



IN CONFIDENCE

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Briefing to the Public Inquiry into the Earthquake Commission

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People and Capabilities

Purpose

- 1 The purpose of this briefing is to provide an overview of the structure of the Earthquake Commission (EQC), and how the organisation changed in response to the Canterbury earthquake sequence.
- 2 This briefing is split into four sections. Section One provides an overview of the:
 - a history of EQC and its staffing; and
 - b agreements and staff it had in place ahead of the Canterbury earthquake sequence.
- 3 Section Two then outlines the challenges EQC faced following the Canterbury earthquake sequence and how it responded to those in the following areas:
 - a staffing of EQC;
 - b the ongoing ebb and flow of staff from 2012 – 2019;
 - c engagement of third-party providers;
 - d recruitment;
 - e systems and processes for building up staff numbers;
 - f training;
 - g health, safety and wellbeing; and
 - h internal complaints processes.
- 4 Section Three outlines the key reviews and reports that provided recommendations on how EQC could improve its people and capability processes. It then explains what EQC did in response to those reviews and reports.
- 5 Section Four then outlines some of the lessons that EQC has learned over the past nine years, and contains a short summary of the current state of EQC's readiness for future events.
- 6 This document contains a number of appendices that provide further information related to the topics covered in this briefing, including information on the evolving organisational structure and reporting lines over the past ten years.

Executive Summary

- 7 In 1993, when EQC became a Crown entity, it was staffed with 12 people. By August 2010 this had risen to 22 people, supported by a range of third-party providers. EQC at that time had a Catastrophe Response Programme in place that outlined how the organisation would scale up its claims management functions following a major natural disaster. Those plans were put into action immediately after the September 2010 earthquake. However the Catastrophe Response Programme had not considered the need for the scale up of the functions that support claims management, such as human resources, information technology, information management, privacy, security, policy ministerial services, legal or procurement. This affected EQC's ability to operate effectively.
- 8 The Canterbury earthquake sequence was both highly-destructive and unprecedented. Never before had there been two significant earthquakes in close proximity, a matter of months apart, with the second being centred over an urban area. The cascade of earthquakes experienced in Canterbury was equally rare.
- 9 At the same time EQC decided to take on, or was directed to take on, a range of roles and responsibilities that it had either not undertaken prior to Canterbury, or that it had not anticipated undertaking. This meant that EQC was being asked to do work it was not set up for and did not have the capability to do. EQC's response was to scale up the number of staff, peaking in October 2011 at approximately 1,600. While this included new roles, it was primarily scaling-up the existing claims assessment and management functions. As a result, EQC's processes and procedures were overwhelmed by the scale of the disaster and the changing roles it was asked to perform.
- 10 Despite the challenges, the passion and commitment of staff has been extraordinary. While rarely documented, anecdotal evidence from interviews with staff demonstrate that they were incredibly dedicated, with many going to extraordinary lengths to do the best they could in what were at times very difficult circumstances.
- 11 There have been a range of reviews and reports into how EQC had managed its staff and capabilities that provided recommendations on ways EQC could improve. In most cases EQC accepted and implemented those recommendations, and this can be seen in how the roles and responsibilities of the organisation have changed as it dealt with other natural disasters. In each of those cases, and in its overall response to the Canterbury earthquakes, EQC has learned a range of lessons that are relevant to how it prepares its people and capabilities for the next major natural disaster.
- 12 Over the past nine years EQC has scaled its workforce up and down in response to recurring events and decisions by management. EQC management has recently undertaken reorganisation to better prepare EQC for the future. The focus of this change has been to ensure not just the appropriate capacity, but also the appropriate skills and capability are in place to enable EQC to best respond to future disaster events.

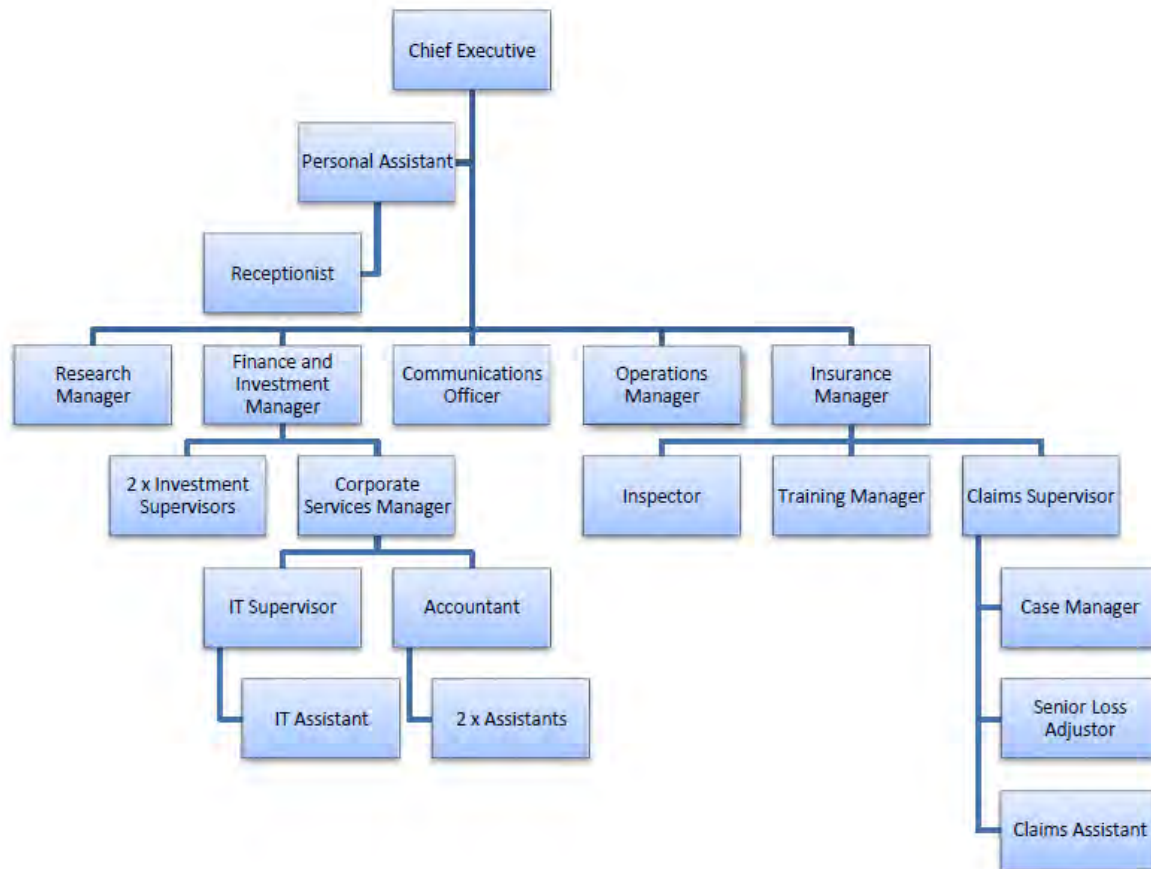


Section One: A history of EQC

EQC's employee history between 1944 and 2010

- 13 EQC's predecessor, the Earthquake and War Damage Commission, was a government department which provided earthquake and war damage insurance, under the Earthquake and War Damage Act 1944, to policy holders of fire insurance. The Commission's employees were seconded from the Government State Insurance Office.
- 14 The Earthquake and War Damage Amendment Act 1988 converted the Earthquake and War Damage Commission into a statutory corporation, with the Minister of Finance as the sole shareholder. Staff who had been seconded from the Government State Insurance Office became Earthquake and War Damage Commission employees.
- 15 In 1993, the Commission became what it is today, a Crown entity known as the Earthquake Commission. The new entity had twelve staff at its establishment, and was headed by a General Manager who reported to a Chair and Board of Commissioners. The Chair was responsible to the Minister in Charge of (later known as the Minister Responsible for) the Earthquake Commission, the Minister of Finance.
- 16 The new functions of EQC under the Earthquake Commission Act 1993 were to:
 - a administer the insurance provided under the Act;
 - b collect premiums for the insurance provided under the Act;
 - c administer the Natural Disaster Fund;
 - d obtain reinsurance;
 - e facilitate research and education about matters relevant to natural disaster damage; and
 - f carry out other functions that may be required, by legislation or Ministerial direction.
- 17 Prior to the Canterbury earthquakes, EQC employed 22 staff to undertake these functions, in an organisational structure as set out in **Figure 1** below. The makeup of the organisation largely reflected its Natural Disaster Fund, insurance, and reinsurance functions.

Figure 1: EQC's organisational structure (September 2010)



- 18 EQC's corporate office was located in Wellington, where its permanent employees were based. The organisation maintained an alternative corporate office site in Auckland that could be activated within three days should the Wellington office be unavailable due to a natural disaster.

Managing claims prior to the Canterbury earthquakes

- 19 In Wellington the organisation maintained a finance section concerned with managing the fund, an accounts section, and a claims handling section, which incorporated a small claims processing centre.¹

¹ See Earthquake Commission, *Catastrophe Response Manual: CRP Management* (2009), page 6.

- 20 That claims handling team worked on allocation of claims, management of third-party providers, internal reporting, and handling of special and complicated claims that required dedicated case management. In a large event the plan was to increase the size of the existing claims handling section at the corporate office.
- 21 To support this, the majority of EQC's claims processing work up to 2009 was outsourced:
- a claims registrations through the 0800 free phone system were handled for EQC by commercial call centres located throughout the country. These centres were able to increase staffing in the event that a very large number of claims were lodged; and
 - b Gallagher Bassett (formerly Gallagher Bassett Services), a specialist claims handling company located in Brisbane, Australia, administered most claims. Gallagher Bassett was contracted to increase its work capacity in the event of a large number of claims being lodged.
- 22 Throughout the 1990s and 2000s, EQC managed between 3,000 and 7,000 claims per year. The organisation anticipated, however, that a large earthquake or prolonged volcanic eruption could generate more than 150,000 claims, which would require a rapid increase in the size of the organisation.
- 23 The Catastrophe Response Programme, which was reviewed in 2009, set out the arrangements to manage this scale up of the organisation in response to a catastrophe. The Programme included agreements with third-party providers which would be activated in the event of a catastrophe, to provide quick access to resources for claims administration and assessment of damage. Some loss adjusting firms were placed on an annual retainer in return for their commitment of availability and priority to EQC claims in future events.² However, this scaling up preparation did not include support functions beyond claims assessment and processing, such as human resources, information technology, information management, privacy, security, policy, Ministerial services and legal support.
- 24 Finally, while the Catastrophe Response Programme envisaged a scaling up exercise of normal office routines to manage a large number of claims, it did not envisage the introduction of new systems and processes when a major event occurred. Its activation therefore assumed that systems to support a scaled-up organisation would be in place.

Managing third-party providers

- 25 EQC has historically engaged a number of key third-party providers to ensure their services would be available to assist with EQC's response to a major event.

² See Briefing to the Public Inquiry into the Earthquake Commission, *Catastrophe Response Programme 2009/10* (13 March 2019).

- 26 In 1998 EQC formed a relationship with Gallagher Bassett, a global claims administration company with significant capacity located in Brisbane, Australia. Gallagher Bassett was to provide claims back office services and developed an extensive plan to obtain and employ the necessary resources of labour and materials to enable it to handle suddenly escalating claims loads.³ As a final resort, Gallagher Bassett was also able to bring in additional staff from other Australian centres and from its parent facility in the USA. This plan was supported by exercises and training of both staff and external participants.
- 27 By the mid-2000s EQC developed a panel of contracted loss adjustors who would carry out EQC's assessment process following an event. Some loss adjusting firms were placed on an annual retainer in return for their commitment of availability and priority to EQC claims in future events. Prior to the Canterbury earthquakes this comprised approximately 20 loss adjusting firms across New Zealand and Australia.⁴
- 28 Some of the key relationships that the former Earthquake and War Damage Commission fostered with third-party providers were adopted by EQC when it was formed in the 1990s. In particular, Tonkin + Taylor Limited provided geotechnical services to the former Commission and continued to be EQC's preferred supplier of such services from the 1990s onwards. In addition, Chapman Tripp was the former Commission's preferred legal services provider and continued to be so for EQC.

Managing staff prior to Canterbury

- 29 Prior to the 4 September 2010 earthquake, EQC's human resource systems and processes were servicing 22 staff. The organisation did not have a dedicated human resource position – the Finance and Investment Manager, otherwise known as the Chief Financial Officer, was responsible for recruitment processes.

DETERMINING WHAT RESOURCE WOULD BE NEEDED

- 30 The resource required to respond to an event depends on the type, size, scale and complexity of the event.
- 31 By way of a benchmark immediately prior to the Canterbury earthquakes, EQC estimated a "large-scale" event to be one in which total claims exceeded 80,000, with a "major" event (such as a Wellington earthquake, a volcanic eruption in Auckland or an east coast New Zealand tsunami) resulting in as many as 150,000 claims.⁵

³ Refer to the contractual obligations of Gallagher Bassett as set out in clause 5 of the Claims Administration Agreement between EQC and Wyatt Gallagher Bassett Pty Ltd Can 009 778 018 (Contract Period: 1 July 2005 to 30 June 2010) dated 30 June 2010.

⁴ Most notably, EQC had contracts in place for loss adjusting services from GAB, McLarens and Godfreys.

⁵ See Initial Briefing for the Purposes of the Inquiry, *History of the Earthquake Commission* (26 October 2018), paragraph 91.

- 32 Prior to the Canterbury earthquake sequence, EQC maintained a number of workforce models that it used to estimate the claims assessment and management resourcing required for a variety of disaster response scenarios. For example, an earthquake that generated 160,000 claims was expected to require 20 field offices, with 1,340 field staff at any one time from within a greater pool of 3,225 staff on rotating shifts.⁶ However, this workforce modelling did not include the estimation of support function resourcing (such as human resources, information technology, information management, privacy, security, policy, Ministerial services and legal support).

RESPONDING TO THE CATASTROPHE RESPONSE PROGRAMME REVIEW

- 33 In late 2008 EQC's Board sought to have its Catastrophe Response Programme reviewed externally to ensure it was fit for purpose and keeping up with modern practices.⁷
- 34 The 2009 Review contained a small number of recommendations for contingency planning around personnel.⁸ The Review panel recommended that EQC consider establishing a permanent, modest cross-section of vital skill-set personnel in another operating centre away from Wellington.
- 35 In order to source and engage additional key personnel to assist EQC in response to an event, the panel recommended EQC:
- a pursue strengthening its relationship with large engineering firms to avoid potential bottlenecks following a large event to the fullest extent possible;
 - b make provisions for the appointment of one or more (depending on the geographical spread of the event) contract structural engineers to advise loss adjusters whether a full engineering inspection report is required;
 - c explore the possibility of tapping the New Zealand retired community for loss adjusters to supplement the staff obtained in Australia by Gallagher Bassett;
 - d consider engaging additional contracted staffing for a large event, such as land valuers and additional case managers; and
 - e EQC should include a section in its training programme for recent retirees with business experience but from a non-insurance background who, in a large event, could be trained relatively quickly to deal with minor damage claims.

⁶ See Earthquake Commission, *Catastrophe Response Programme Strategy*, 2010.

⁷ See Memorandum to Catastrophe Response Board Committee, *Review of EQC's Operational Capability* (11 November 2008).

⁸ See Briefing to the Public Inquiry into the Earthquake Commission, *Catastrophe Response Programme 2009/10*, dated 13 March 2019.

36 The Review also noted that:

In entering into these arrangements EQC makes an important judgment about the cost that it is prepared to pay for capacity versus the likelihood that the capacity will be needed. If too much is contracted for, EQC bears the costs of maintaining arrangements for surplus capacity that it may not need for some considerable period. If too little is contracted for, EQC must arrange for additional capacity after an event occurs or accept delays in processing and settling claims, and manage public and stakeholder expectations accordingly. Delays in processing claims and making payments would also be likely to delay private sector insurers' processing of claims above EQC thresholds, leading to further delays to reconstruction efforts.

The CRP currently assumes 'scalability' of resources depending upon the size of the event. However, there is currently little understanding of the point at which 'total resources available' is reached which would then lead to claims processing times extending. Consideration needs to be given to the CRP having a 'plan B' – what changes are made to procedures to reduce the gap of resource availability and claims processing time? ⁹

- 37 Over the following year, EQC undertook a number of actions in response to these specific recommendations.
- 38 In the 2009/10 Annual Report EQC noted it was responding to the recommendations of the review and that it had introduced a scheme designed to increase the number of loss adjusters across New Zealand and, in turn, ensure there are adequate numbers available to work for EQC following a major natural disaster.¹⁰
- 39 EQC also undertook a review of its call centre arrangements. In April 2010, the Chief Executive informed the EQC Board that back-up arrangements had been put in place for EQC's call centres to ensure there were enough operators to cover the loss of the Wellington operation. EQC's call centre material was also reviewed and it was deemed to be appropriate.¹¹

⁹ See *Review of New Zealand Earthquake Commission's Catastrophe Response Operational Capability* (May 2009), page 5 (report #1 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

¹⁰ Earthquake Commission, *Annual Report 2009/10* (2010), pages 4 and 8, https://www.eqc.govt.nz/sites/public_files/eqc-annual-report-2009-10.pdf.

