Private insurer settlement data and damage/scope assessments were not able to be provided to the research team. This introduced some limitations to our analysis with respect to claims with an over-cap settlement value (over the Toka Tū Ake EQC cover of \$115,000).

Using Toka Tū Ake EQC claims data from the Kaikōura/Hurunui earthquake, housing damage was divided into different damage categories based on claim settlement values, in order to target the subsequent phases of information gathering.

Toka Tū Ake EQC claims data showed the majority of significant damage to houses in the Kaikōura/Hurunui earthquake occurred in the Hurunui, Kaikōura, and Marlborough districts. As such, we obtained relevant building consent and consent exemption data for earthquake repairs from these three district councils.

The building consent data was matched with the claims data to provide an indication of the number of claims where a consent or consent exemption was granted. For properties where a consent was granted,

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<sup>2</sup> Refer to reference list in the [Literature Review Report](#).

this also enabled a comparison of claim settlement value with consented works value to provide an approximate indication of whether the full insurance scope was carried out.

Findings from this analysis can primarily be found in the [Housing Quality Report](#) and supplementary data report [Claims and Consent Data Report for 2016 Kaikōura/Hurunui Earthquake Claims Settlement Research](#).

## 2.3 'As is where is' real estate sales analysis following Kaikōura earthquakes

This phase involved procuring real estate sales data from CoreLogic. Properties sold as-is-where-is (AIWI) in Hurunui, Kaikōura, and Marlborough districts between 2016 to 2021 were identified using the keywords 'as is where is' or 'uninsured' among residential properties listed for sale on Trade Me. This data was processed and analysed to produce a list of dwellings which were likely to have been sold with earthquake damage. Historic sales data were analysed to contextualise the sale of earthquake damaged dwellings across the three districts, drawing upon a wider set of indicators such as sales volumes and prices from the Real Estate Institute of New Zealand (REINZ) and sales data following the Canterbury Earthquakes. The sales of earthquake damaged dwellings were then mapped to identify geographic patterns.

Findings from this analysis can primarily be found in the [Housing Quality Report](#) and the supplementary data report [Kaikōura earthquake as-is-where-is listings analysis for EQC Kaikōura claims settlement project](#).

## 2.4 Survey and interviews

To understand the impacts of cash settlement of insurance claims following the 2016 Kaikōura/Hurunui earthquake, a claimant survey and set of stakeholder interviews were carried out. These were designed to capture experiences during the claim and residential recovery process and to explore the contextual factors that contributed to these experiences. As well as enabling an evaluation of the recovery following the Kaikōura/Hurunui earthquake, this approach provided insight into how experiences might be interpreted and learnt from to inform residential repair processes following future major events.

### Survey

An online survey was developed by the research team to elicit claimants' experiences of the claims settlement and repair process, and the outcomes on housing quality. The survey explored whether repair/rebuild work was undertaken and when, claimants' perceptions of the repair/rebuild process, who undertook the repair/rebuild work, experiences with access to contractors and other building-related resources, house sale information, ongoing insurance implications, and impacts on claimant wellbeing.

The survey was sent to all claimants who lodged a claim through Toka Tū Ake EQC in the three months following the Kaikōura/Hurunui earthquake (13,715 claimants). For this report, only survey responses that indicated damaged property in Hurunui, Kaikōura, and Marlborough were included in this analysis (293 claimants). This enabled comparison with the consent and claims analysis. Responses constituted

5% of the total Toka Tū Ake EQC claims made for residential building damage in Kaikōura, Hurunui, and Marlborough (5,756 claims).<sup>3</sup>

Analysis of the survey data was undertaken in two parts. The first stage highlighted findings relating to housing quality. This was combined with analysis of claim and consent data and as-is-where-is real estate sales data, enabling a multi-perspective evaluation of the impacts of cash settlement on housing quality. These findings can be found in the [Housing Quality Report](#) and supplementary data report [2016 Kaikōura/Hurunui earthquake claims settlement research: Claimant Survey Analysis on Housing Quality](#).

The second stage further investigated other impacts of the cash settlement process, such as timeliness of repair works, cost, claimant experience (including impacts on claimant wellbeing) and property transactions. It also looked at the intention and rationale behind claimants' decisions to complete repairs or not. These results are found in the [Impacts Report](#).

