

FEATURE

INSURANCE IN THE TOURISM SECTOR AFTER THE CANTERBURY EARTHQUAKES

The Canterbury earthquakes caused huge amounts of damage to Christchurch and the surrounding area and presented a very challenging situation for both insurers and claimants. While tourism has suffered significant losses as a result, particularly due to the subsequent decrease in visitor numbers, the Canterbury region was very fortunate to have high levels of insurance coverage. This report, based on data gathered from tourism operators on the ground in Canterbury, looks at how this sector has been affected by the quakes, claims patterns, and the behaviour and perceptions of tourism operators about insurance.





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BACKGROUND

The Canterbury earthquake sequence began on 4 September 2010 with a magnitude 7.1 event, 30 kilometres west of the city of Christchurch (population 360,000). Almost 4,500 aftershocks larger than magnitude three have been recorded since then. The largest and most damaging of these was a magnitude 6.3 earthquake that took place very close to the central business district (CBD) of Christchurch on 22 February 2011. It was a destructive event that claimed 185 lives and caused many hundreds of buildings to collapse. The CBD has remained cordoned off since then, although the size of the restricted area is now much smaller. Approximately 6,000–8,000 international tourists were in the city that day, which required a major effort in evacuation and assistance.

Prior to September 2010, the tourism industry in Christchurch contributed 16 per cent to total tourism activity in New Zealand. The city's tourism product was based on strong heritage and cultural values, with a significant share of the meetings, incentives, conventions and events market (MICE). The cruise ship industry was also growing rapidly. Christchurch benefited from its aviation "gateway" status, with 85 per cent of visitors arriving in the South Island through the city's airport. The wider Canterbury region attracted visitors for its scenic and wildlife values, including skiing, thermal hot springs (Hanmer Springs), whale-watching (Kaikoura) and alpine environments (Mt Cook-MacKenzie). International visitors spent 6.6 million nights in Canterbury in 2009, along with similar numbers of domestic visitors.

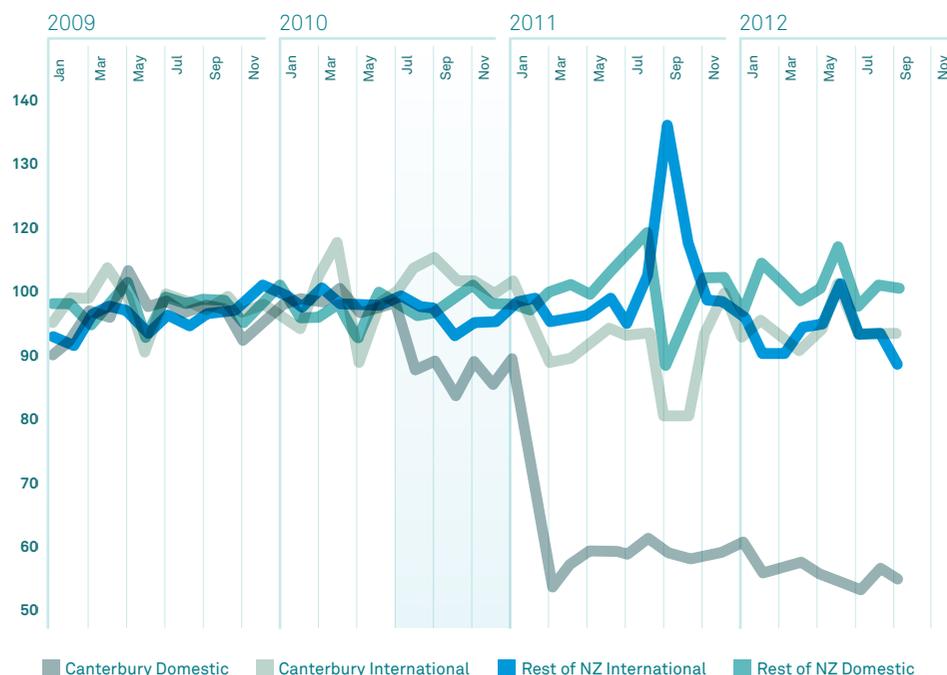
The earthquakes caused an unprecedented and sustained drop in visitor arrivals to Christchurch and Canterbury (see figure 1), particularly from the international market.

Two-thirds of hotel stock was destroyed, mainly in the CBD, along with many backpacker hostels. Eighteen months after the February earthquake, the city had 1,100 rooms, down from 3,750 previously. Recovery has been painfully slow, with arrivals data still well down on pre-earthquake levels. The rebuild phase has been significantly delayed by the slow pace of planning for the redevelopment of the CBD due to the complex nature of the earthquake sequence and high level of infrastructure and building damage. In addition, the slow process of claims settlement has delayed recovery, leaving the tourism sector in a state of limbo. The regional tourism authority, Christchurch Canterbury Tourism, believes that until the rebuild is well underway and a convention centre has been reinstated in the CBD, tourism activity will continue to suffer.