¹¹ See EQC Board paper, *Chief Executive's Report* (April 2010).

Section Two: The challenges of scaling up

- 40 Section Two outlines the challenges EQC faced following the Canterbury earthquake sequence and how it responded to those in the following areas:
- a staffing of EQC;
 - b the ongoing ebb and flow of staff from 2012 – 2019;
 - c engagement of third-party providers;
 - d recruitment;
 - e systems and processes for building up staff numbers;
 - f training;
 - g health, safety and wellbeing; and
 - h internal complaints processes.

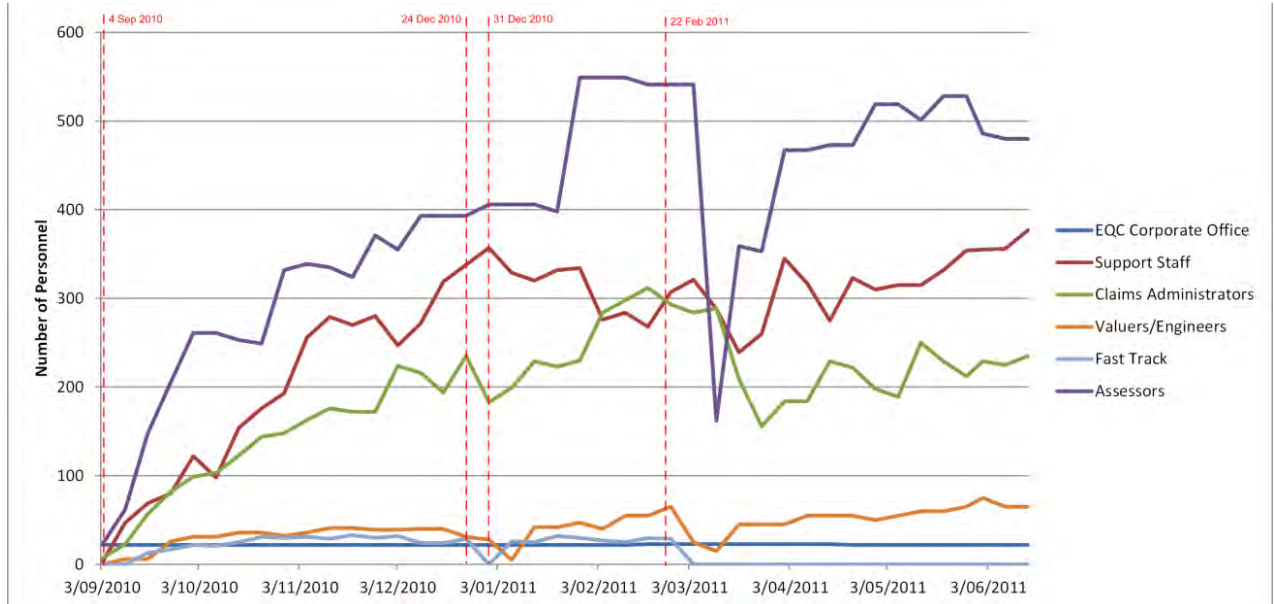
Staffing of EQC

- 41 On Saturday 4 September 2010 at 4.35 am, a magnitude 7.1 earthquake struck Darfield in mid-Canterbury. EQC's Catastrophe Response Programme was triggered, and by Sunday 5 September 2010, EQC had three field staff undertaking initial assessments of damage.
- 42 EQC expanded rapidly in response to the scale of damage from the Canterbury earthquakes. In less than three months it went from an organisation supporting 22 permanent staff, to an organisation supporting over 1,000 staff, with the majority employed on a short-term or temporary basis. Staff numbers peaked in October 2011 at approximately 1,600.¹² The number of field staff decreased dramatically in December 2011 as EQC finalised the first round of assessments.¹³ Over the following eight years, staff numbers rose and fell as EQC responded to events, and as the agency planned for the eventual wind-down of Canterbury claims.
- 43 The way that EQC has captured staff numbers has evolved over time. Until late-2011, internal EQC reports categorised staff by their specific 'role', as seen in **Figure 2** below. However from December 2011 onwards, staff were grouped as either 'field staff', 'claims processing' or 'support', as shown in **Figure 3** below. This makes comparisons difficult, but we can see the overall staff numbers by year in **Figure 4**.
- 44 **Figure 2** below shows the evolution of EQC's staffing from September 2010 to June 2011, and highlights the changes in workforce as EQC responded to events.

¹² Earthquake Commission, *Annual Report 2011/12* (2012), page 10, https://www.eqc.govt.nz/sites/public_files/eqc-ann-report-2012.pdf.

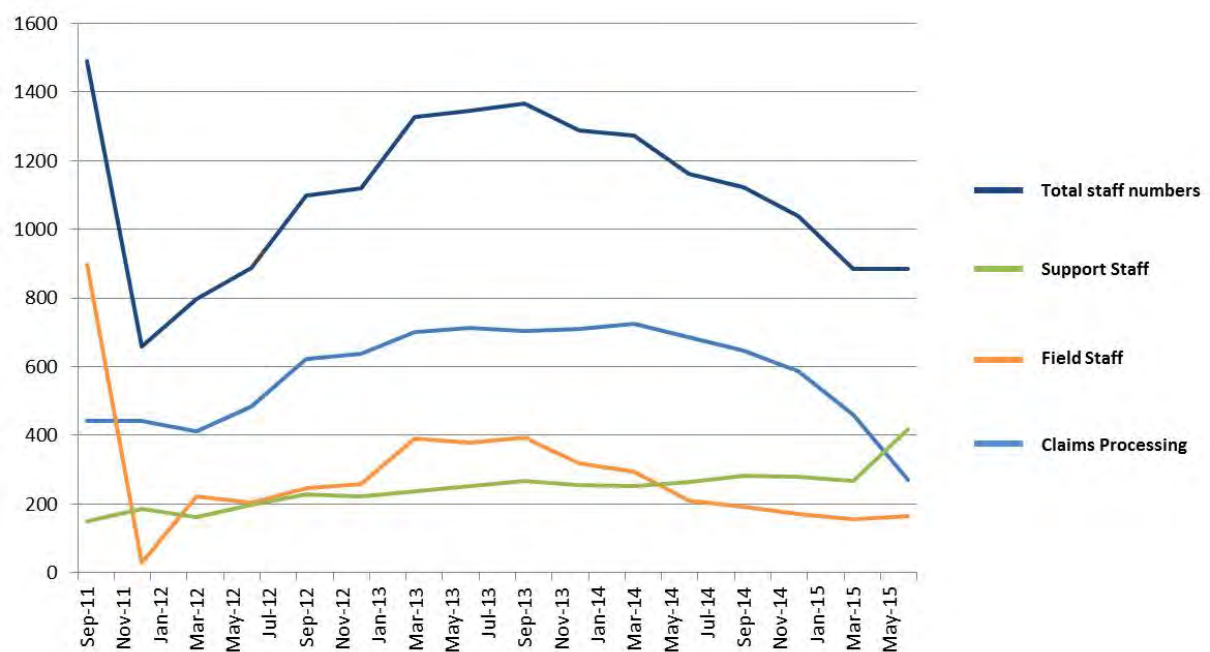
¹³ See Earthquake Commission media release, *EQC home assessment phase complete* (21 December 2011), <https://www.eqc.govt.nz/news/eqc-home-assessment-phase-complete>.

Figure 2: EQC workforce September 2010 to June 2011



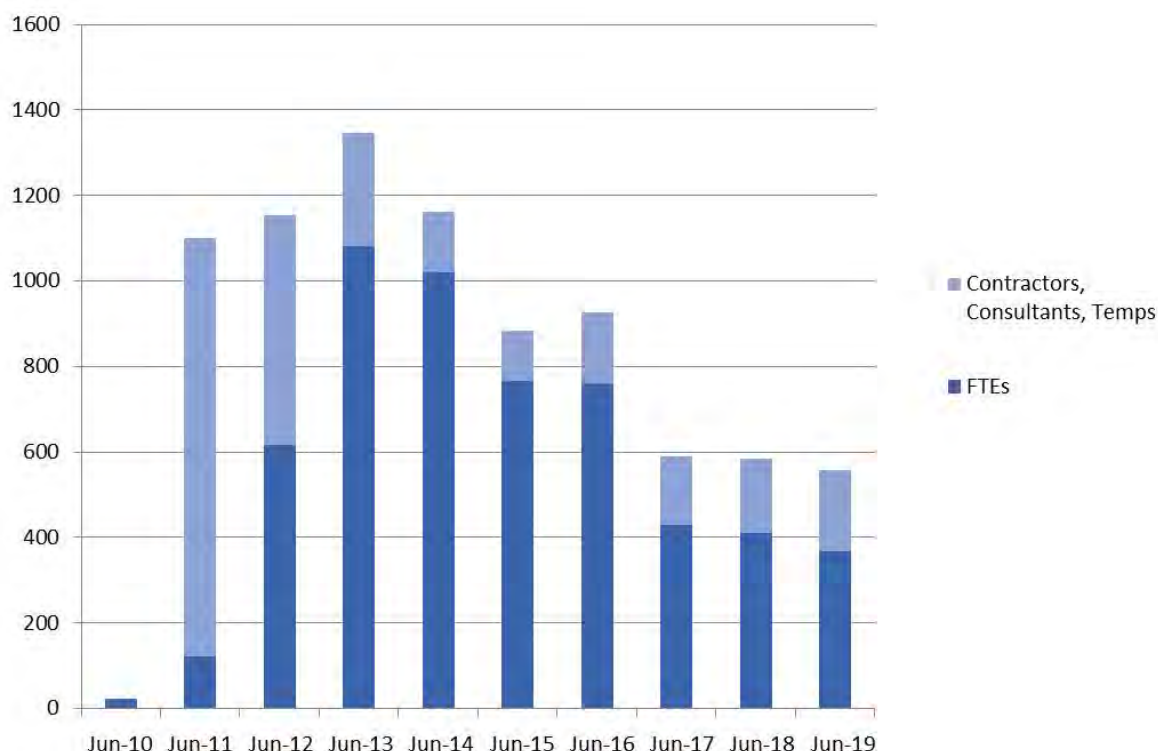
45 **Figure 3** below illustrates how staff numbers declined late 2011, as the first round of assessments were completed, but rose again following the 23 December 2011 earthquake, which led to a further 48,000 claims being lodged, meaning EQC re-hired a number of assessors early in 2012, however this time they were on standardised fixed-term contracts for a specific period of time, rather than being individual contractors.

Figure 3: EQC workforce September 2011 to May 2015



- 46 **Figure 4** below shows a broader view of total staff numbers over the period June 2010 to June 2019. The full time employees are as reported to the Finance and Expenditure Committee each year, while the numbers of contractors, consultants and temporary staff is taken from monthly reporting to the EQC Board. This shows the broader view of how staff numbers have changed considerably over the past nine years, growing and contracting in response to events and decisions by management.
- 47 Throughout this time, EQC has had regular restructures of staff and teams across the organisation, often on an annual basis (as can be seen in the organisational charts at **Appendix 1**). These decisions were in response to evolving events, reviews and reports into EQC.

Figure 4: EQC workforce 2010 – 2019 (as at 30 June each year)



September 2010: scaling up in the first month

- 48 Following the 4 September 2010 earthquake, EQC was focused on getting people on the job quickly. Staff were brought on, largely through independent contractors and existing agreements with third-party providers (see paragraphs 90 to 94).
- 49 By the close of play on 5 September 2010, EQC had three call centres with 90 staff operating, had four personnel on the ground in Christchurch, and there were 12 staff at Gallagher Bassett in Brisbane processing claims.

- 50 By day nine of the response (13 September 2010), the three call centres had 110 staff operating, with another 170 being trained. At that point in time EQC had 90 staff (a mix of loss adjusters, estimators, and office staff) with another 33 at Gallagher Bassett in Brisbane processing claims.
- 51 By day 16 (20 September 2010) the call centres were operating with 95 EQC staff and 164 staff from other agencies. There were 300 EQC staff on the ground in Christchurch, and 50 at Gallagher Bassett in Brisbane. By this time there were three field offices open in Christchurch.
- 52 Staff numbers peaked in October 2011 at approximately 1,600. Call centre staff at eight locations throughout the country and overseas peaked at 255, with local authorities, government departments and the third-party providers temporarily contributing personnel.
- 53 From this point on, the scale up of staff slowed in speed as the focus turned to setting up processes and systems to support those staff with claims management.

December 2010 to February 2011: equilibrium established

- 54 The rapid scale up of staffing was largely complete by October 2010. To support EQC, two additional Commissioners were appointed to the EQC Board effective 1 December 2010.¹⁴
- 55 By Christmas 2010 the Board of EQC was informed that staff had stabilised at 1,055 full time equivalents.¹⁵ Of those:
- a 142 were in Wellington;
 - b 679 in Christchurch;
 - c 129 at Gallagher Bassett in Brisbane; and
 - d 105 at call centres across New Zealand.

¹⁴ See *Appointments to the Earthquake Commission* (23 December 2010) 179 New Zealand Gazette 4459, <https://gazette.govt.nz/notice/id/2010-go9650>.

¹⁵ See Earthquake Commission, *Annual Report 2010/11* (2011), at page 8, https://www.eqc.govt.nz/sites/public_files/eqc-annual-report-2010-11.pdf. See also KSJ Associates, *Earthquake Commission Review Report Christchurch 2012 Recruitment Processes* (March 2012), pages 6-7 (report #10 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

February 2011: staffing changes again

- 56 Immediately following the 22 February 2011 earthquake, the focus for EQC was on establishing that all staff were safe and accounted for. Five hours after the event, all 946 Canterbury-based staff had been accounted for. There was only one staff injury, with a staff member who cut their arm and had to be taken to hospital. The top floor of EQC's Hagley field office was extensively damaged. Several windows were broken and an air-conditioning unit fell through the ceiling.
- 57 It was impractical for EQC to retain too many staff in Christchurch during the immediate response to the February earthquake. Residential property inspections were not an immediate priority (although emergency repairs were), there were health and safety concerns for field staff, and EQC's head office in Christchurch required repairs.
- 58 Accommodation in the city was also limited with the influx of emergency response personnel and many of the city's hotels being located in the central city which was cordoned off. Inbound Search and Rescue teams were given priority for whatever accommodation remained available.¹⁶
- 59 Field work was therefore temporarily suspended until 9 March 2011. EQC retained one rotation of assessors (approximately 180 staff) to assist Christchurch City Council with scoping general damage, while 360 assessors were temporarily discharged.
- 60 At the same time, EQC's National Operations Manager indicated to these staff that when they were brought on board again they could plan to be in Christchurch for the rest of the year due to the anticipated workload created by the latest earthquake. Prior to the February earthquake, the intention had been to wind down field assessments from the September 2010 earthquake by March 2011. This was clearly no longer appropriate.
- 61 Simultaneously, EQC immediately expanded its call centre capacity, based throughout the country, to about 300 operators to cope with the anticipated 100,000 to 130,000 further claims.¹⁷ This was a larger capacity than had been put in place after September 2010, reflecting the lessons EQC had learned from the volumes of calls it received then.

¹⁶ This situation prompted EQC to establish several new relationships with new accommodation suppliers.

¹⁷ David Middleton, *Case Study: The New Zealand Earthquake Commission*, (September 2014).

Evolving roles and responsibilities

RAPID ASSESSMENT PROCESS

- 62 EQC developed the rapid assessment process as a result of the widespread damage caused by the 22 February 2011 event.¹⁸ Every residential property in Christchurch received a preliminary assessment, regardless of whether the household was insured or whether a claim had been lodged with EQC. These assessments were conducted on a street by street basis, by a team of over 350 assessors working individually rather than in pairs.
- 63 The rapid assessment process required more staff than EQC had used following the September earthquake, and staff recall they “begged, borrowed or stole [staff] from anywhere to get field teams on the road, knocking on doors”.¹⁹
- 64 At the peak, there were 357 assessors working street by street, and they assessed 182,000 homes by mid-April 2012.

CONTENTS CLAIMS PROCESSING

- 65 In March 2011 EQC established a new contents processing team in Manpower House in Wellington. A new process was established for contents claims which required customers to complete their own contents schedules. Blank contents schedules were distributed to residential mailboxes as part of the rapid assessment programme. Sensitive contents claims were forwarded to the Claims Review Team in the Hagley field office. Gallagher Bassett was authorised to settle contents claims up to the maximum limit of \$20,000.

The ongoing ebb and flow of EQC’s workforce: 2012 – 2019

THE FIRST SCALE-DOWN

- 66 Throughout 2011, the focus was on completing assessments of all claims, and staff numbers slowly reduced over that period. With assessments largely complete by late 2011, EQC began its first significant scale down of staff.
- 67 While it was clear that work would need to continue for at least another 12 months, possibly longer, it was anticipated that the work would require a significantly reduced number of staff compared to the 800 in place at the time.

¹⁸ See Briefing to the Public Inquiry into the Earthquake Commission, *Canterbury Home Repair Programme* (24 June 2019), pages 46-47.