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## Interviews

A series of interviews were undertaken with key stakeholders from the Hurunui, Kaikōura, and Marlborough districts to explore the wider experiences and impacts of cash settlement from the Kaikōura/Hurunui earthquake. The interviews predominantly sought to test and contextualise the survey findings with both claimants and wider stakeholders. Topics explored in the interviews included the assessment process, claim settlement, repair management and completion, cost of repairs, the claimant experience (including impacts on claimant wellbeing and satisfaction), and property transactions.

These results are found in the [Impacts Report](#).

A total of 27 interviews were completed with 28 people. While interviewees were predominantly claimants, representatives from the other stakeholder groups were also interviewed including insurers, insurance assessors, building control authorities, builders, architects, engineers, and real estate agents (see Table 2).

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<sup>3</sup> The margin of error for the survey results is 6%, with a confidence level of 95%.

Table 2: Interviewees by role in the claim and repair process, and sector

CATEGORY	SUB-CATEGORY	NUMBER INTERVIEWED
Claimant	<i>Claimant</i>	12
	<i>Claimant representative</i>	1
Homeowner Repairs	<i>Builder</i>	2
	<i>Architect</i>	1
Insurance Assessment	<i>Builder</i>	1
	<i>Engineer</i>	1
Building Control Authority		3
Insurer		5
Real Estate Agent		2

## 2.5 Implications for future earthquake recovery

Analysis and findings from the above-mentioned research stages were used to evaluate the advantages and disadvantages of cash settling insurance claims following a major disaster, and to develop key principles and considerations to inform decision-making for future residential repair strategies.

Key factors impacting the design of future claims settlement approaches were also developed and include the scale of event, nature of communities impacted, complexity of damage, and construction sector capacity and characteristics.

This work is reported in the [Discussion Paper](#).

## 3.0 SUMMARY OF KEY FINDINGS

### 3.1 Housing quality

Results from the claimant survey show that the majority of claimants (at least 85%) chose to repair or partly repair their property. Up to 15% of all insured properties affected may have gone unrepaired.<sup>4</sup> For those that did undertake repairs, approximately 42% opted to undertake work themselves or use friends and family. The potential range of skills and knowledge employed by those undertaking the repair works introduces potential questions around quality, which we were unable to measure.

The data suggests that while work was carried out on the majority of properties, a portion of properties carried out repair to structural damage without the necessary building consent. For large claims<sup>5</sup> (which are generally assumed to include structural repairs), the claims and consent data shows that the majority (between 72 and 81%) did not obtain a consent, however, this data includes those that chose to do no repair at all. The survey results show that 43% of large cash settled claims, where repair work was undertaken, did not obtain a consent. Both datasets indicate that approximately 10% of all insured and damaged properties in the study are either unrepaired or have non-consented structural repairs. Due to limitations in the data, there is uncertainty around the exact extent of this issue, however, it is evident that a number of properties likely had structural damage repaired without a consent. It is possible that some of the unconsented structural work was still done to a satisfactory quality by qualified professionals, but there is no data available to validate this making it a potential blind spot for housing quality. The research suggests a lack of clarity on building consent requirements, and varied interpretations across homeowners, insurance assessors, and the building profession, contributed to the low number of consents.

The vast majority of claimants (82%) indicated they were satisfied with the quality of their repairs at the time of completing the survey, compared with only 7% of claimants who indicated they were dissatisfied with the outcomes of their repairs. While the use of homeowner perception is often cited as a poor indicator of quality (in particular due to the inability of most homeowners to be able to identify issues that might affect the structural integrity of a building), there remains merit in allowing homeowners to self-define quality. More analysis is needed to understand how this dissatisfaction relates to objective quality measures but this is outside the scope of this research.