NATURAL DISASTERS AND BUSINESS INSURANCE IN NEW ZEALAND

The Canterbury earthquakes provided an unprecedented challenge for the insurance industry in New Zealand. New Zealand Treasury estimated a total cost of insurance claims for the earthquakes of \$NZ30 billion, or ten to 15 per cent of GDP. One of the biggest challenges was the ongoing nature of the earthquake sequence, and the need to treat each of the 13 separate events (identified by the Earthquake Commission (EQC)) as an independent claim. EQC is the government insurance agency, established in 1945 to protect individuals with existing house and contents insurance from a range of natural disaster events, including earthquakes, volcanic activity and landslides (refer to John Smeed's article from vol. 34, issue 5 of the *Journal* for more details on EQC). Insurance for the business sector is not covered by EQC and must be sought from private insurers.

FIG 1. Seasonally adjusted monthly guest nights to Canterbury and the rest of New Zealand (excluding Canterbury data), Index Q2 2010 = 100. (Source: Reserve Bank of New Zealand).



TOURISM BUSINESS INSURANCE: BEHAVIOUR AND PERCEPTIONS

A study was developed to investigate the impacts of the earthquakes on tourism businesses in terms of outcomes and recovery. A postal survey was sent to all tourism operators involved with accommodation, activity/attraction and visitor transport in areas directly affected by the earthquakes, including Christchurch City, Banks Peninsula and surrounding districts. A total of 498 surveys were sent, and 46 per cent were completed. The survey addressed a range of issues arising from the earthquakes, including their experience with insurance.

Key insurance questions in the survey related to:

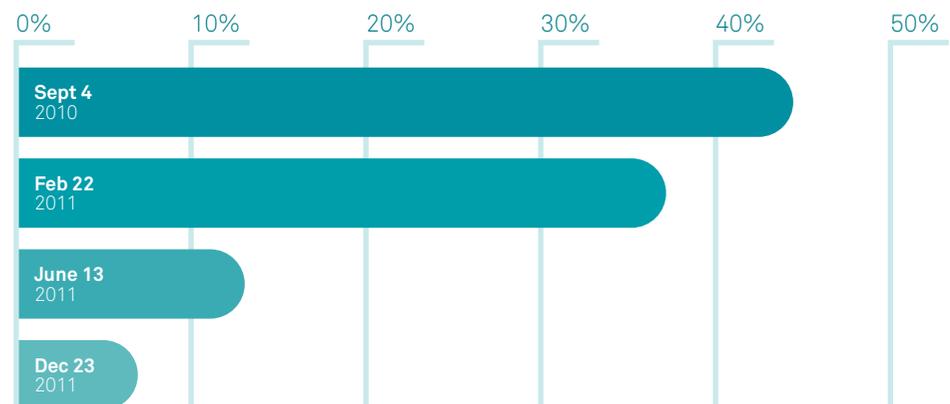
- insurance purchasing behaviour prior to the earthquakes
- changes to insurance purchasing behaviour after the earthquakes
- insurance claims resulting from the earthquakes
- adequacy of insurance policies
- perceived level of satisfaction with insurers.

RESULTS

Based on the findings from this research, the tourism sector in Christchurch and surrounding areas was found to be relatively well insured, with the majority of operators having a range of insurance products in place prior to the 4 September earthquake in 2010. Of the 200 responses to this question, only three per cent of businesses did not have any form of insurance. The majority had property and building (82 per cent), public liability (81 per cent), motor vehicle (78 per cent), organisation assets and equipment (59 per cent) or business interruption insurance (44 per cent). Relatively few operators had business interruption cover. After the earthquakes took place, this meant that businesses without continuity insurance and with the ability to remain open had to survive in an environment with reduced visitor numbers and significant damage to surrounding buildings and infrastructure.

Only ten per cent of business owners had made changes to their policies after the earthquakes, while three per cent had wanted to make changes but were unable to because it is impossible to obtain new cover in some parts of Christchurch. The majority had not sought to make any changes to their policies.

FIG 2. Claims made by tourism operators following significant earthquakes in the Canterbury sequence. Index Q2 2010 = 100. (Source: Reserve Bank of New Zealand).