¹⁹ See Earthquake Commission, *Reflections From The Fault Line: Seven EQC staff tell their stories of the Canterbury earthquakes* (Draft)(2016), page 22.

FOLLOWED BY A SCALE UP

- 68 In February 2012 EQC management agreed to change how it managed its call centres. Up to this point EQC had engaged five third-party providers to manage inbound calls from customers – located in Auckland, Wellington and Oamaru.
- 69 The decision was made to shift the majority of the call centre function in-house. The aim was to achieve a balance between the flexibility and agility to respond to a future event offered by outsourced call centres, and maintaining control over the training and quality of call centre staff offered by an in-house model.
- 70 This move would also support EQC’s strategy to provide an increasingly customer focused response to Canterbury customers, enabled EQC to build and retain intellectual property, and better positioned EQC to respond to future events.²⁰
- 71 EQC built up its call centre staff base over the subsequent months, with eventually around 160 in-house call centre staff.

BRINGING CLAIMS STAFF IN-HOUSE

- 72 In early 2012, EQC informed Gallagher Bassett that EQC would bring all Canterbury claims processing in-house by December 2012 (see paragraphs 97 to 103 below). Again, this meant EQC’s head count increased.
- 73 In order to process all claims, EQC established a new claims processing centre in Hamilton, with 150 positions created to undertake the claims management function. Hamilton was considered beneficial from a business continuity perspective, given both EQC’s existing office locations were in earthquake prone cities, and as it was becoming increasingly challenging to recruit insurance staff in Christchurch.²¹

FIELD STAFF INCREASE AGAIN

- 74 By mid-2012, the field staff team began to grow again, with approximately 100 people brought on board to undertake land damage assessments.²²
- 75 By February 2013, staff numbers were back to levels near where they were when the first scale-down was implemented just over a year earlier.

²⁰ See EQC Executive Leadership Team paper, *Call centre in-source proposal* (21 February 2012).

²¹ EQC Board paper, *Transition of GBS claims services and establishment of another claims processing centre* (2 July 2012).

²² EQC Board paper, *Chief Executive’s Report* (April 2012).

THE 2014-2016 PERIOD

- 76 Staff numbers remained fairly stable throughout 2013, 2014 and 2015 as EQC had now brought all Canterbury related functions in house, with the exception of the Canterbury Home Repair Programme.
- 77 This period brought additional challenges as EQC grappled with some of the more complex claims. Multi-unit buildings and new forms of natural disaster land damage that had never been experienced before – Increased Flooding Vulnerability and Increased Liquefaction Vulnerability – took time for EQC to determine how to appropriately settle these claims.²³

THE BEGINNING OF THE END OF CANTERBURY CLAIMS

- 78 In September 2015, EQC's General Manager Strategy and Transformation was able to inform the Board that:

*EQC's customer facing work in Canterbury is entering its final stages. With the expected decline in the volume of work and associated headcount over the next 12 – 18 months... there is a need to consider the organisational capabilities that will be required for EQC to respond to its changed external environment, continue to deliver its statutory functions and the Board's strategic intent.*²⁴

- 79 As a result of this, in mid-2016 EQC began planning its second significant scale-down of staff. This occurred in late 2016 and early 2017. Almost 780 people ended their employment with EQC in December 2016, while just over 380 roles for the next year were recruited²⁵ (from both internal and external candidates). By January 2017, EQC had approximately 450 staff.
- 80 With all first-time dwelling repairs complete, the focus of a much leaner EQC was on resolving Canterbury remedial inquiries on properties where EQC had managed a repair, and resolving claims for drains damaged by the earthquakes.

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- 81 Towards the end of this process, on 14 November 2016, a magnitude 7.8 earthquake struck the South Island, near Kaikōura. This ultimately generated nearly 40,000 claims.²⁶ The restructure continued as planned, with management acknowledging that potential future needs had been built in to the organisational design.
- 82 Due to the manner in which EQC managed the claims from the Kaikōura earthquake, (the 'agency model') the organisation did not increase staffing to manage claims.

²³ See Briefing to the Public Inquiry into the Earthquake Commission, *Canterbury Land Programme* (24 May 2019).

²⁴ See EQC Board paper, *Strategy and Transformation: Target Operating Model design workshop* (30 September 2015).

²⁵ EQC Board paper, *Chief Executive's Report* (19 December 2016).

²⁶ See Briefing to the Public Inquiry into the Earthquake Commission, *The Kaikōura Earthquake* (4 July 2019).

2017 – 2019

- 83 From early 2017 to early 2019, EQC’s staff numbers changed as a result of a number of change processes and reorganisation proposals.
- 84 Throughout 2017 EQC management developed a revised strategy for the organisation. This strategy was presented to the Board at the November 2017 Board strategy day and endorsed at the February 2018 Board meeting.
- 85 This strategy had a focus on the areas of ‘resilience’, ‘readiness’, ‘response’ and ‘recovery’. As a result of this change in strategy, in early 2018, EQC established the Canterbury Business Unit, to bring together all teams working on Canterbury claims to finalise all outstanding claims from the Canterbury earthquakes.
- 86 Alongside the Canterbury Business Unit, EQC also entered into contracts with three third-party providers (claims settlement organisations) to support the settlement of outstanding Canterbury claims (see paragraphs 224 to 227 below).
- 87 The most recent change proposal 9(2)(a) saw resources better allocated to resolving outstanding claims. The organisational change then confirmed by EQC in June 2019 (see 9(2)(a)) is based on the need for a standardised customer experience and claims management approach, ensuring clear roles and responsibilities, and minimal duplication across roles and teams.
- 88 These changes saw staff numbers once again begin to fall, as EQC prepared to build a single operating model for the years ahead that has the customer at the centre, takes full advantage of new technologies, and is more effective at scaling and responding to multiple kinds of events.

Engagement with third-party providers

- 89 Just prior to the first Canterbury earthquake, EQC had arrangements in place with a range of third-party providers. Those arrangements became very important in the initial response to the Canterbury earthquakes as EQC sought staff to manage the influx of work (see paragraphs 92 to 103 below).

FINDING SKILLED EMPLOYEES

- 90 The September 2010 earthquake exposed a shortage of skilled insurance workers, engineers, and builders in New Zealand, and the global insurance market was approaching a skills shortage too. The shortage of skilled insurance workers in New Zealand forced EQC to compete with private insurers to secure suitable staff.²⁷

²⁷ Global Reinsurance, *Global shortage of loss adjusters looms* (24 July 2008), <https://www.globalreinsurance.com/global-shortage-of-loss-adjusters-looms/1373101.article>. This article identifies an ageing cohort of loss adjusters and a lack of qualified younger loss adjusters as a potential risk to the global insurance industry.

- 91 EQC had agreements in place with loss adjusting third-party providers for increased resourcing in the event of a catastrophe. However, loss adjusting companies could not divert all of their resource from other parts of the country, and had other clients in Canterbury, including with commercial claims which were generally of greater value. Some companies had back-up plans to source loss adjustors from Australia, but Queensland and Victoria were affected by a series of flood events in late 2010 and early 2011, putting a further strain on insurance resources.
- 92 EQC used pre-existing relationships with recruitment agency third-party providers (Adecco and Wheeler Campbell) to scale up its workforce. Supplementary resourcing was also accessed through recruitment services provided by Verifact, Kinetic, the Master Builders Federation and the Certified Builders Association. Training and outsourcing enabled a rapid expansion to 400 staff deployed in-field (mainly assessment teams) by early October 2010. These pre-existing relationships enabled EQC to scale up its staff relatively quickly.
- 93 By the end of 2010, EQC was no longer relying solely on the pre-existing arrangements it had in place and started in-house training loss adjustors. The people EQC trained for these roles were generally former professionals from the public service, police, military and real estate industry.
- 94 Former police, in particular, had experience in dealing with people who were stressed and/or traumatised. This type of experience was identified as something field-based staff would need to be prepared for. It was also common practice in the insurance industry to employ former police for this reason.²⁸ These staff were given up to a week of training by EQC, followed by training on the job, however they were not formally qualified loss adjustors.
- 95 EQC also hired former police officers (along with other people with customer service and administrative experience) to be earthquake assessors. The role of an assessor was to work with estimators, who were qualified builders, to inspect properties and scope damage following events like earthquakes. Their role was also to liaise with the customer regarding the process for undertaking any repairs that are required.
- 96 As such their training included a focus on correctly identifying earthquake damage, and training on dealing with distressed customers. Despite this, there were numerous examples reported in the media where customers felt the assessors that visited their homes were not competent or for acting in a bullying manner.²⁹

²⁸ KSJ Associates, *Earthquake Commission Review Report Christchurch 2012 Recruitment Processes* (March 2012), page 17 (report #10 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

²⁹ See, for example, The Press, *Staff culture at EQC ailing* (16 November 2014), <https://www.stuff.co.nz/national/63259780/> and The Press, *No minimum qualification required for EQC assessors, despite criticism of work* (8 August 2016), <https://www.stuff.co.nz/the-press/business/the-rebuild/82800936/no-minimum-qualification-required-for-eqc-assessors-despite-criticism-of-work>.

Claims management

- 97 EQC had an agreement in place with Gallagher Bassett to undertake claims processing for EQC. The original contract called for Gallagher Bassett to maintain a minimum of six full time competent claims officers to perform the service provided. The contract also noted that Gallagher Bassett would consult with EQC if further staff were required.
- 98 Within a month of the September 2010 event Gallagher Bassett's capacity was expanded to 76 staff. At that point the company was sourcing further staff from across Australia and it informed EQC that more could be seconded from the United States of America if required.
- 99 The contract with Gallagher Bassett had worked well for EQC in dealing with its normal level of claims per year, but it included a percentage 'mark-up' on every claim that the company processed for EQC.
- 100 This mark-up was to become a source of tension in the relationship as the number of claims from the Canterbury earthquakes continued to grow. By late 2011 EQC began to investigate how it could reduce its costs and began a series of discussions with Gallagher Bassett.
- 101 In April 2012, the EQC Chief Executive reported to the EQC Board that:

As a result of the Christchurch earthquakes, the Gallagher Bassett costs of services have increased substantially. This is not unexpected... Because the cost base has increased, the absolute amount paid to Gallagher Bassett in "mark-up" has increased on average by 20 times the amount paid prior to the Christchurch events. In February 2012 EQC advised Gallagher Bassett that we wished to review and agree appropriate fees for the year to June 2012. EQC further advised Gallagher Bassett that the current fee structure was too high and not appropriate to the post Christchurch event circumstances.

The negotiations are taking place against a background of increasing tension in the Gallagher Bassett/EQC relationship due to difficulties in controlling and coordinating the activities of disparate outsourced teams, and questions over performance levels.³⁰

- 102 Negotiations continued through May 2012, at which point EQC noted that Gallagher Bassett was still seeking a full 17.6% mark-up on total cost of service from July 2011 through to June 2013. EQC was of the opinion that this remained well in excess of what EQC could justify:

EQC therefore requested that we establish a joint project team to manage a transition to EQC of all Gallagher Bassett services for the Christchurch Event, with the transition to be completed by December 2012.³¹

- 103 By December 2012, the majority of claims processing was brought in-house with the new Hamilton processing team.

³⁰ See EQC Board paper, *Chief Executive's Report* (April 2012).

³¹ See EQC Board paper, *Chief Executive's Report* (May 2012).

- 104 In July 2018, EQC once again signed contracts with Gallagher Bassett and two other claims settlement organisations (Crawfords and Cunningham Lindsay, now known as Sedgwick). These contracts allowed EQC access to further settlement specialists with the aim of settling outstanding Canterbury claims (see paragraphs 224 to 227 below).

Recruitment

- 105 Recruitment and retention of staff was a major challenge for EQC from the beginning of the Canterbury earthquakes response.
- 106 Initially EQC relied on third-party agreements that it had in place to recruit staff (see paragraphs 91 to 94 above). This worked well for the initial response, and allowed EQC to scale up its workforce however it was not a long term solution.
- 107 From early 2011 onwards, EQC began recruiting staff itself alongside the relationship with third-party providers. With a focus on getting people on the job quickly, recruitment decisions in the early days were largely based off a candidate's curriculum vitae without any formal recruitment process in place or meeting them in person. For example, this resulted in situations of suitably qualified staff turning up for work who were physically unable to do work they had been hired to do, such as getting under houses.
- 108 This also led to a range of employment contracts being used. For example, some contractors contracted directly with EQC, others contracted via third-party providers based in both New Zealand and Australia.³²

PUTTING MORE PROCESSES IN PLACE

- 109 Following the rapid expansion of staff, EQC appointed a Human Resources Director in February 2011. One of the Director's first tasks was to review the human resource functions that were in place. In April 2011, the Director made recommendations to the Executive Leadership Team to address identified risks and issues, including:
- a prioritising a review of the current operating model, agreeing responsibilities and accountabilities, and structure, cascading those accountabilities down the organisation;
 - b immediately developing a new recruitment process that operated consistently across the whole organisation with a business case and approval sign off process;
 - c developing tools for recruiting managers such as position descriptions, interview guides, remuneration structures;
 - d providing interview skills training for all recruiting managers; and

³² David Middleton, *Case Study: The New Zealand Earthquake Commission* (September 2014).

- e the introduction of a simple competency framework based on State Services Commission sector-approved leadership competencies.³³

MOVING FROM SHORT TERM TO FIXED TERM CONTRACTS

- 110 From mid-2011 onwards, EQC adjusted contract terms and conditions to reflect that work was no longer short-term, including through offering fixed term employment agreements, rather than short-term contracts, through a contestable process. All current field staff at the time were eligible to apply for the longer-term roles regardless of how they were engaged.
- 111 Running a contestable process required position descriptions, including competencies relevant for the roles, in order for a candidate's suitability for the role to be assessed. This was the first time that comprehensive position descriptions had been developed for field staff roles, as well as being the first large-scale, in-house recruitment process. Approximately 200 positions were filled over a five-week period.
- 112 The recruitment process did not include external applicants and candidates were not interviewed. Appointments were merits based, and largely based on a performance assessment by existing field staff managers, as all applicants were internal.

Allegations of nepotism, cronyism and 'cosy deals'

- 113 Throughout 2011 there were public complaints that EQC had undertaken recruitment that fell short of public-sector best practice. There were allegations of nepotism, cronyism, 'cosy deals' and sweetheart pay rates as some candidates and the media called the fairness of the recruitment process into question.³⁴
- 114 In response to this, EQC ordered an investigation into the allegations, following news reports that the children of senior staff had been hired into highly paid roles. The inquiry focused on the initial selection process and later changes, such as when 800 short-term contracts were cut to 200 fixed-term positions.
- 115 The reviewers, KSJ Associates, found no evidence of favouritism, bias, or nepotism. They thought it logical to hire former police, military personal, and those with insurance and similar experience and that it was simply not practicable to interview 800 applicants.
- 116 They also concluded that given the environment EQC was operating in, the processes adopted were logical, and found no major causes for concern.³⁵

³³ See Memorandum to EQC Executive Leadership Team, *Report on Audit of HR Function in EQC* (1 April 2011), page 3.

³⁴ See, for example, RNZ, *Inquiry launched after EQC accused of nepotism* (7 December 2011), <https://www.rnz.co.nz/news/national/93187/inquiry-launched-after-eqc-accused-of-nepotism>.

³⁵ KSJ Associates, *Earthquake Commission Review Report Christchurch 2012 Recruitment Processes* (March 2012) (report #10 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

- 117 The reviewers did however make some recommendations to EQC if it was to undertake a similar process again, including that contractors are provided with thorough training in performance management and assessment, given the heavy reliance on these in the selection (see paragraphs 181 to 186 below).
- 118 General recruitment processes were also streamlined in late 2011, shifting most of the process online, including screening processes. Screening candidates online, including through customer service and satisfaction testing, criminal conviction checks, and conflicts of interest declarations, meant that these checks could be undertaken faster and prior to an offer of employment being made. This would avoid situations where a contractor or employee had come on board and EQC would later be notified that they had failed a criminal conviction check, for example.
- 119 As a result of the shift in approach to field work, by June 2012 the majority EQC's workforce were employees of EQC rather than independent contractors, compared to a year earlier when the majority of EQC's workforce of 1,100 were contractors, consultants or temps, rather than employees.

Systems and processes for building up staff numbers

- 120 Prior to the Canterbury earthquakes, EQC's staff were geared towards the management of its Natural Disaster Fund, insurance and reinsurance functions. The organisation's limited in-house business support included information management (two roles), payroll (one role) and communications (one role). There were no in-house legal or human resource functions. There was also no plan to scale up these and other support functions (such as policy or Ministerial services) that would be needed in the event of a catastrophe.
- 121 Following the September 2010 earthquake, existing human resources and information management systems were used to service the increase in staff numbers. In some cases these were the same systems and processes that had been servicing 22 staff prior to the earthquakes such as payroll. The payroll system managed payments to permanent and fixed-term employees; temporary staff and contractors were paid through a separate system on receipt of invoice.
- 122 Some of the existing systems, particularly manual systems, struggled to cope with the increase in staff numbers, which at times required workarounds to minimise the impact of these system failures on business operations and staff members' personal lives. A notable example is the failure, on a number of occasions, of internal systems to make wage payments to field staff, requiring a senior manager to pay staff out of their own pocket to ensure staff were not returning home empty-handed (the senior manager was later reimbursed).