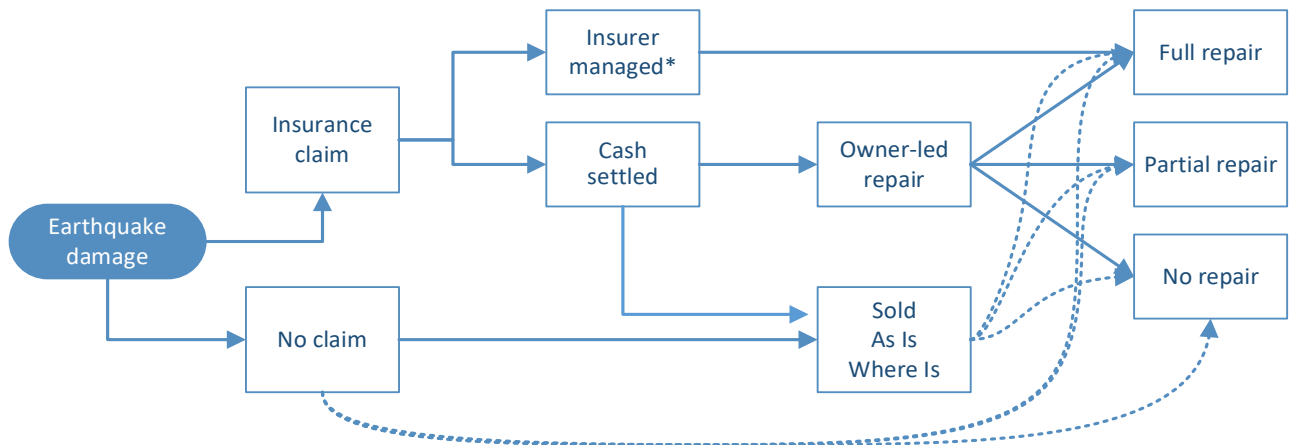
There are a number of aspects of housing quality that we were unable to measure. Figure 1 illustrates the possible pathways from an insurance claim to repairs and indicates where we currently do not have any data to evaluate the quality of outcomes. Areas of particular concern include the quality of workmanship used (particularly where claimants undertook work themselves), the degree of future insurability (based on insurance attrition and non-repaired or unsatisfactorily repaired properties), and the repair of on-sold properties (properties sold 'as-is-where-is'). Approximately 2% of unrepaired homes are estimated to have been sold *as-is-where-is across the three districts*, mostly in the Kaikōura district.

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<sup>4</sup> These results include both cash settled properties and properties that had their repairs managed by their insurer. Looking just at cash settled claimants this proportion increases to 17%. This figure includes the margin of error of 6%.

<sup>5</sup> Claims of more than \$100,000 in value were identified as large claims. Though not all large claims are assumed to include structural damage, the influence of this factor was tested by assessing claim and consent data against houses less than and greater than 200m<sup>2</sup>, which found very little variation in the proportion of earthquake-related consents for larger houses. See section 5.3 of the *Housing Quality Report*.

These results are further discussed in the [Housing Quality Report](#) and supplementary data reports.



\* carried out on a case-by-case basis by some insurers

Figure 1: Insurance settlement and repair flow. Dotted lines represent where data is unavailable in this analysis.

## 3.2 Claimant and community experiences

The interviews, and further claimant survey analysis, provided deeper insight into contributing factors of the housing quality impacts summarised above. They also provided insight into the wider impacts of the cash settlement process, such as impacts on claimant wellbeing.

The damage assessment process was consistently highlighted as a critical part of the repair process that, when done well, enabled quality repair outcomes, trust, and confidence in the process. The detail and accuracy of the damage assessments following the Kaikōura/Hurunui event varied considerably. 45% of surveyed claimants believed the repair scope of their initial insurance claim did not cover all earthquake damage, and 53% of those with insufficient settlements were unaware of their ability to re-open their claim and seek additional payment<sup>6</sup>. For some claimants, this meant full repairs were not completed.

The invasiveness of initial damage assessments depended on the nature of damage to the property. Generally, where there were provisions for claimants to re-open their claims in the event of subsequent damage discovery (typically under-cap claims), non-invasive assessments were favoured for expedience. While this enabled a quicker undertaking of assessments and appropriate use of resource, it was also confusing and at times frustrating for claimants. Some claimants were perplexed by the multiple and varied damage scopes received; they endured longer settlement times; and, for those either unaware or unable to re-open their claim and seek additional payment, they had insufficient funds to complete repairs.

Claimants without building experience indicated that they placed a high degree of trust in assessors to get the process right, and the quality of the initial assessment set the trajectory for their experience during the repair process. Some claimants accepted settlements without undertaking their own independent check on scope and value, whereas others would only accept settlements when they had

<sup>6</sup> All under-cap claimants are able to re-open their claim and seek additional payment. Over-cap claimants generally accept their claim as full and final. After the Kaikōura event, however, some insurers introduced discharge waivers to allow claimants to re-open their claim under certain circumstances. Of the 53% of survey participants that were unaware they could re-open their claim, all claimants were under-cap.

received an independent quote for building work. Requirements for quotes from builders created pressure on contractors and some builders started charging for quotes as a result. The quotation process delayed claim settlement process. In response some insurers introduced discharge waivers to enable settlement money to be paid to claimants sooner and with the confidence that discovery of additional damage would be covered.

