

How the Earthquake Commission (EQC) applies to apartment buildings

Disclaimer: this information is presented as guidance only. While best endeavours have been taken to ensure the accuracy of the information provided, apartment building chairs, committee members and owners should seek advice from their lawyers and/or insurance brokers when making decisions on insurance.

What makes the EQC unique?

No other country in the world has a government earthquake scheme quite like New Zealand. Toka Tū Ake EQC ("EQC"):

- is a Crown owned entity governed by its own Act and accompanying legislation
- plays a crucial role in providing coverage for natural hazard related damage
- has reinsurance support paid via a levy on the insurance cover it offers
- is financially guaranteed by the New Zealand Government
- is a compulsory component of all household fire insurance held in NZ. This means about 90% of the New Zealand housing market is insured for natural hazard damage.

Why was the EQC introduced?

The EQC scheme was first set up in 1945 as the Earthquake and War Damages Commission to make natural disaster insurance more affordable for New Zealand homeowners.

Today, EQC's mission still reflects that same commitment: to reduce the impact on people and property when natural disasters occur.

What triggers EQC protection?

EQC protection automatically applies as a separate insurance cover to all fire insurance policies on a private residence. Direct EQCover can also be requested for any residential property without fire insurance (granted on application and at the discretion of the EQC).

What does the EQC cover?

Natural Disaster

The EQC scheme covers damage arising from natural disasters (including earthquakes, volcanic eruptions, natural landslips, tsunamis, and hydrothermal activity) as well as fire caused by any one of these events. It also provides land cover (for a specified footprint) that covers land damage arising from storm and flood damage. For more information, see: [EQC Insurance Overview](#)

EQCover can also apply to commercial property where it contains a private residence or a residential flat/apartment. The rules that apply are covered by EQC legislation. General Perils such as: fire, storm damage, and burst pipes, are covered under a separate insurance policy with a private insurer.

EQCover building cap (payout)

The EQCover building cap is up to the first \$300,000 (plus GST) of the natural disaster damage to private houses and residential flats/apartments, excluding those dwellings being used for AirBNB, serviced apartments, etc.

Example: If there are 100 apartments in a residential apartment complex, the total EQCover building cap is calculated as 100 x \$300,000, i.e. \$30,000,000 excluding GST (or \$34,500,000 including GST).

While the EQCover building cap covers the entire building, including common areas, it is limited by the number of dwellings deemed to be within the building. The EQC definition of a "residential building" includes a "part of a building" that comprises one or more "dwellings" if the area of the dwellings is 50% or more of the total area of that part of the building. It is essential that the number of dwellings within the building is disclosed to the insurer to correctly calculate EQCover.

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In buildings where less than half of the total floor area is occupied by apartments, with the remainder being used for shops and offices, EQC provides coverage solely for the apartment damage, capping EQC payment at the total of \$300,000 plus GST per apartment, without extending coverage to the non-residential parts of the building. Your broker should be able to advise you of these rules.

Where the building is commercial use only, no EQC cover is applicable.

Land under the apartment block

Land is treated differently from the building damage assessment and the EQCover land cap is separate to the EQCover building cap. Any EQC payout for land is capped at land value (based on indemnity value) subject to an excess of 10% (up to a maximum of \$5,000, including GST).

EQCover premium (levy)

To fund the EQCover, owners pay the EQC levy via their insurer or directly to EQC if insurance for fire peril cannot be obtained from an insurer. The EQC Levy is calculated at 16 cents per \$100 of the Cap insured, with a maximum levy of \$522 including GST.

EQC claims settlement

EQC claims are coordinated via the insurers. EQC requires that insurers managing EQC claims must be on the register of licensed insurers managed by the Reserve Bank of New Zealand. Currently, nine private insurers have approval to manage EQCover claims on behalf of EQC. Payments are made to the Body Corporate for distribution.

EQCover building excess

The EQCover building excess is 1% of the value of the loss (including GST), subject to a minimum of \$200 (including GST). This amount is deducted by EQC from the agreed payout (i.e. no cash payment required).

Insurer's excess and how it interacts with the EQC building cap

In the first instance, natural disaster claims come within the protection provided by the EQC and are subject to the EQCover building excess. Once the claim exceeds the EQCover building cap, the balance of the claim is then covered by the insurer(s) as long as the insurer's excess is covered.

The insurer's natural disaster excess is typically 5% of the total sum insured value for the building, not the claim value. If the value of the claim exceeds the insurer's excess, and the excess is below the EQCover building cap, then the excess is covered by the EQC payout.

It is important to note that no payment is made by the insurer until the claim exceeds the EQCover building cap and the applicable insurer's excess is covered.

Conversely, if the EQCover building cap is less than the insurer's excess, then the building owner(s) needs to top up to the insurer's excess.



See page 3 for an **example of a payment for natural disasters claims**

Insurer's natural disaster premium calculation

This is calculated on the total sum insured less the EQCover building cap.



EQCover building cap reduces risk carried by insurer

A substantial reduction in the insurer's premium is warranted as the EQCover building cap - in most cases - covers the insurer's excess and the excess will vary from risk to risk.

The insurer's risk significantly reduced in October 2022 when the EQC payout increased from \$150,000 plus GST per dwelling to \$300,000 plus GST per dwelling. However, there were no corresponding insurance premium reductions to reflect insurers' reduced exposure/risk. Feedback from apartment buildings chairs is that insurer premiums have increased.

According to Government statistics, 95% of earthquake claims from the Canterbury and Kaikoura earthquakes were below the EQCover building cap at the time (i.e. \$150,000 plus GST). This demonstrates that the insurers' risk (and any payment that ensues) is significantly reduced due to the EQCover. This risk has further lessened in view of the EQCover building cap increase to \$300,000 plus GST.

The Treasury has recently undertaken a survey of apartment buildings to gather data on insurance premiums as part of its responsibility for insurance policy and to monitor the impact of the increase in the EQC payout.

Example of payment for natural disasters claims

This EQC payment example outlines the interaction between the insurer(s) and EQC.

1. This example assumes that the claim is equal to or more than the total sum insured value. Where the claim is more than the total sum insured value, the payout will be limited to the total sum insured value.
2. This example relates to material damage for natural disaster related claims only. All other perils (fire, storm damage, burst pipe triggered by an unforeseen and sudden event) are covered by the insurer's policy.

What is covered	Value
Total sum insured for building with 100 apartments	\$100,000,000 (\$100.0m)
EQCover building cap <i>Based on \$300,000 excl GST per apartment* (\$345,000 incl GST per apartment)</i>	\$34,500,000 (\$34.5m) incl GST
EQCover building excess <i>1% of the maximum claim amount payable, incl GST (subject to a minimum of \$200 incl GST)</i>	\$345,000 incl GST
Insurer's excess <i>paid from the EQC payout if the total claim exceeds the EQCover building cap and the insurer's top-up is drawn on</i>	Typically 5% of total sum insured if the insurer's top-up for natural disaster is used
Land damage excess (if part of the claim)**	10% of the amount payable for the land up to a maximum of \$5,000 incl GST
Insurers top-up used for claims that exceed the EQCover building cap <i>(total sum insured less EQCover building cap)</i>	\$65,500,000 (\$65.5m) incl GST

* Note that payout is on a building basis, not per individual apartment

** EQC payouts for land do not reduce the insurer's top-up for claims exceeding the EQCover building cap