- 123 The systems that struggled to cope with the increased capacity were generally updated over time. For example, the payroll system was updated in April 2011, when it was considered resource intensive and increasingly error prone; it was later updated again in 2013. Such updates were generally undertaken in response to system failures.
- 124 In many cases, new systems and processes were required in response to the increase in staff numbers, such as rosters for field staff. Given the context in which staff were working and the drive to assess claims, basic support systems and processes were put in place, generally using Excel spreadsheets. A centralised process for tracking people working for EQC was not in place at this time, and was not introduced until 2013 when a combined human resource/payroll system was put in place. EQC relied on third-party providers to advise who was working for EQC at any particular point in time.

HUMAN RESOURCES INFORMATION SYSTEM

- 125 With a rapid expansion of staff at a time when there was no human resources system in place, documenting and monitoring employees was challenging. A human resources information management system, known as JadeStar, was introduced in 2013.
- 126 JadeStar was a combined human resource and payroll system that helped manage staff and for the first time removed many of the paper-based processes for taking leave. It also provided a database of employees and enabled regular reporting, which gave the Executive Leadership Team the ability to understand its workforce with more accuracy and detail.

TENURE AND WORKFORCE PLANNING

- 127 The most challenging factor that EQC competed with in the market from 2010 to 2015 was permanency. For EQC it was often not appropriate to offer permanent roles for a defined duration of work, however the organisation could, and did, ensure that pay rates were competitive. EQC also took steps to focus on making EQC a great place to work.
- 128 The lack of clarity in the business about how long the work would last meant that fixed-term agreements were offered for quite short periods. There is anecdotal evidence that this suited people who were on work visas, for example, but others preferred a more permanent role.
- 129 However this led to situations where people had their contracts extended multiple times while EQC determined the timeframes they were working to. This created uncertainty for staff and may have led to high turnover rates at times.

TRAINING

- 130 From almost immediately after the September 2010 earthquake it became clear that EQC would need to undertake training with the large number of new staff it was taking on. However, as with many other elements of the scale up of claims assessment and management, there were no set processes in place from the start.
- 131 For the first two years of work, new staff were provided training on information management systems that they needed for their work, although all the evidence points to this being ad hoc, and managed by their peers, rather than being organised from the corporate team.

TRAINING ON THE EARTHQUAKE COMMISSION ACT

- 132 It was not until 2015 that EQC started to provide training to EQC staff on the extent of cover under the Earthquake Commission Act 1993 for residential buildings. This training was colloquially referred to as the ‘traffic light training’ because it outlined a series of questions that EQC staff were to consider when determining whether a particular building element was earthquake damaged; and if so, questions to consider when determining whether the associated repair strategy met EQC’s reinstatement obligations under the Act.
- 133 EQC continued to provide the traffic light training to EQC staff throughout 2016-2018 and continues to provide the training to new or existing EQC staff who request refresher training. The training was regularly updated to take into account any court decisions.
- 134 In respect of residential land claims, EQC staff were provided with training so that they could explain the concepts of Increased Liquefaction Vulnerability, Increased Flooding Vulnerability and diminution of value to customers. This included developing conversation guides for staff so they were able to explain these complex concepts as simply as possible.
- 135 Training on other aspects of the Earthquake Commission Act 1993 was provided on request. For example, when the Canterbury Business Unit was established in 2018, in addition to the traffic light training, EQC provided training to all new and existing staff on the Act generally.
- 136 In 2017, EQC prepared the Insurer Manual for private insurers acting as EQC’s agents in response to the Kaikōura earthquake.³⁶ EQC staff are also encouraged to refer to the Insurer Manual when responding to other events, including outstanding Canterbury claims. The Insurer Manual covers residential building matters. EQC is considering the development of an equivalent manual for land claims.

³⁶ See Initial Briefing for the Purposes of the Inquiry, *History of the Earthquake Commission* (26 October 2018), page 42.

POLICIES

- 137 The nature of the organisation prior to the Canterbury earthquakes did not necessitate the same level and comprehensiveness of corporate policies as may be required by a much larger organisation. This changed quickly however with the rapid increase in the number of staff. A harassment complaint made by a staff member in November 2010 highlighted the need for policies on standards of behaviour.³⁷
- 138 In general, corporate policies were not rolled out across the organisation until the human resources team was in place. By January 2012, policies were in place for information management, standards of integrity and conduct, recruitment, and human resource delegations.
- 139 Later in 2012, policies relating to flexible work, and various types of leave such as annual leave, sick leave, and parental leave. These policies have been amended on a regular basis since then, and form the basis of EQC's corporate policies to this day.

Health, safety and wellbeing

- 140 EQC's approach to health and safety also developed over time. Prior to 2010, health and safety was largely considered the responsibility of independent assessors contracted to EQC or the responsibility of the outsourced providers supplying loss adjusters. The organisation did not have a health and safety management information system in place.
- 141 EQC's offices were audited from a health and safety perspective in September 2010 and January 2011 (see paragraphs 166 to 175 below). By the second audit, hazard identification was showing that some controls needed to be improved, and that the most notable of these hazards was stress and fatigue for the teams of field staff on rotation.
- 142 In the auditor's opinion, the roster of field staff was unsustainable due to the length of the response time for the event and the complexity of work being undertaken.³⁸ The three week on, one week off roster and long work days for field staff was contributing to this, with the auditor stating:

It is recommended that the rotation pattern be reconsidered to reduce the effects of fatigue and to allow staff to have a proper break and spend some time with their families and catching up on other responsibilities. One pattern that could be considered is moving from three weeks on and one off to three weeks on and two off.

³⁷ Minutes of the EQC Board (15 November 2010).

³⁸ See Impac Risk & Safety Management Solutions, *Report on Earthquake Commission Field Offices in Canterbury* (January 2011), page 18 (report #5 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

It is also recommended that the time off during the tour be extended in order to allow staff to actually have a break from the work they are engaged in and still complete necessary tasks and errands. For example, extending the break from one day to one and a half days per week, with the Saturdays being made half-days.³⁹

- 143 These two recommendations may have reduced a growing contractor attrition rate, and the fatigue and strain on existing teams. This issue was noted in the September 2010 report as one that would require consideration as the response period extended.
- 144 While the intensive roster may have been appropriate for a short period, it was not sustainable over the longer-term; however, it did not change as the work programme increased.
- 145 In 2012, health and safety became more prominent in EQC and the Canterbury Home Repair Programme. Senior level health and safety specialist appointments were made in both EQC and Fletcher EQR. Health and safety was seen as a critical success factor and in some ways an indicator for other aspects of performance of the Canterbury Home Repair Programme.
- 146 EQC's National Health and Safety Manager stated in March 2013 that over the next two to three years, it was EQC's intention to move from a culture of regulatory compliance to best practice in health and safety management. Due to the enormity of the change to the organisation since the September 2010 earthquakes, the short-term focus needed to be on achieving and improving statutory compliance.⁴⁰
- 147 Safe6 was one of the key health and safety initiatives put in place by EQC.⁴¹ A joint EQC/Fletcher EQR campaign, Safe6 was initiated in response to evidence from similar scale projects overseas showing that up to ten fatalities on Canterbury Home Repair Programme worksites should be expected over the course of the Programme. The campaign highlighted the six most likely causes of a fatality on a work site and how to avoid them:
- a falls from height;
 - b confined/restricted spaces;
 - c electrical danger;
 - d motor vehicles;
 - e personal threat; and
 - f asbestos exposure.

³⁹ See Impac Risk & Safety Management Solutions, *Report on Earthquake Commission Field Offices in Canterbury* (January 2011), page 11 (report #5 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

⁴⁰ See Cosman Parkes, *Health and Safety Lessons Learned from the Canterbury Earthquake Response* (November 2015), page 4 (report #32 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

⁴¹ See Briefing to the Public Inquiry into the Earthquake Commission, *Canterbury Home Repair Programme* (24 June 2019), pages 39-40.

- 148 These risks were presented in a series of visual aids (e.g. posters, videos) in a simple and practicable way to ensure the information was accessible to all personnel involved in the Programme. The aim of the campaign was ultimately to ensure all staff, contractors and tradespeople got home safe each night. The campaign was believed to have contributed to a reduction in injuries.
- 149 EQC and Fletcher EQR staff often faced verbal or other threats in carrying out their jobs. A significant number of threats were received in 2013 (over 100, from minor to major), which led to a number of changes in EQC such as introducing formal health and safety procedures for a threat response.
- 150 This included a lock down procedure for EQC offices, which, if activated, would require staff in EQC offices to remain in a secure environment, and staff in the field to remain off site until advised they could return to the office. EQC also introduced a text alert system which sends a text message to all staff in the case of a major event or incident.
- 151 EQC has continued to receive a small number of threats since then, most recently a well-publicised incident in early 2019 that led to management introducing a new range of safety and security actions across EQC's sites.⁴²

Wellbeing

- 152 As a disaster recovery organisation, EQC needed to be mindful of staff wellbeing and the many and varied ways in which staff wellbeing may be affected. A range of factors had the potential to affect staff wellbeing, including:
- a continuous earthquakes and aftershocks for locally-based staff;
 - b exposure to damaged property;
 - c negative media coverage of EQC, and increasingly negative public perception of the organisation;
 - d dealing with stressed customers; and
 - e threats made against staff members and the organisation.

⁴² See Stuff, *EQC received threatening letter that referenced Christchurch mosque attacks* (14 May 2019), <https://www.stuff.co.nz/national/christchurch-shooting/112720013/eqc-received-threatening-letter-that-referenced-christchurch-mosque-attacks> and RNZ, *Earthquake Commission tightens security after threat* (14 May 2019), <https://www.rnz.co.nz/news/national/389195/earthquake-commission-tightens-security-after-threat>.

- 153 The majority of staff were based in Christchurch. In addition to working in an environment that was often stressful, these staff were also going through their own recovery journeys which often included dealing with their own insurance and EQC claims, supporting stressed friends and family, and living in damaged homes. EQC was careful to ensure that its staff's EQC claims were not prioritised, however (like other EQC customers) this may have contributed to staff stress. Any one of these factors or those listed above could have an adverse effect on a person's wellbeing – experiencing multiple stressors was likely to have had a compounding effect on staff.
- 154 Many field staff, particularly in the period prior to 2012, lived outside of Christchurch but would spend three weeks in Christchurch for their rostered shift, before a week's break. While these staff may not have been experiencing some of the stressors set out above, they were spending prolonged periods of time away from their families and working long hours.
- 155 Anecdotal evidence suggests that the working environment contributed to increased motor vehicle accidents, increased fatigue, and the breakdown of personal relationships for some staff members.
- 156 Wellbeing initiatives that were put in place were generally to support staff in their work environment, rather than to change the work environment. Initiatives were ad hoc until a Wellbeing Strategy was put in place in 2015, bringing together the various wellbeing support measures that existed in the organisation. These initiatives included medical checks and vaccinations, provision of a group medical insurance scheme, a flexible work policy, and an employee assistance programme.
- 157 Today EQC continues its focus on staff wellbeing, and an organisation-wide programme in early 2019 saw large numbers of staff take part in a range of initiatives. These included workshops to support staff focus on physical and mental wellness, as well as more specific actions to improve the culture of the organisation.

Internal complaints processes

MANAGING EMPLOYEES

- 158 In 2011, with a Human Resources team in place, the tools and processes needed to support managers in their people management functions were developed or, where there had been some in place, adapted to reflect the new size and functions of the organisation. In practice, however, these tools and processes, such as an annual performance and remuneration review process, were not used consistently across the whole organisation.

- 159 At the time of the September 2010 earthquake, EQC did not have any complaint handling or resolution processes in place for staff conduct issues. By October 2010, EQC had employed two staff members who were dedicated to managing general complaints, however a basic complaints handling process was only implemented in December 2010. A formal process for the receipt, lodgement and handling of complaints was adopted in July 2011.
- 160 In September 2012, EQC issued instructions on complaints about EQC staff, Fletcher EQR staff and/or contractors. These instructions clarified the requirement for all complaints about staff to be notified to the Manager of the Customer Complaints and Resolution Team who would then assess those complaints.
- 161 In practice, complaints about staff conduct (as well as other issues including disagreements about assessments or repair strategies, etc.) were coming into EQC through a number of channels, such as email, EQC's 0800 number, emails directly to the Chief Executive or Chair, and directly to field staff.⁴³ Sometimes these complaints were dealt with at the point of entry through different processes across various parts of EQC, rather than through the centralised complaints resolution process.
- 162 In response to media reports in 2015 suggesting that complaints against EQC staff had not been appropriately followed up or investigated, EQC commissioned an external review to look at the processes, policies and procedures it used to respond to and resolve complaints about the conduct or behaviour of an EQC staff member.⁴⁴
- 163 That review found, among other things, that there was no end-to-end process designed to ensure conduct complaints were managed efficiently and responded to appropriately, and there was no systematic reporting of conduct complaints to senior management, the Chief Executive or the Board.
- 164 The review made a range of recommendations to EQC, many of which EQC agreed with,⁴⁵ including that processes and procedures for handling staff conduct complaints is standardised across the organisation, with a set of overarching principles that underpin EQC's approach towards conduct complaints, such as openness, transparency and fairness. It also recommended that responsibility for all conduct-related complaints should be overseen by a member of the Executive Leadership Team who is functionally separate from the customer services complaints team and human resources function.

⁴³ See Briefing to the Public Inquiry into the Earthquake Commission, *Resolving disputes with customers arising from the Canterbury earthquakes* (18 July 2019), pages 11-14.

⁴⁴ See Morrison Low, *Managing Complaints about Staff Conduct* (April 2016) (report #34 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

⁴⁵ Morrison Low, *Managing Complaints about Staff Conduct: Recommendations and ELT Comments* (27 January 2016).

Section Three: Key reports and reviews

- 165 This section explains the range of reviews and reports that have provided recommendations for how EQC could better manage its staff and capabilities. It also describes what actions EQC has taken in response to these reviews and reports.

Impac report on EQC Field Offices in Canterbury (September 2010)⁴⁶

- 166 The first Impac Risk and Safety report was commissioned by EQC as a way to assess its temporary field offices following the September 2010 Canterbury earthquake.
- 167 The report found that EQC's response had been fast and comprehensive and that EQC should be commended for the quality of the field offices it established and for the attention given to the office related health and safety needs of its staff and contractors.

RECOMMENDATIONS

- 168 The report made a small number of recommendations to improve EQC's health and safety processes following visits to field offices. These included the following:
- a measures for managing stress be instituted at all offices. These may include (but are not limited to) industrial chaplaincy, psychological assessment and support, an Employee Assistance Programme (EAP), onsite massage (particularly for the "fast track claims" and data-entry offices), and internal support structures such as staff activities and other measures;
 - b the roster system be reviewed following the next rotation of three weeks, taking into account the sleep debt and fatigue of the current teams; and
 - c advertising for EAP is made visible in all field offices.

EQC'S RESPONSE TO THIS REPORT

- 169 EQC management accepted the recommendations of the report, however the response to the February 2011 earthquake overtook the work that was planned. EQC did make changes to how it helped staff manage stress and instituted a revised roster for staff in the weeks following the February 2011 earthquake.

⁴⁶ Impac Risk & Safety Management Solutions, *Report on Earthquake Commission Field Offices in Canterbury* (September 2010) (report #2 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

*Impac report on EQC Field Offices in Canterbury (January 2011)*⁴⁷

- 170 Impac's second visit to field operations in Canterbury confirmed that good premises had been secured for EQC's use, and a good deal of effort had occurred to ensure that they were safe locations for staff.
- 171 The report also noted that EQC's response to this event was in its fifth month and there were still a huge number of claims to be inspected, a number which grew following each major aftershock. The response to the event was the largest operation that EQC had ever been involved with, and the length of the likely ongoing response time may require fresh thinking in order to sustain the excellent work done up until that time.
- 172 The report also identified that some hazard controls needed to be improved. The most notable of these hazards was stress and fatigue during tours and the associated factors arising from protracted dislocation from the home environment.
- 173 It also noted that retaining the pool of experienced people must be a priority for EQC, in order to maintain the momentum of inspections and claims administration. A change to the roster system was likely to be the single greatest preventer of further accidents and attrition of contractors that EQC could make.

RECOMMENDATIONS

- 174 The report made a wide range of recommendations to improve EQC's health and safety processes, while noting the effort that had been undertaken since the first report. These included the following:
- a the rotation schedule be reviewed;
 - b the time off during tours be reviewed;
 - c field teams be encouraged to share driving, either trading each day or within the day where longer distances are covered;
 - d any accident that has the potential to have caused serious harm be investigated by a trained accident investigator, in order to assess whether there were any further practicable steps that EQC could have taken to prevent the accident, and what measures can be put in place to prevent recurrence;
 - e ladders be inspected after every tour;

⁴⁷ Impac Risk & Safety Management Solutions, *Report on Earthquake Commission Field Offices in Canterbury (January 2011)* (report #5 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

- f a formal re-induction process for subsequent tours to update returning contractors with changes that have occurred in their absence, separate from any briefings given by the pod leader, is introduced; and
- g EQC prepare a more comprehensive hazard register specifically for the Canterbury events, as hazards observed by Impac appeared in all sites viewed.