For surveyed claimants that chose not to complete repairs (9% +/-6% of cash settled claimants), this decision was generally made for financial reasons (for example, claimants identified other financial priorities or had insufficient funds to complete all repairs), or because of a lack of access to tradespeople. Some claimants also decided to sell their property unrepaired, with key reasons being that the process was too challenging, a lack of confidence in their ability to repair/rebuilding, and/or a lack of energy to engage in such a process.

The availability of contractors/tradespeople was also cited as a challenge. In smaller communities, claimants tended to look for local contractors to undertake repair work as there was a heightened sense of familiarity and/or trust with someone who lived in their own community. This, in turn, contributed to longer wait times for repairs to be completed.

The insurance settlement and subsequent residential repair process also had an impact on claimant wellbeing. Over 70% of survey respondents indicated they experienced some form of stress as a result of the claim settlement and/or repair process, with over 30% indicating this had a moderate or major negative impact on their everyday life. Additionally, approximately 16-19% of survey respondents reported experiencing a moderate or major impact on their everyday life due to burnout, reduced energy levels, and other mental wellbeing impacts. While it is not possible to attribute these outcomes solely to the residential repair process, the survey results showed that those reporting challenges in engaging contractors were, statistically significantly, more likely to report having a major negative impact from stress. The time taken to undertake repairs was also a factor that impacted wellbeing.

Without wanting to draw direct comparisons between the two disasters, the wellbeing figures reported here are relatively similar to those reported by Canterbury Earthquake claimants through Canterbury Earthquake Recovery Authority (CERA) surveys conducted in the years following the earthquakes.<sup>7</sup> For example, claimants reporting continued negative moderate or major impacts on their everyday life as a result of dealing with property insurance issues ranged from 37% (in September 2012) to 8% (in September 2016). The data from the CERA surveys and the claimant survey conducted for this research demonstrates that the impact on wellbeing from a claim settlement and/or repair process following a disaster is significant, and is likely to affect a significant number of people no matter the event. That said, there remains an opportunity to design and refine residential recovery processes to reduce impacts on wellbeing.

Despite some of the negative reported wellbeing outcomes following the Kaikōura/Hurunui earthquake, claimants were generally satisfied with the quality of repairs and the time taken to undertake repairs (given the size of the event). Claimants also generally chose to continue their insurance cover, even if they indicated negative experiences dealing with their insurer or with the repair process. The positive sentiment toward the cash settlement model was reinforced when claimants were asked their preferred claim settlement approach following a future event: most (70%) indicated they would prefer to manage repairs themselves (through cash settlement), while the remainder (30%) indicated a preference for a third-party to manage repairs.

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<sup>7</sup> Canterbury District Health Board. (2016). Canterbury Wellbeing Survey 2016.

While house sales are not a stage of the repair process as such, it is nevertheless a key consideration that underpins the post-repair business-as-usual environment. This research has highlighted the importance of being able to demonstrate the effectiveness and completeness of repairs achieved in support of the ongoing sale and purchase process. This is seen as one of the long-term dimensions of maintaining the quality of housing stock, and is of particular importance when a significant proportion of residential properties within an urban area are damaged.

Table 3 summarises the key stages in the claims settlement and repair process and the associated issues and impacts that can arise at each stage. The table also identifies examples of mechanisms that may mitigate these impacts in future events.

The analysis of the claims process and claimant experiences has highlighted that the success of a residential repair process does not rest with one agency or sector alone. It requires the effective response of a number of sectors, including building professionals, regulators, banks and insurers. Taking a systems-wide perspective is important for the design of future claims settlement approaches.

These findings are further discussed in the [Impacts Report](#).



