ICNZ Insurance Council of New Zealand

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26 August 2014

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To Whom It May Concern,

Submission on LINZ review of the occupational regulation of valuers

1. Thank you for the opportunity to comment on LINZ' development of the framework for occupational regulation of valuers. We write this submission on behalf of the Insurance Council of New Zealand ("ICNZ"). Our submission is limited to aspects of the discussion document that concern the general insurance industry.

About ICNZ

2. ICNZ is the industry representative for fire and general insurers in New Zealand. We aim to assist our members in the key areas that affect their business through effective advocacy and communication.

3. ICNZ currently has 29 members who collectively write more than 95 percent of all fire and general insurance in New Zealand. ICNZ members, both insurers and reinsurers, make up a significant part of the New Zealand financial services system. ICNZ members currently protect more than half a trillion dollars' worth of New Zealanders' assets.

4. ICNZ plays an active role in representing the insurance industry. Our members are licensed under the *Insurance (Prudential Supervision) Act 2010* ("IPSA") and are signatories to the Fair Insurance Code, which requires our members to act ethically. We also perform an important role in informing and educating consumers about key insurance issues and risks.

General comments

5. Accurate property valuation is a critical input for the insurance industry. Accurate valuations ensure that homeowners and other parties with interests in insured property, such as banks, can manage their risk appropriately to help avoid overbearing losses. We strongly support regulation that promotes a market for property valuers with strong competency for producing accurate sum insured valuations.

6. We note that there is currently a shortage in registered property valuers who undertake work for insurance purposes, and that other professionals such as quantity surveyors have been called on for assistance with insurance-related property valuations.

7. We are aware of a number of commercial property owners who suffered significant losses after the Canterbury earthquakes because their property replacement valuations were low. We understand that a number of valuers did not foresee the costs associated with demolition and new building code compliance. With this in mind, and with the insurance industry's move to sum insured policies for residential policyholders, we strongly support any measure that promotes valuers' competency to provide an accurate sum insured valuation.

Sum insured valuations

8. We agree with LINZ' general comments about the risks of under- and over-insurance for sum insured policies. LINZ notes there is a risk of harm to homeowners who rely solely on sum insured valuations from online calculators or inadequately trained practitioners.[1] We note that online calculators were developed by insurers for the benefit of customers to assist them to estimate rebuild costs based on average costs in the transition from full replacement cover to sum insured cover. Insurers are working hard to monitor and develop the accuracy of these calculators, but have consistently advised that they only provide a rough estimate.

9. The accuracy of sum insured valuations provided by free online calculators depends on the quality of information provided by the user, who is usually a non-expert homeowner. In contrast, if a homeowner pays a professional valuer for a registered valuation, that homeowner can and should expect a superior product.

10. We strongly support the development of formal guidelines for valuers conducting sum insured valuations. We do not have a view about what form those guidelines should take, be it training requirements, practice standards, or some other form of standard. We previously met with NZIV and NZIQS to discuss creating guidelines. We are currently developing a core insurance policy wording which our Members may use as a template for

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[1] At page 31 of the discussion document.

tailoring the benefits and exclusions of their own property insurance. Once this wording is finalised, we will have a roadmap of what is and what is not covered by property insurance policies in New Zealand, which we would then use as a basis for developing a set of guidelines with NZIV and NZIQS which valuers and quantity surveyors can work from.

11. We would be pleased to work with government and the property valuation industry to develop guidelines for valuers who conduct sum insured valuations.

Valuers' professional indemnity insurance arrangements

12. We support a regime that mandates disclosure of the basic details of valuers' professional indemnity insurance arrangements.

13. At a broad level, we support regulatory intervention that responds proportionately to the risk being addressed. We note that with a high rate of voluntary uptake of professional indemnity insurance amongst valuers and no real evidence of a problem of uninsured valuers causing harm to consumers, a proportionate response would be to require valuers to disclose whether or not they have professional indemnity insurance, as well as the level of cover provided by that insurance. In our view the costs of compliance for valuers with this type of minimal disclosure requirement would be low.

14. We note NZIV's suggestion that professional indemnity insurance is mandatory but capped to keep premiums down.[2] Importantly, insurer's premiums are not solely dictated by the amount of liability agreed between the insurer and the insured. For example, insurers would respond to a valuer with a high claims notification record or a poor practice record by either raising the premium payable by that particular valuer or by declining to insure the valuer. A valuer with a poor track record may be uninsurable, which, if professional indemnity insurance were a mandatory requirement of participation in the valuation industry, could restrict the supply of valuers available in the market.

15. Further, we support LINZ' view that capping liability to keep valuers' liability insurance premiums down would disadvantage homeowners where the cap is set too low. Likewise, if a regime exists where a cap for liability insurance is set but individual valuers can take out a higher level of liability insurance, we would expect valuers to gravitate towards the default cap, again at homeowners' expense if that cap is set too low.

16. For these reasons we would support a regime where registered valuers had to disclose to homeowners whether or not they had liability insurance, and if so, the level of cover the valuer had under that liability insurance.

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[2] At page 33 of the discussion document.

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