EQC RESPONSE

- 175 EQC management accepted the recommendations of the report, and a large number of the recommendations were introduced into EQC procedures following the February 2011 earthquake.
- 176 The recommendations were also used later in the year when more formal policies were introduced by the new Human Resources Director and team.

Audit of EQC human resources function (April 2011)⁴⁸

- 177 In early April 2011, EQC's new Human Resources Director undertook an analysis and audit of EQC's Human Resources function and activities. The report was provided to the EQC Leadership and provided a wide range of recommendations on how to improve processes and systems.
- 178 The report noted that:
- a to fulfil the needs of its stakeholders EQC has to make sure its infrastructure, governance, and capabilities are robust, sustainable and value for money; and
 - b areas of focus include the structure of EQC and its current operating model, recruitment and selection process, employment agreements, position descriptions, EQC's performance management / appraisal system, remuneration framework, health and safety compliance, employee engagement, internal communications and organisation capability.

RECOMMENDATIONS

- 179 The report recommended that EQC undertake work in the areas of:
- a structure / change management;
 - b recruitment and selection;
 - c employment agreements, and contracts;
 - d policies and procedures;

⁴⁸ Memorandum to EQC Executive Leadership Team, *Report on Audit of HR Function in EQC* (1 April 2011).



- e managing performance;
- f remuneration;
- g health and safety;
- h employee engagement including internal communications; and
- i leadership development / succession planning.

EQC'S RESPONSE TO THIS REPORT

- 180 EQC accepted the finding of the report, and approved the immediate recruitment of additional Human Resources Advisors to support the implementation of a programme of work to address the recommendations.

*KSJ Associates report on recruitment processes in Christchurch (March 2012)*⁴⁹

- 181 Throughout late 2011 and early 2012 there was ongoing media and public commentary about EQC's hiring practices. EQC sought an independent review of the recruitment processes that were carried out by EQC due to the nature of the criticisms and allegations.
- 182 EQC therefore appointed Wellington-based human resources consultancy KSJ Associates to conduct the review of its recruitment process for 2012 field staff in Canterbury.
- 183 The reviewers reported their findings directly to the EQC Board to ensure transparency. The terms of reference were made public to keep the review process as open as possible. The terms of reference required KSJ to "investigate the Earthquake Commission's management and application of the selection process for 2012 field staff, to determine the fairness of the policies and processes that were used". The reviewers were both senior human resources professionals with experience in the public and private sectors.

RECOMMENDATIONS

- 184 The report made four specific recommendations that EQC should implement when EQC faced with similar situations or are in similar circumstances (that is, having contractors or staff in positions where they are required to assess the on-the-job performance of others). These were that EQC:
- a provide contractors in such a role with thorough training in performance management, performance assessment and the use of rating scales;

⁴⁹ KSJ Associates, *Earthquake Commission Review Report Christchurch 2012 Recruitment Processes (March 2012)* (report #10 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

- b ensure Field Office management (e.g. Field Office Managers and Field Office Supervisors) have their Pod Leaders carry out their performance management roles appropriately;
- c adopt as standard practice the use of a communications plan when managing change events; and
- d ensure communication to the field staff is timely and appropriate.

EQC'S RESPONSE TO THE REPORT

- 185 The report was considered by the Board of EQC, which noted that recruitment practices were an issue of significant concern. It therefore accepted all the recommendations. The Board Chair however was concerned enough with the high public interest in the report's outcomes that he commissioned a peer review of the report by the State Services Commission (see paragraphs 187 to 191 below).
- 186 The Board held off publicly releasing the KSJ Associates report until the peer review was completed.

Malcolm Inglis peer review of KSJ Associates report on recruitment processes in Christchurch (28 February 2012)⁵⁰

- 187 The EQC Board Chair asked the State Services Commission to peer review the report by KSJ Associates on recruitment practices. The State Services Commission then commissioned Malcolm Inglis, former Director of the State Services Commission, to undertake the peer review.
- 188 The Inglis report accepted that the recommendations made by KSJ Associates responded to weaknesses identified by their review. The Inglis report made two recommendations additional recommendations.

RECOMMENDATIONS

- 189 The two additional recommendations were:
- a that staff or contractors whose performance is being assessed be involved in the process and be given an opportunity to comment on the results; and
 - b that EQC include within its good employer policy an appeals process for those staff unsuccessful in applying for positions.

⁵⁰ Inglis and Broughton Ltd, *Peer Review of EQC report on Christchurch 2012 Recruitment Processes* (28 February 2012) (report #11 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

EQC'S RESPONSE TO THE REPORT

190 In his report to the Board in March 2012, the EQC Chief Executive noted that:

Mr Inglis makes two recommendations. One is that individuals should be involved in their own assessments. We agree that this is good practice and that it should occur in any normal setting (which this was not). Mr Inglis also recommends that a non-appointment appeals process be introduced as part of the EQC's good employer policy. It is our view that an appeals process would not have been appropriate in this circumstance (the candidates were independent contractors), and the time constraints would have made it impracticable.⁵¹

191 The Board of EQC further noted that; "the State Services Commission has confirmed that the key conclusions in the report by KSJ Associates Ltd on the 2012 Canterbury field staff selection processes (including those relating to alleged favouritism, bias or nepotism) are sound and that the EQC can have confidence in their findings."⁵²

Martin Jenkins draft report on EQC Response to Canterbury Events (1 March 2012)⁵³

192 EQC Commissioned Martin Jenkins to undertake an external review of how EQC had responded to the Canterbury earthquakes in early 2012.

193 The report was never finalised, but the draft report provided a series of observations and recommendations on how EQC could improve its response and also noted progress EQC had already initiated.

OBSERVATIONS AND RECOMMENDATIONS

194 The key recommendations were that EQC:

- a broaden its legislative mandate, clarify leadership, and re-order the organisation's priorities so that fund management and insurance processes underpin the overarching role of risk managing recovery from disasters;
- b reshape its business model to strengthen the central hub's ability to strategically manage its outsourced spokes, and modify the just-in-time approach to sustain a reserve capacity at the centre; and
- c escalate preparatory planning beyond events of largely predicted parameters to catastrophes with unknown dimensions, and deepen the layers, reach and skills of the on-call response.

⁵¹ See EQC Board paper, *Chief Executive's Report* (14 March 2012).

⁵² See EQC Board paper, *External reviews – recommendations and implementation* (3 April 2014).

⁵³ Martin, Jenkins & Associates Limited, *EQC Response to Canterbury Events: Lessons Learned* (1 March 2012)(draft) (report #13 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

195 Among the observations were that:

- a the Christchurch events exposed leadership gaps within EQC and that the Catastrophe Response Plan focused on getting the front line up and running, but did not focus on identifying and procuring leadership;
- b leadership and strategic capability need special attention because key management arrangements can slip when facing the operational pressures of a crisis;
- c that organisational corporate support arrangements were inadequate to support the needs of an organisation facing a flood of activity and rapidly increasing in size; and
- d EQC brought in new competencies and fresh perspectives, but missed opportunities to marry the systems knowledge of older staff with the management skills of the new staff.

EQC'S RESPONSE TO THIS REPORT

196 EQC received an early draft (dated 1 March 2012) of the report on 2 March 2012, which was never completed due to the announcement of the Treasury review expected to cover much the same ground.

197 However in an article posted to the staff intranet the organisation noted that:

As much as possible, EQC is dealing with the issues raised by the 'EQC Response to Canterbury Events: Lessons Learned' report. EQC is a rapidly-changing organisation as it moves through the phases of emergency response, substantive repairs and claim settlement and the eventual wind down. What is important at one moment rapidly becomes irrelevant as we move through the various phases in claim settlement.

EQC expects to complete Canterbury claim settlements by the end of 2014 – a year sooner than forecast. But the reality is that it will take years, if not decades, to complete the full reconstruction of Canterbury.

Ombudsman and Privacy Commissioner report on accessing EQC information in Canterbury (13 December 2013)⁵⁴

198 The report was produced following a joint investigation by the Ombudsman and Privacy Commissioner into EQC's handling of information requests in the Canterbury earthquake sequence context.

⁵⁴ Ombudsman and Privacy Commissioner, *Information fault lines: Accessing EQC information in Canterbury* (13 December 2013) (report #19 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

- 199 The report noted that timely, full, and clear and accurate information is especially critical in the context of disaster recovery to allow a community to rebuild, particularly so in the Canterbury context. As a result of the Canterbury earthquake sequence EQC received unprecedented volume of claims and with them a significant increase in the number of people seeking information from EQC about their claims.

RECOMMENDATIONS

- 200 The key recommendation relating to staff was that EQC should review the training and guidance material for Customer Channels Team staff to ensure that it:
- a provides clear, comprehensive and accurate information about the application of the Official Information Act and the Privacy Act; and
 - b provides sufficient information on assessing and interpreting claim file material to enable all staff to respond to requests for claim file information with confidence and clarity.

EQC'S RESPONSE TO THIS REPORT

- 201 EQC management accepted all the recommendations of this report and noted that EQC has a number of work streams underway to address the 13 recommendations (21 action points) from the Chief Ombudsman's and Privacy Commissioner's report into EQC's management of information requests.
- 202 EQC then undertook to review the range of information that the Customer Channels Team was authorised to release to requesters with a view to significantly increasing it. EQC also recruited additional staff to form the backlog team processing outstanding information requests.
- 203 By 2015 EQC aimed to fully meet its statutory obligations and Minister's expectations with respect to the management of and response to Official Information Act requests. EQC cleared the backlog by May 2014.

*Linking Strategy to Implementation review of customer interactions (November 2014)*⁵⁵

- 204 EQC appointed Linking Strategy to Implementation Consulting to undertake a comprehensive review of the EQC customer interaction model in order to understand key issues and gaps. The review focused specifically on customer enquiries, requests for information under the Official Information Act and the Privacy Act, and customer complaints.

⁵⁵ Linking Strategy to Implementation, *Customer Interaction Review* (November 2014) (report #24 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

- 205 The overall objective of the review was to deliver a proposal on how EQC could deliver an improved and sustainable operating model for managing all aspects of customer interactions and responding to customer enquiries, Official Information Act requests, and complaints.

RECOMMENDATIONS

- 206 The report noted that EQC needed to place a greater emphasis on training and skills development for:
- a provision of opportunity and the necessary authority for frontline functions to resolve issues first; and
 - b individual development related to customer interaction experience (customer centricity).

EQC'S RESPONSE TO THIS REPORT

- 207 EQC accepted the recommendations and the People and Structure team were tasked with leading the implementation of changes across the business.
- 208 Over the following months the team implemented a number of specific actions including:
- a creating a single Customer and Claims business unit to take a national approach to claims management; and
 - b re-integrating of the customer complaints and queries function to EQC to ensure a more managed and consistent customer experience.
- 209 The team also led a new emphasis on training and skills development that included:
- a the development of a writing skills training package with all complaints investigators will have completed by the end of November 2015;
 - b customer communications workshops for all estimators and assessors to provide enhanced customer care training; and
 - c piloting an internally developed landslip training course in November 2015.

Cosman Parkes report on health and safety lessons learned from the Canterbury earthquake response (November 2015)⁵⁶

- 210 This report was commissioned after the EQC Health and Safety Board Committee requested that EQC undertake a health and safety review.

⁵⁶ Cosman Parkes, *Health and Safety Lessons Learned from the Canterbury Earthquake Response* (November 2015) (report #32 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

- 211 The report sought an understanding of the adequacy of EQC's health and safety processes and procedures that were in place across EQC prior to the Canterbury earthquakes and whether they were well developed and implemented.
- 212 It also looked at how EQC had put health and safety processes into operation immediately following the earthquakes and the adequacy of the health and safety response.

RECOMMENDATIONS

- 213 The report made a wide range of recommendations. The most pressing was that:

EQC develop an overarching strategic vision for post-event health and safety recognising that huge projects such as the Canterbury rebuild present opportunities not just to repair, but also to make better. This could be modelled on the London 2012 Olympic Delivery Authority Legacy approach of 'safe (no fatalities, low accident rate), healthy (no occupational ill health) and wellbeing (everyone healthier for working on the programme)'.

EQC'S RESPONSE TO THE REPORT

- 214 In response to the report EQC's Health and Safety team began a project of work to both incorporate requirements from the (then) new Health and Safety at Work legislation, while also updating EQCs policies and procedures for health and safety.
- 215 At the EQC Board meeting of 22 February 2016 it was noted that the recommendations from the report had been incorporated into the Health and Safety Business Plan for 2016.

Morrison Low report on managing complaints about staff conduct (April 2016)⁵⁷

- 216 Complaints about staff are a subset of complaints generally. Appropriately responding to these types of complaints is central to EQC's future aspiration of being a customer focused organisation. EQC commissioned this external review in November 2015 to look at the processes, policies and procedures used in responding to and resolving complaints about the conduct or behaviour of any EQC staff member.

⁵⁷ Morrison Low, *Managing Complaints about Staff Conduct* (April 2016) (report #34 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).



RECOMMENDATIONS

217 The report recommended that EQC:

- a standardise its processes and complaint systems, including the reduction of response timeframes to customers regarding their complaints;
- b designate responsibility for ethics and integrity, and for complaints systems and processes;
- c appoint a senior manager to have oversight of all conduct complaints, and ensure they were separated from the business area responsible for complaints;
- d undertake improved communications and training; and
- e improve reporting to the Executive Leadership Team and the EQC Board.

EQC RESPONSE

218 EQC accepted the recommendations of the report and within a month of receiving it the Chief Executive was able to report to the Board that:

The staff conduct review report has been finalised... We are currently anticipating releasing the report on Wednesday the 23rd of March and have prepared a briefing to the Minister. Learnings with respect to the specifics of the work will be updated with the Board verbally.⁵⁸

Report of the Independent Ministerial Advisor to the Minister Responsible for the Earthquake Commission (April 2018)⁵⁹

- 219 In 2018, Christine Stevenson, Acting Chief Executive of New Zealand Customs, was appointed by the Minister Responsible for the Earthquake Commission (the Minister) as the Independent Ministerial Advisor.
- 220 Her brief was to provide advice to the Minister to speed up the resolution of outstanding insurance claims to the EQC arising from the earthquakes that struck in Canterbury on or after 4 September 2010.
- 221 The Independent Ministerial Advisor's report made one major recommendation that was relevant to people and capability.

⁵⁸ See EQC Board paper, *Chief Executive's Report* (March 2016).

⁵⁹ *Report of the Independent Ministerial Advisor to the Minister Responsible for the Earthquake Commission* (26 April 2018) (report #41 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

RECOMMENDATION

- 222 That recommendation was that EQC hire another settlement team so that the case load for each team is approximately 100, which supports good familiarisation with each claim, and faster handling.

EQC RESPONSE

- 223 EQC accepted all the findings of this report, and began to implement them immediately. An additional settlement team was set up within two months of the report being finalised.
- 224 In July 2018, EQC then entered into a contract with Gallagher Bassett, Crawfords, and Cunningham Lindsay to provide additional claims settlement support. There were three main reasons for this. Firstly, EQC had identified an additional 930 claims that had not been reported on, during the migration from ClaimCenter 4 to ClaimCenter 8.⁶⁰ These extra claims were not known about when EQC accepted the recommendations of the report, and EQC did not have enough specialist staff in-house to manage them in a timely manner.
- 225 Secondly, EQC had continued to receive higher levels of claims inflow than had been expected and this was affecting the timely settlement of outstanding Canterbury claims.
- 226 Finally, there were only a limited number of settlement specialists available for recruitment, and EQC acknowledged it would struggle to hire further team members, especially given the urgent need to deal with the outstanding claims. Therefore it entered into a short-term contract with the three third-party providers to provide additional support. **Appendices 4-6** are a suite of papers to the EQC Executive Leadership Team and the EQC Board in July 2018 that discuss the implementation steps discussed above.
- 227 In July 2019, EQC extended the contracts with third-party providers for claims administration services for a further 18 months. **Appendix 7** is a copy of the paper to the EQC Board on these contract extensions. The paper estimated that the total whole-of-life cost of the contracts, if used to fulfil approximately 50% of business as usual claims as well as current Canterbury volumes, was approximately \$10 million (excluding GST).
- 228 In October 2018 EQC commissioned KPMG to undertake an independent review of progress against the recommendations of the Independent Ministerial Advisor. The November 2018 KPMG report found that all recommendations had actions against them and had either been addressed or had ongoing actions in progress.⁶¹

⁶⁰ See Briefing to the Public Inquiry into the Earthquake Commission, *Earthquake Commission Data* (1 April 2019), page 11.

⁶¹ KPMG, *Tracking of Recommendations Raised in the Independent Ministerial Advisors Report* (September 2018) (report #45 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).