Table 3: Key stages of the claim settlement and repair process – issues, impacts and tools

STAGE	POTENTIAL ISSUE	POTENTIAL IMPACT	EXAMPLES OF TOOLS TO MANAGE POTENTIAL ISSUES
LODGING CLAIM	Damage not identified by claimant	Unrepaired damage	Additional support for vulnerable individuals Individual follow-up with claimants Clear communication of claims processes
ASSESSING DAMAGE	Damage not fully identified by insurer	Unrepaired damage Claimant loss of trust and increased time in insurance process	Appropriately detailed damage assessment processes. Triaging damage to use most experienced assessors for more complex damage.
ACCEPTING OFFER	Full and final claim discharges resulting in later-discovered damage that cannot be covered Delay in claimants accepting offers	Unrepaired damage where claimants cannot cover additional damage Financial hardship and stress for claimants Pressure on building sector to provide quotes Repair delays	Opportunity for re-opening of claims where appropriate Discharge waivers to give claimants greater confidence in accepting initial claim offers
DECIDING TO REPAIR	Claimants deciding not to complete repairs	Unrepaired damage	Information from insurers on impacts of not completing repairs Payment of claim directly to banks for those with mortgages
COMPLETING REPAIR	Lack of claimant confidence / experience with repair management	Stress for claimants Reliance on professionals for quality repair leaving claimants to assess adequacy/ quality of repair and vulnerable to poor quality work	Provision of information on suitable local tradespersons Information on how to undertake repair processes, how to monitor quality and where to get help
CLARIFYING BUILDING CONSENT/ EXEMPTIONS	Lack of clarity about whether a Building Consent or Consent Exemption is required	Poor quality repair outcomes due to lack of regulatory oversight	Clear information from regulator/councils on consent requirements
MANAGING THE REPAIR	Limited oversight of repair completion	Incomplete/inadequate repairs.	Insurers follow-up with claimants Repair invoices paid directly by bank Insurance disclosure requirements Claimants/tradespeople required to lodge evidence of repair completion with local councils/insurers
HOUSE SALE	Sale of properties with inadequately (or un-) repaired damage	Purchase of property with unrepaired/unidentified damage with no recourse for funding to complete repairs	Disclosure requirements associated with real estate transactions

### 3.3 The merits and challenges of cash settlement

Cash settlements typically provide for faster settlements. There is, however, the potential that cash-settling insurance claims can lead to poor outcomes for housing quality. The potential risks from using cash settlement in large-scale disasters include cost inflation, limited and inequitable access to building professionals and materials, and settlement money not being used by claimants to complete insurer-assessed repairs or rebuilds. These factors could result in reduced housing quality and leaving communities vulnerable to future hazards.

Overall, the particular advantages of cash settlement include:

- The homeowner has 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.
- 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.

While the disadvantages associated with cash settlement include:

- Reliance 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/Hurunui event, cash settlement may potentially subject 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 there are significant numbers of claims, 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 due to missed scope in initial assessments or poor-quality workmanship without any quality control measures in place. Individuals who purchase earthquake affected properties could also be at risk from unrepaired or poorly repaired houses, including risk of damage in future events. The extent and impacts of these risks is dependent on a number of event-specific factors, identified and commented on in the [Discussion Paper](#) and summarised in Section 3.5.

As a result of cash settlement providing homeowners with a greater degree of choice, there will also be individuals that choose not to repair their properties either at all, or to a sufficient standard. 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, leaving individuals and the community at risk.

## 3.4 Key principles of a residential repair process

Four key themes consistently emerged from the research as important principles of any future repair process involving cash settlement of claims. These are summarised below, noting that they are equally applicable to other approaches to residential claims settlement.

### Access to information

Having access to information on the recovery process is an integral part of ensuring claimants can confidently manage their recovery. This ranges from information on how to interpret and evaluate an insurance settlement through to guidance on selecting building contractors, obtaining consents, and managing future house sales. Ensuring this information is available, accessible, and known to claimants who may benefit from it is a core component of helping claimants have a smoother overall claim and repair process.

### Autonomy and choice

Providing a sense of control, choice and autonomy is considered highly valuable by those with earthquake damaged properties; even if it is the choice to manage the process themselves or allow a third party to manage repairs. Autonomy through the repair process helps some claimants to have greater trust that repairs will be completed properly. The degree of autonomy desired by claimants is likely to change based on a range of factors, including the personal circumstances of claimants and external factors at the time of an event, as well as the nature of the event itself.

### Quality damage assessment process

At the outset of the claims settlement process, ensuring that damage assessment processes provide as full and comprehensive as possible is very important. Good quality assessments provide a template for repair work, increasing the likelihood of damage being repaired. It also builds confidence in the settlement process for claimants and reduces the conflict, time and resultant stress spent negotiating a revised settlement (for claimants, insurers and building contractors alike). Good quality assessments are particularly important for those that do not have experience and/or confidence in managing their own building work.