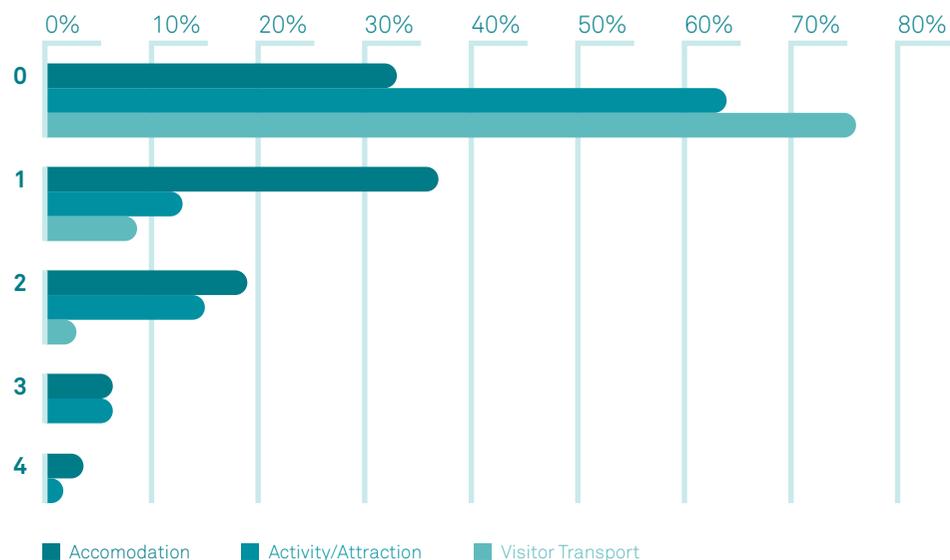
Insurance claims resulting from significant earthquakes in the Canterbury sequence were investigated. Forty-four per cent of businesses had made a claim following the September event, compared with 37 per cent after the February earthquake (see figure 2). In total, almost half of tourism businesses did not make any claims during the sequence, while 27 per cent made one claim, and 16 per cent made two. The specific size and nature of claims was not investigated, and it is possible that some businesses made multiple, smaller claims, compared to others making single, larger claims.

Tourism sub-sector differences were found in the claims being made during the earthquake sequence. Accommodation businesses were significantly more likely to make a claim following the September earthquake (56 per cent) compared to activity/attraction (33 per cent) and visitor transport (15 per cent). A similar pattern

was found after the 22 February earthquake. Transport and activity/attraction operators were significantly more likely to make no claims during the earthquake sequence, compared to the accommodation sector (see figure 3).

This difference in claim behaviour across the three tourism sub-sectors could have a number of causes. Accommodation facilities rely heavily on their buildings, services, and interior fittings and fixtures. Interruptions caused by damage to their own facilities, lack of lifeline services (electricity, water, sewerage) as well as damage to surrounding roads and properties, and lack of clientele would all have justified insurance claims. In contrast, visitor transport companies did not make as many claims as other sub-sectors. This may indicate that they did not suffer to the same extent, with an ability to relocate their services more easily if required. In addition, some transport operators were based

FIG 3. Number of claims made during the earthquake sequence, by tourism sub-sectors.



out of their own home, which allowed them to claim for residential EQC cover. It could also reflect confusion or uncertainty around the terms and conditions of their specific policy, or the inability to claim for losses caused by reduced visitor numbers.

Unsurprisingly, the September 2010 and February 2011 quakes generated claims patterns that reflected the areas directly impacted by shaking. Tourism businesses in Christchurch, Banks Peninsula and Selwyn district (immediately west of the city of Christchurch) were significantly more likely to make an insurance claim after the February earthquake, mirroring the areas worst hit by the event. After the February earthquake, Waimakariri, Hurunui (both north of the city) and Selwyn, as well as Christchurch, made significantly more claims than other areas.

The majority of tourism operators perceive their insurance cover was adequate following the earthquakes (73 per cent). Ten per cent believe they had insufficient cover, and 17 per cent didn't know, probably reflecting those that had not needed to make claims. Operator levels of

satisfaction with their insurer were generally positive, with more than half either satisfied or very satisfied. In contrast, the remainder were dissatisfied or very dissatisfied (12 per cent), or neutral in their views (32 per cent). Christchurch operators were significantly more likely to be dissatisfied (almost 20 per cent of businesses), compared to other locations.

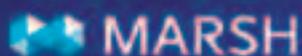
THE OUTLOOK FOR TOURISM

The Canterbury earthquake sequence presented a very challenging situation for both insurers and claimants. Tourism has suffered significant losses as a consequence of reputational damage to Christchurch as a destination, and the fear and anxiety caused by the ongoing nature of the aftershock sequence. The Canterbury region was very fortunate to have a high level of insurance, which effectively protected tourism businesses from severe hardship, allowing them to continue in the industry and to survive until the rebound begins. For others, insurance has offered the chance to redevelop their business and create opportunities to thrive into the future.

These challenges, however daunting, offer the Canterbury region significant opportunities in their journey of recovery. The tourism industry looks set to benefit from the reconstruction of Christchurch, and the re-imaging of the city. Christchurch Canterbury Tourism is optimistic about the future. Tim Hunter, CEO, identifies an up-to-date accommodation inventory, a new convention centre and a modern, environmentally sound and pedestrian-friendly CBD redevelopment as major benefits to the tourism sector in the future. In addition, a central city sports stadium and the development of a Sports Tourism Strategy will add significant appeal to Christchurch as a destination. In the meantime, tourism operators throughout Canterbury will need to be patient and "hang in there" until visitor arrivals rebound. ■

Notes

¹ The Press 2012.



WHEN THE
STAKES ARE HIGH
PEOPLE TURN
TO MARSH

LEADERSHIP, KNOWLEDGE, SOLUTIONS... WORLDWIDE.