Section Four: Lessons Learned

- 229 EQC's experience in responding to the Canterbury earthquakes, and subsequent events, has demonstrated that business support planning is critical to prepare for an event. However, as this briefing has shown, EQC did not always manage these critical aspects as well as it could.
- 230 The following section outlines some of the lessons that EQC has learned and provides an update on the current state of EQC's people and capability planning that aims to prepare the organisation for future events.

There is no such thing as 'business as usual'

- 231 The nature of the context in which EQC works – as a disaster recovery organisation – means that the organisation should never be in a state of 'business as usual'. No two disasters are likely to be the same, so there is unlikely to be a 'normal' state for the organisation. Whatever disaster EQC is responding to at any point in time, be it a catastrophe or a small-scale event, it should be preparing for the next event, ensuring its systems, processes, and people are ready to go.

Being prepared for a range of possible futures

- 232 As the events of the past nine years have shown, EQC needs to be prepared for a range of possible scenarios. These range from settling a few thousand claims a year, right up to responding to a catastrophic natural disaster (which may include taking on new or additional responsibilities).
- 233 It is not feasible for EQC to maintain a 'standing army' of staff to respond to all possible natural disasters, and nor would it be fiscally responsible to do so. This means that the EQC workforce will always be fluid. EQC will always need capability and capacity plans to accommodate and manage peak workflows following a natural disaster. Scaling up (and down) to meet demand will always carry risk relating to capability, training and skill.
- 234 It is with these points in mind that EQC management released an organisational change proposal to staff on 30 May 2019. The aim of this proposal was to prepare EQC for the near-future, and the continued reduction in Canterbury claims. See **Appendices 2 and 3** for a copy of the change proposal and the final decision document.

235 As the change proposal 9(2)(a) noted:

While previous claim volumes and accepted level of risk meant a devolved claims management strategy and approach was the right one, we now find ourselves in a position where more than 2,800 of the remaining 3,000 claims (93%) are Canterbury claims managed by Christchurch-based claims teams. We believe it is inefficient to continue to run two claims functions in multiple locations, so the proposal is to move to a single claims location, which will result in increased resource managing Canterbury claims in Christchurch.

Being prepared to add more than just additional staff

236 As this briefing has noted, EQC had arrangements in place prior to the Canterbury earthquakes to scale up claims assessment and processing at short notice, but it did not have equivalent plans to scale up support functions, such as human resources, information technology, information management, privacy, security, policy, procurement, Ministerial services and legal support.

237 Interviews with former staff members back this up. As a former senior manager noted:

I think in terms of getting some people on the ground and some outsourcing in place it definitely got to scale, yet we still needed to learn what it took to be a large organisation.

All the plans were for frontline resources but there was nothing around HR or control systems and community engagement. It was all about a claims system; it wasn't about a social agency or a large organisation that needs corporate functions in place to work effectively.⁶²

238 As noted above, it is clear that EQC cannot keep a 'standing army' on hand for any future natural disaster, and that the organisation has to plan how to best keep some functions in-house, and outsource others.

239 For the future, EQC needs to ensure that supporting functions beyond claims assessment and processing are able to be called on quickly to support rapid expansion of EQC. This means that scale up plans need to be in place before a major event, rather than be developed in response to one. EQC has begun to undertake these preparations, for example by recently establishing panels of legal and engineering third-party providers.

⁶² See Earthquake Commission, *Reflections From The Fault Line: Seven EQC staff tell their stories of the Canterbury earthquakes* (Draft)(2016), page 14.

Developing staff skills

- 240 As the response to recent natural disasters has shown, the ways that EQC will respond can (and often do) change at short notice. This can be due to the specific situation (such as the 2017 Edgecumbe floods) or because of Ministerial directions (such as in Canterbury).
- 241 To manage this, EQC needs staff who are agile and flexible, with the skills to work with a range of stakeholders in an ever-changing environment. The capabilities required of staff will depend on a range of factors such as the event, the scale of damage, and the approach EQC is taking to the event – cash settlement, managed repair, or other alternatives.
- 242 However regardless of the situation, some specific skills will be required such as commercial acumen, negotiation, procurement and the ability to build and maintain relationships both with government agencies and local communities. The challenge for EQC will be ensuring quick access to the right people in response to an event, without necessarily having a significant permanent staff base in between events.
- 243 At this point in time EQC has a large number of alumni who are working in the insurance industry, however over time that group will dissipate. Therefore workforce and skill planning needs to be regularly updated to ensure the organisation has a view as to all the resources it can call on at short notice.

Training (and re-training) plays a big role

- 244 The Canterbury earthquake sequence has shown EQC that, for future events, it needs to prepare a range of training materials, including clear guidance documents that set out the standard of repair required to comply with New Zealand law, and to make those known to staff.
- 245 This is shown in the ACUO reviews⁶³ of the Kaikōura response which highlighted that private insurance companies and EQC require different information from claimants, and had differing understandings of the Earthquake Commission Act 1993.
- 246 As EQC and the insurance industry continue to co-design models for working together in the future, it is likely that staff training (on both sides) will become more important.
- 247 For EQC, having a strong ongoing training programme (for new staff, and for private insurers staff) in place ahead of a natural disaster will ensure that there is a shared understanding and shared knowledge of key sections of the Earthquake Commission Act 1993.

⁶³ See ACUO, *External Reviews of the Response to the Kaikōura November 2016 Earthquake – Stage 1 report* (October 2013) (report #37 in Appendix 1, Briefing to the Public Inquiry into the Earthquake Commission, *External Reviews of the Earthquake Commission since 2010*, dated 4 March 2019).



Developing scalable technology

- 248 As this briefing has shown, EQC needs to be able to not only hire people, but to provide them with the work tools and technology to be able to do their job.
- 249 To prepare for future events, and growth of staff, EQC is currently working with a small range of information management companies to move to cloud-based software where practical. The intention is to enable staff to be brought on to the system quickly, and for the organisation to scale itself, as and where necessary.

EQC is part of the entire government recovery team

- 250 Immediately following the first Christchurch earthquake, EQC staff recall they were largely left alone by the other agencies of government, and were largely unknown.
- 251 In a major natural disaster it is clear that all government agencies need to have clearly defined roles, and know their place in the broader system. This also requires EQC to have a range of staff available who have relevant all-of-government experience.
- 252 Staff with policy and ministerial skills and experience negotiating the ‘machinery of government’ are essential to ensure alignment with other agencies, Ministers and Cabinet. Those people can work in tandem with other government agencies and help lead the response, and design what the longer term recovery process will look like.

Even deeper partnering with the insurance industry

- 253 Many of the people and capability challenges that EQC faced in response to the Canterbury earthquake sequence were challenges that private insurers were dealing with too.
- 254 The response to the Kaikōura earthquake showed that EQC can work closely with the private insurance industry in the response and recovery phases of a natural disaster. While the ‘agency model’ is not the answer for all natural disaster situations, it is one model that EQC and the industry may well use in future.
- 255 Therefore both EQC and the wider insurance industry should look to undertake joint planning on how they may access the right skills in bulk at short notice. These range from claims administrators, through to builders and engineers.
- 256 It is critical that strong relationships, both informal and in some cases with the support of formal agreements, are in place before an event occurs, and that these relationships are maintained outside of a recovery environment.

Managing third-party providers for the future

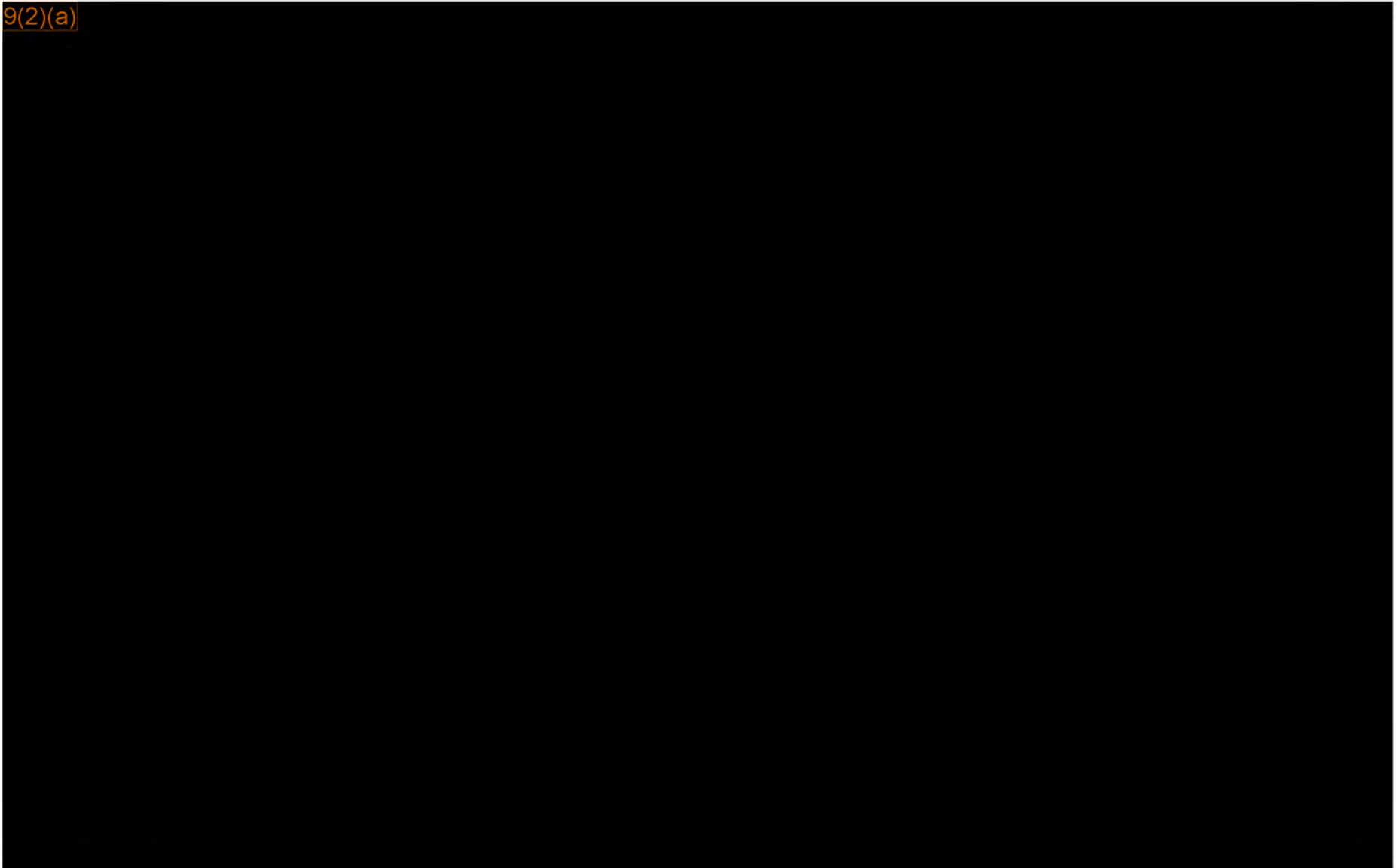
- 257 EQC's agreements and relationships with third-party providers was critical in the immediate aftermath of the September 2010 earthquake to enable EQC to scale up quickly. Over time, EQC was able to build up internal capacity to bring the functions in-house.
- 258 However those agreements were not always fit for purpose, and required amending (or in some cases, terminating). Having internal procurement and contract skills will ensure help contracts are robust and fit for purpose.
- 259 EQC currently has contracts in place with three third-party suppliers for the provision of administration services for natural disaster claims (see paragraphs 224 to 226 above). In addition, EQC has individual contracts with 21 estimators and assessors. These contracts were put in place in 2018 to provide claim assessment services to both Canterbury and business as usual events.
- 260 While EQC (and the wider government sector) are still determining the exact shape and scope of EQC's role for the future, EQC has determined that those agreements should be renewed for another 18 months.
- 261 In June 2019 the Board of EQC therefore agreed that EQC should extend the agreement for claim administration services with the existing providers for a period of 18 months (with a 30-day termination clause), encompassing requirements that will support the continued resolution of Canterbury claims and contracted scalable capacity for future natural disaster events.
- 262 The intention behind contracting these services on an interim basis was that it would provide EQC with a suitable alternative response option while future options continue to be developed.

Current change process

- 263 Over the last ten years, EQC has managed a number of events, all very different in nature and complexity. We have established event-specific response models to guide the way we work with customers and deliver services, supported by separate teams and processes. At times this has been necessary due to the volume and type of claims.
- 264 Today the organisation is in a very different position than at the time of the Canterbury earthquake sequence, and the years following. We are in the tail of Canterbury claims resolution, and are able to focus on how we can make sure we are better prepared to respond in the future.
- 265 Additionally, the Public Inquiry into EQC will fully explore what additional lessons can be learned from our response to recent natural disaster events.



- 266 The organisational change announced by EQC in June 2019 was based on the need for a standardised customer experience and claims management approach, ensuring clear roles and responsibilities, and minimal duplication across roles and teams.
- 267 Over the last decade there have been considerable advances in information technology and internet-related services that we can take advantage of as we build the future EQC. Technology will play an important enabling role in helping us become a more resilient organisation, deliver customer-centred services, and align our work and resources with our priorities.
- 268 The focus now is on building one operating model for the years ahead that has the customer at the centre, takes full advantage of new technologies, and is more effective at scaling and responding to multiple kinds of events. Through a blended response model we will convene, mobilise and activate an insurance response to events, taking a lead position within government and insurance sectors.