### Repair quality assurance process

It is important that processes are in place to ensure the quality and completion of repair work (or identification of poor repairs, or non-repaired damage). This enables claimants, future home owners, and other key stakeholders, such as insurers and banks, to have visibility and confidence in the repair work completed. This reduces risk to occupants in future earthquake events, ensures properties remain fully insured and helps to maintain the capital value of the property.

These themes are considered further in the [Impacts report](#).

### 3.5 Understanding the continuum of approaches

Our research has highlighted that it is not necessarily a binary decision requiring either cash settlement or managed repair as the delivery model. Cash settlement and managed repair sit on a continuum of approaches to residential recovery, which range from *claimant-led* 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.

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)

Table 4 sets out the key criteria and factors for designing a claims settlement approach for future events. Where the combination of the factors in the table suggest that there is a high likelihood of negative outcomes for cash settled homeowners tasked with managing their own repair work, a managed repair programme of some kind is likely to be advantageous.

Table 4: Key criteria and factors for designing future claims settlement approaches

CRITERIA	FACTORS	PARAMETERS
<b>1. Scale of the Event and Nature of Communities Impacted</b>	Numbers of houses impacted (claims)	<ul style="list-style-type: none"> <li>• Numbers of people impacted</li> <li>• Total value of claims</li> </ul>
	Geographical spread of houses impacted	<ul style="list-style-type: none"> <li>• Access to contractors</li> <li>• Number of Building Control Authorities involved</li> </ul>
	Urban centres vs rural relativity	<ul style="list-style-type: none"> <li>• Numbers of multi-unit buildings and apartments</li> </ul>
	Cross-boundary issues	<ul style="list-style-type: none"> <li>• Land movement</li> </ul>
	Community characteristics, Vulnerability of populations	<ul style="list-style-type: none"> <li>• Either displaces people or creates health issues</li> <li>• Number of people requiring support for repairs</li> </ul>
<b>2. Complexity of Damage</b>	Ages and types of houses most affected	<ul style="list-style-type: none"> <li>• Complexity of repairs</li> </ul>
	Superstructure type	
	Foundation form	
	Nature and extent of land damage	
	Linkages with available technical guidance	
<b>3. Current Construction Market Characteristics</b>	Capacity: Relativity of repair workload to construction sector base workload	<ul style="list-style-type: none"> <li>• Market capacity to deliver the required repair work</li> </ul>
	Capability of market- engineering, construction	<ul style="list-style-type: none"> <li>• Related to complexity of repairs- does the market have the requisite skills?</li> </ul>

This is reported in the [Discussion Paper](#).

## 4.0 CONCLUDING OBSERVATIONS

The findings from this research provide insight for residential housing recovery from future disaster events. Observations following the cash-settled insurance process for the 2016 Kaikōura/Hurunui earthquake provide lessons that are transferrable across disaster events and community contexts. They also identify several attributes that ideally should be in place to support claimants regardless of the model used to manage insurance claims and subsequent repairs.

Quality is a perennial challenge in the construction sector. It is difficult to define, measure and consistently achieve during business as usual, let alone during the recovery from a major earthquake.

Following the Kaikōura/Hurunui earthquake cash settlement of claims, we see that quality is also not guaranteed. It is likely that there will always be a portion of claimants who do not wish to repair their properties. Our focus must be on how we ensure quality outcomes for those that do choose to repair their properties. Our current construction system offers few checks and balances to ensure that quality outcomes are achieved for repairs. Repairs themselves are not specifically addressed under the Building Act, but are handled as additions or alterations. Outside the building consent process there is a high reliance on professionals and property owners to manage and ensure quality.

More analysis is required to understand how housing quality, in particular the structural integrity of buildings, can best be restored (or where necessary, improved) following future major events, irrespective of the claims settlement approaches adopted.

The interviews across the range of stakeholders involved in the Kaikōura/Hurunui claim settlement and residential repair process has highlighted that a systems-wide perspective is important for deciding on future claims settlement approaches following major events. This includes 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, along with the establishment of ‘markers’ to enable monitoring progress of key aspects of the residential recovery through more of a community lens.

The success of a residential recovery programme does not rest with the claim settlement model (cash or managed) alone, it relies on informed and supported claimants; capable and skilled building professionals; clear regulatory processes (e.g., building consents); and coordinated processes with key stakeholders such as insurers and banks and various government agencies. A successful residential recovery will result in high quality building repairs, with a low impact on the wellbeing of both claimants and building professionals providing repair services in the community.

## 5.0 PROJECT REPORT REFERENCES

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