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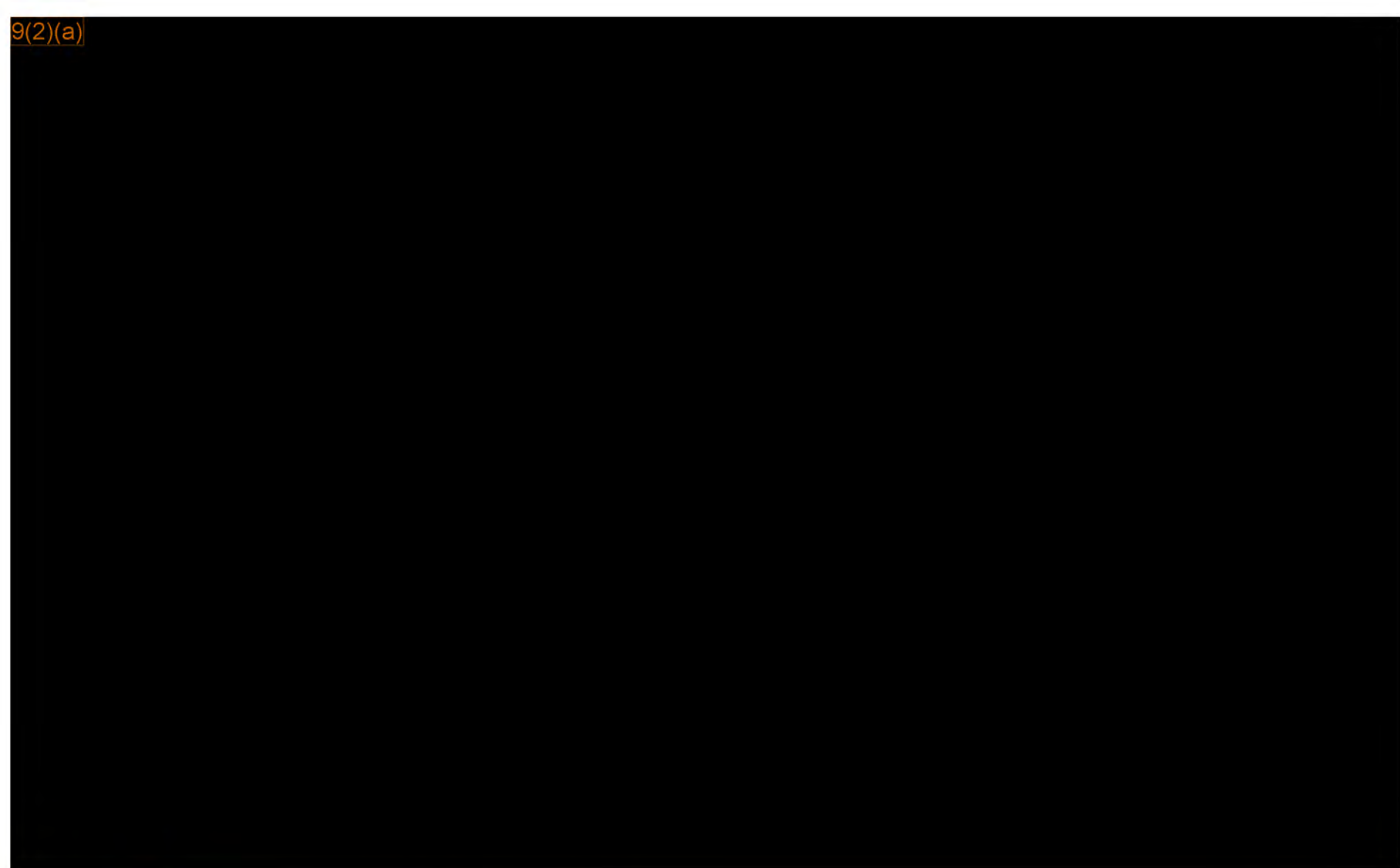
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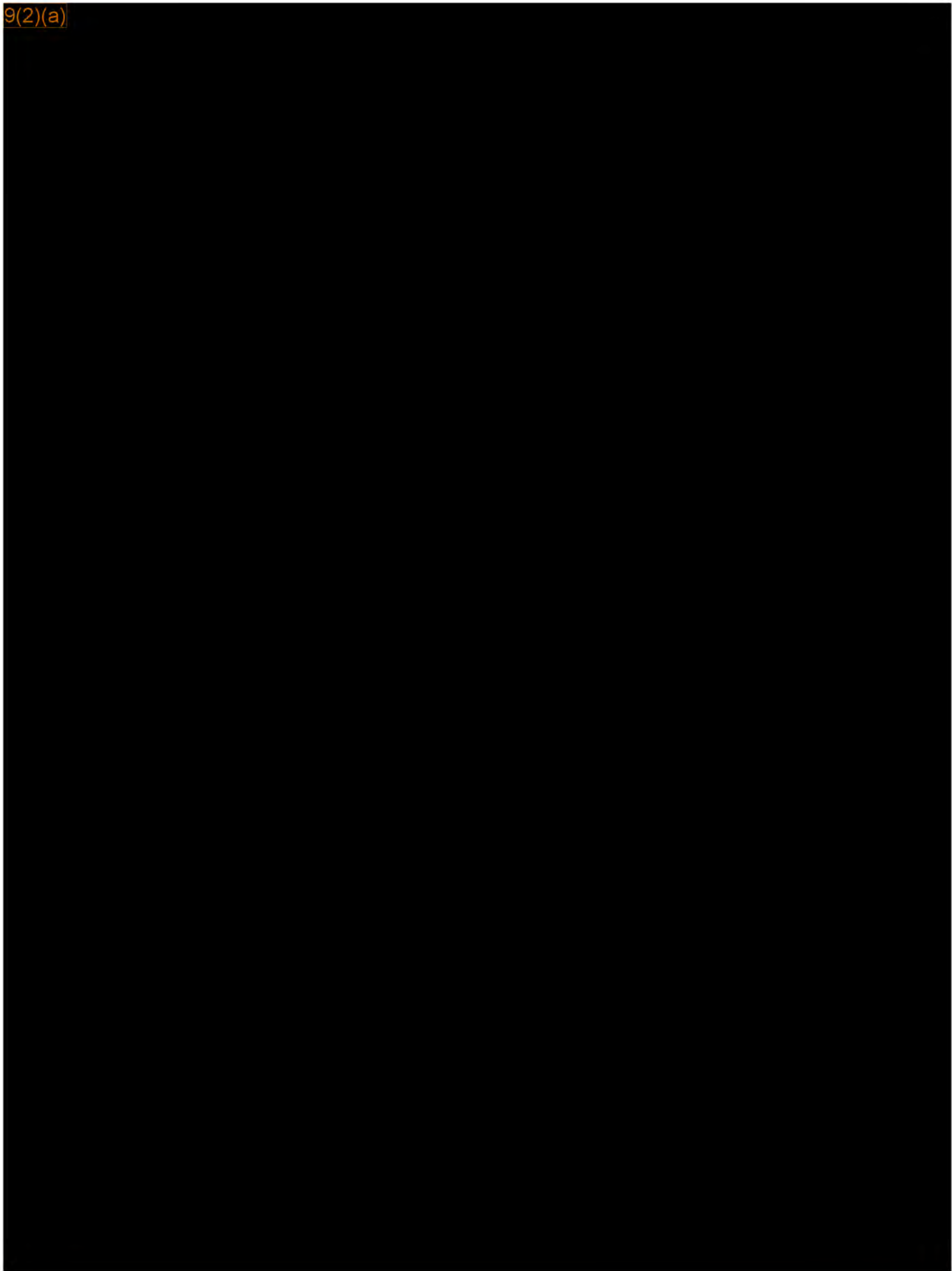




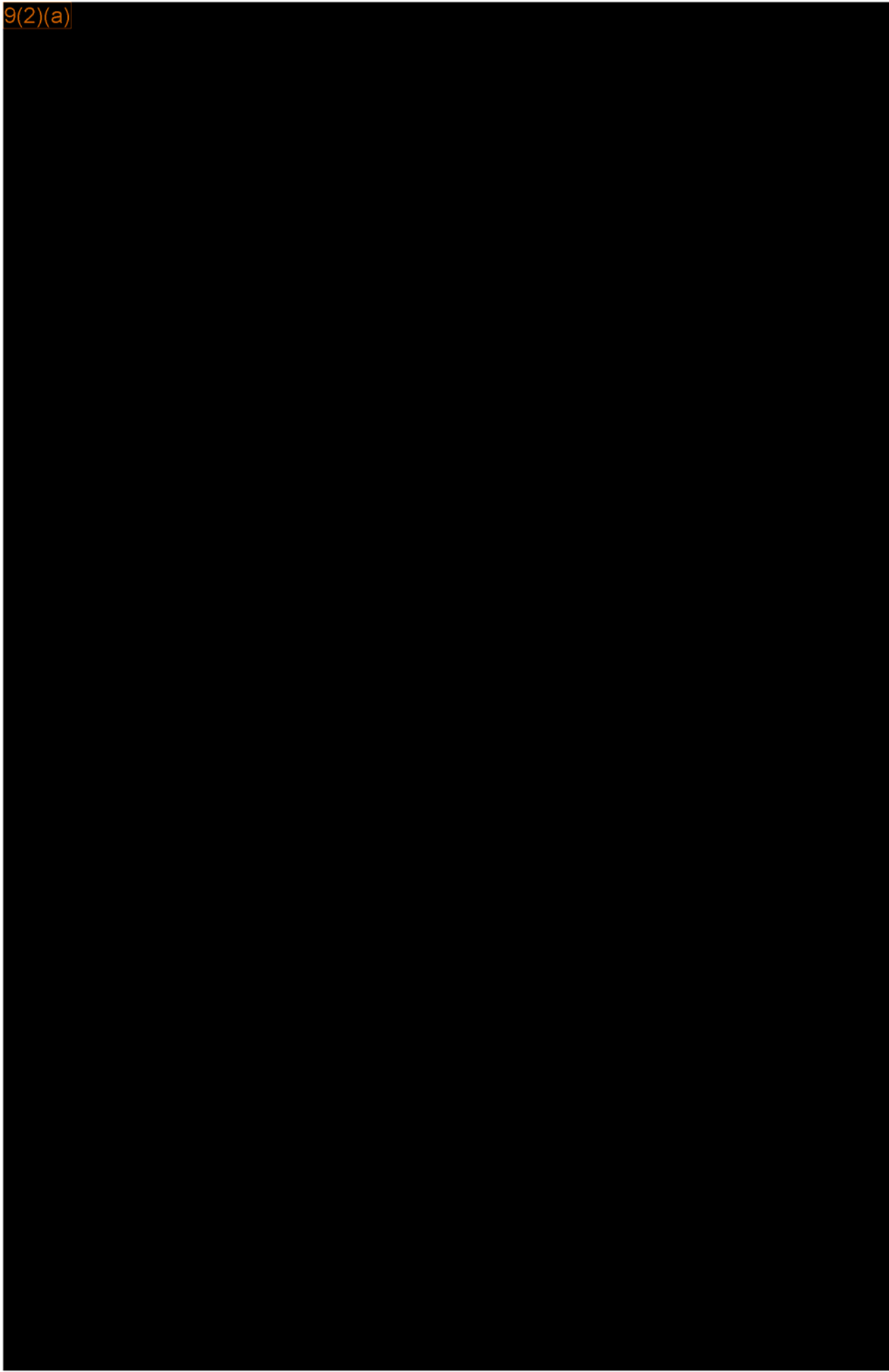
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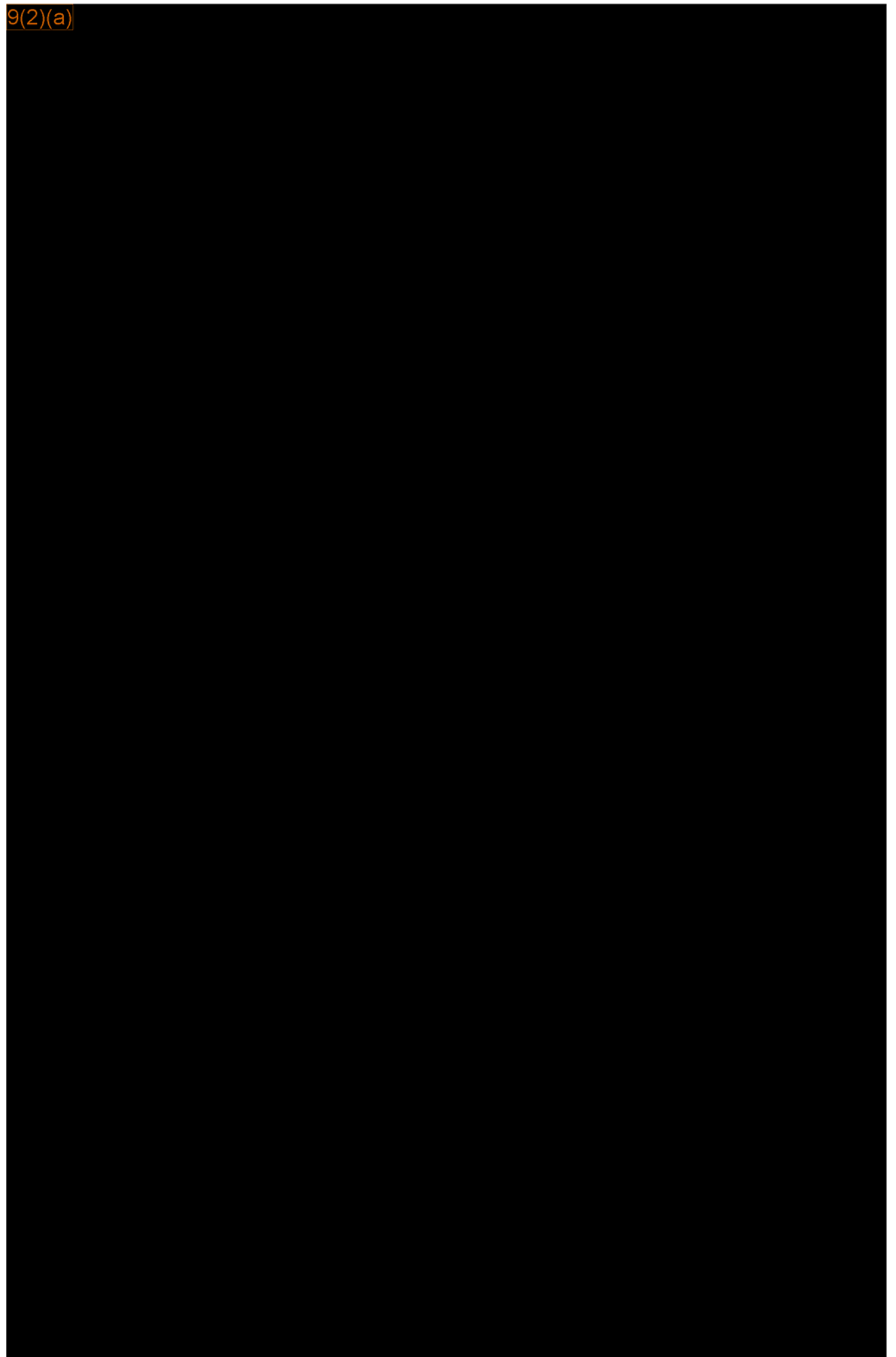


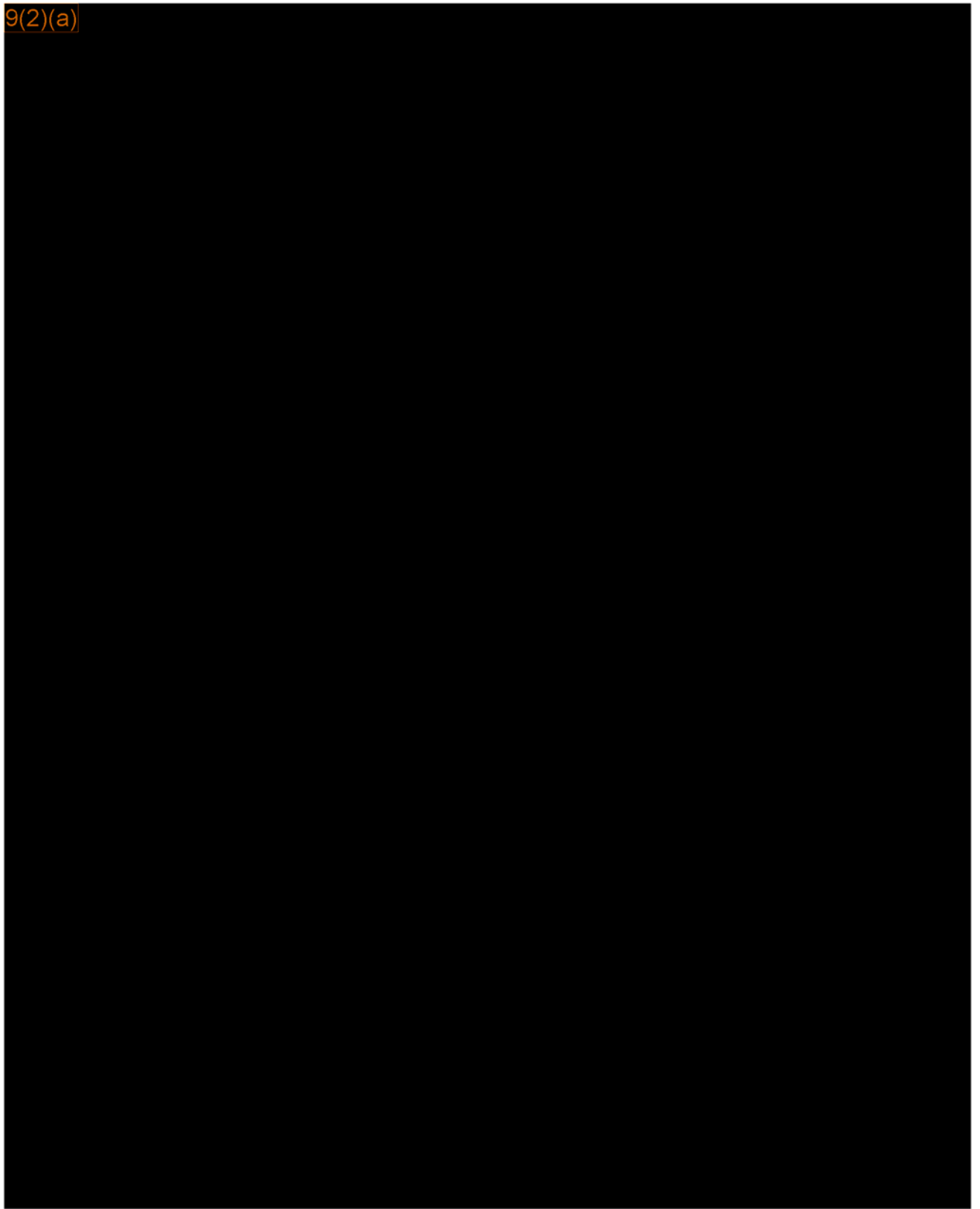
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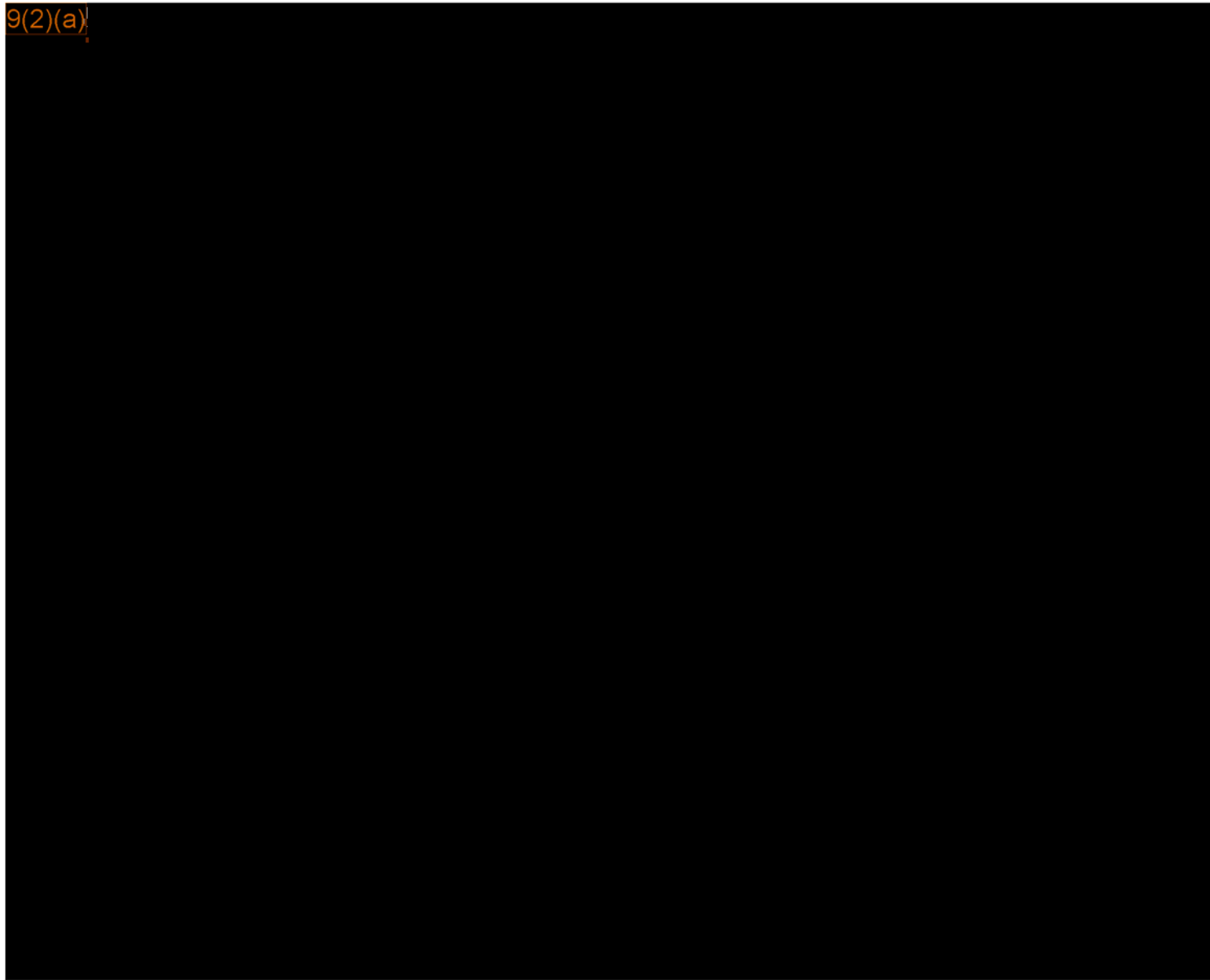


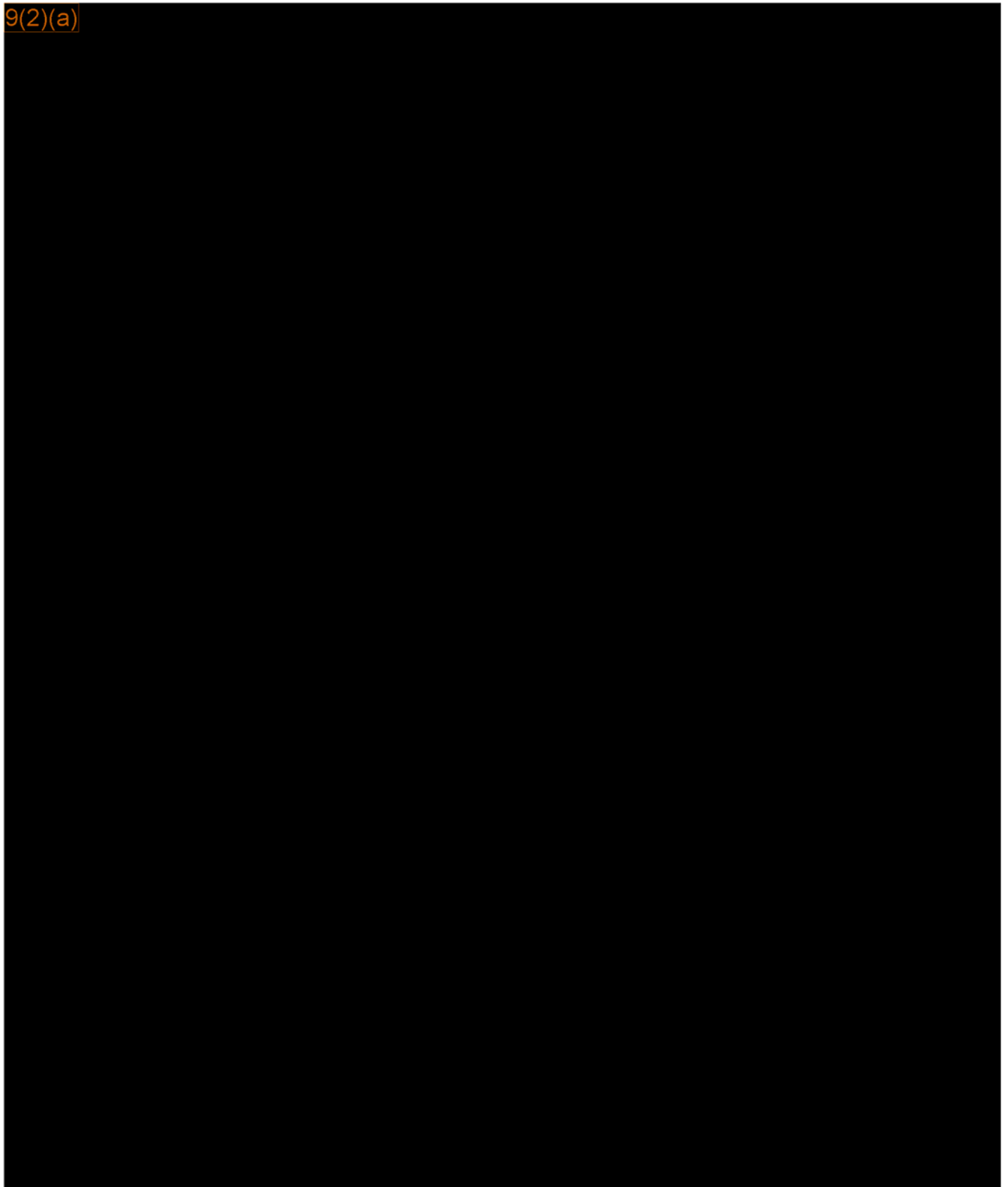




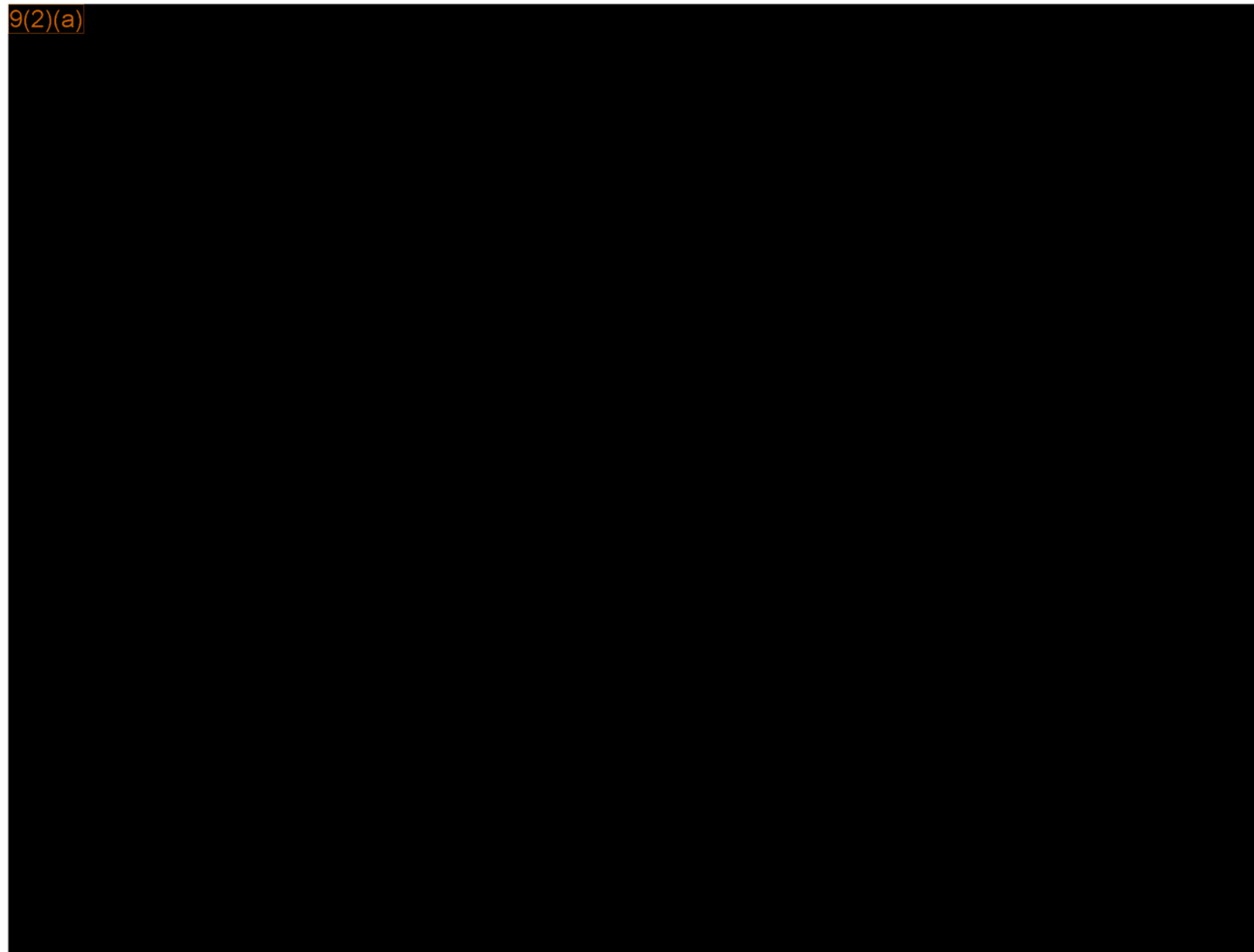


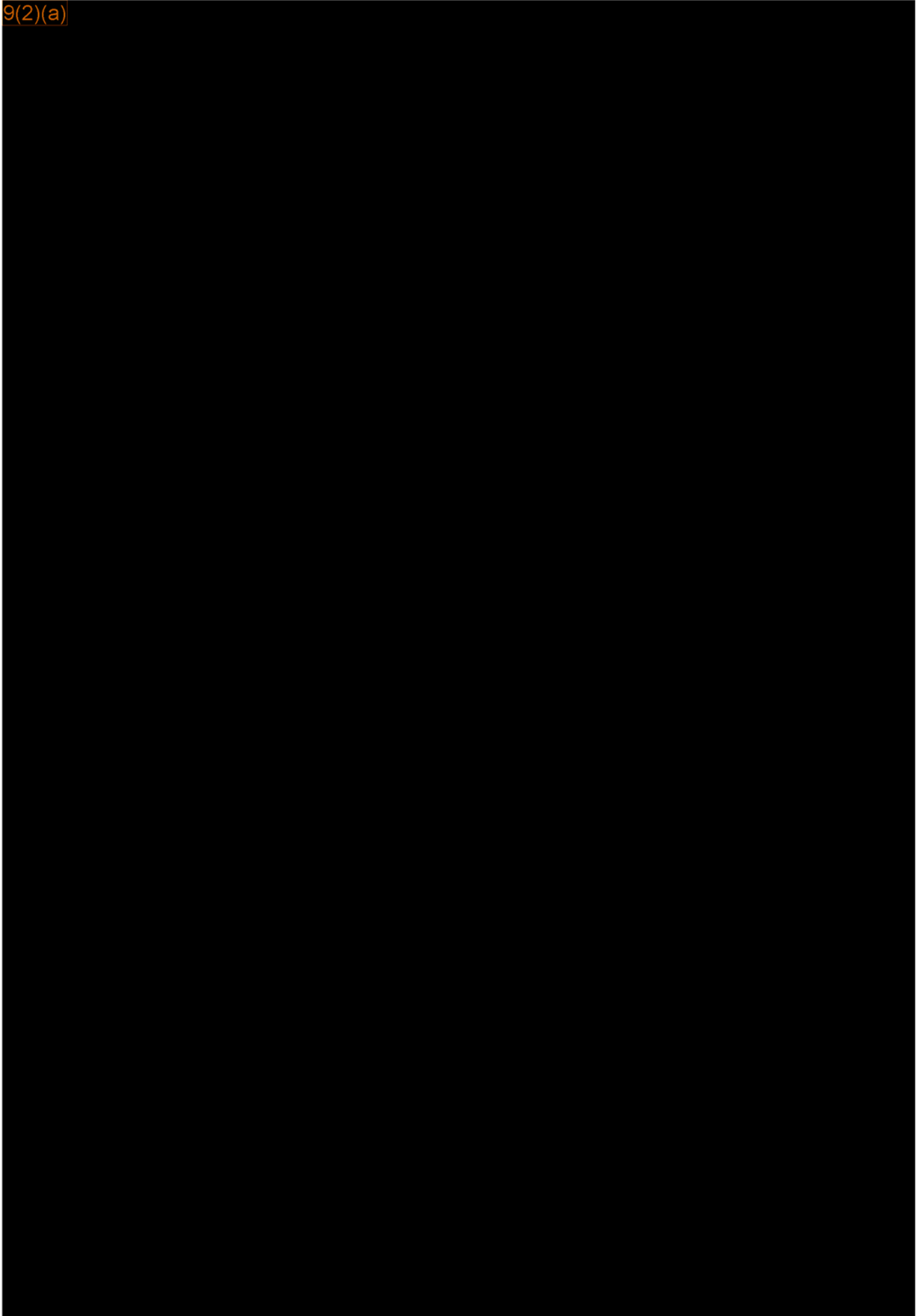














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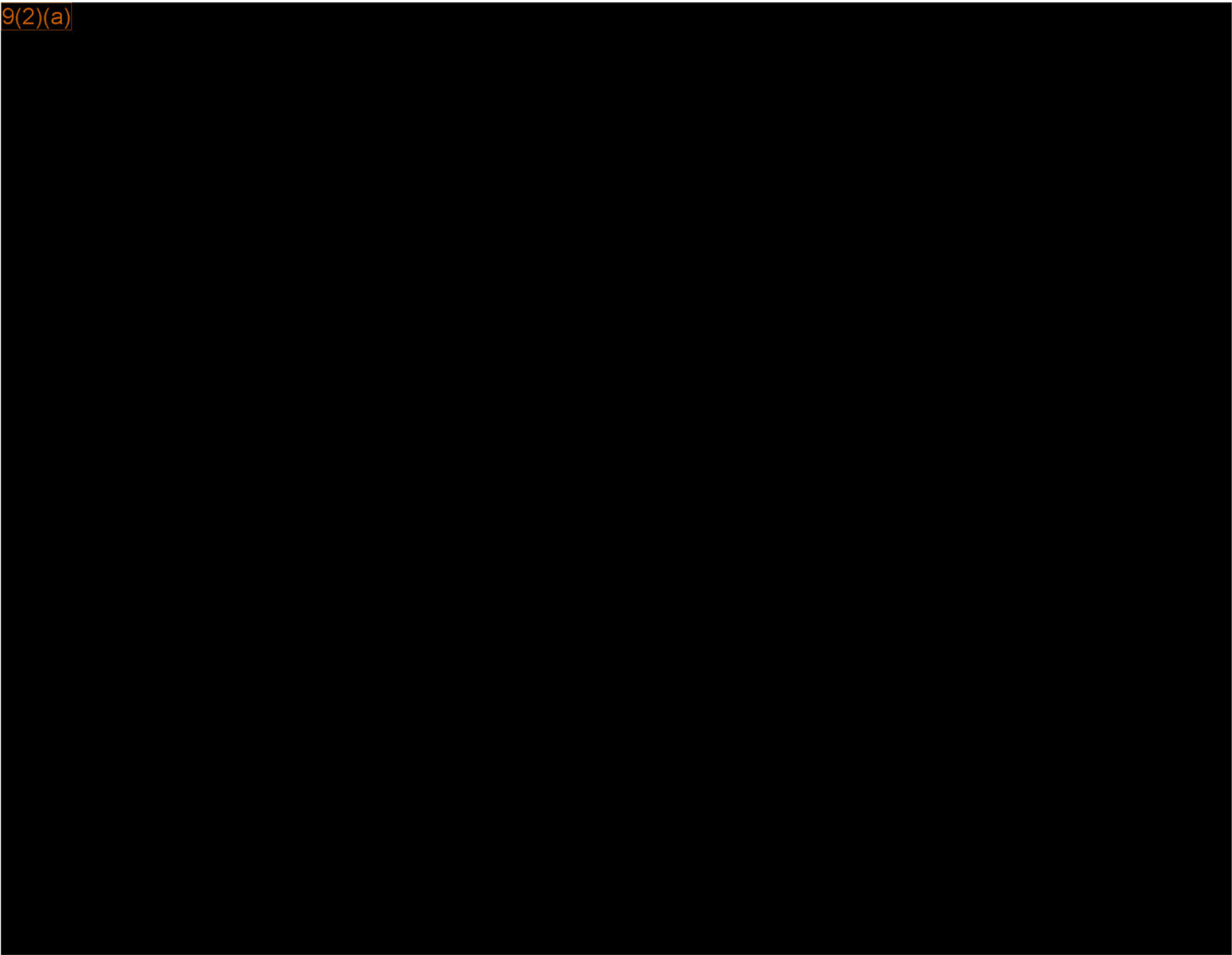


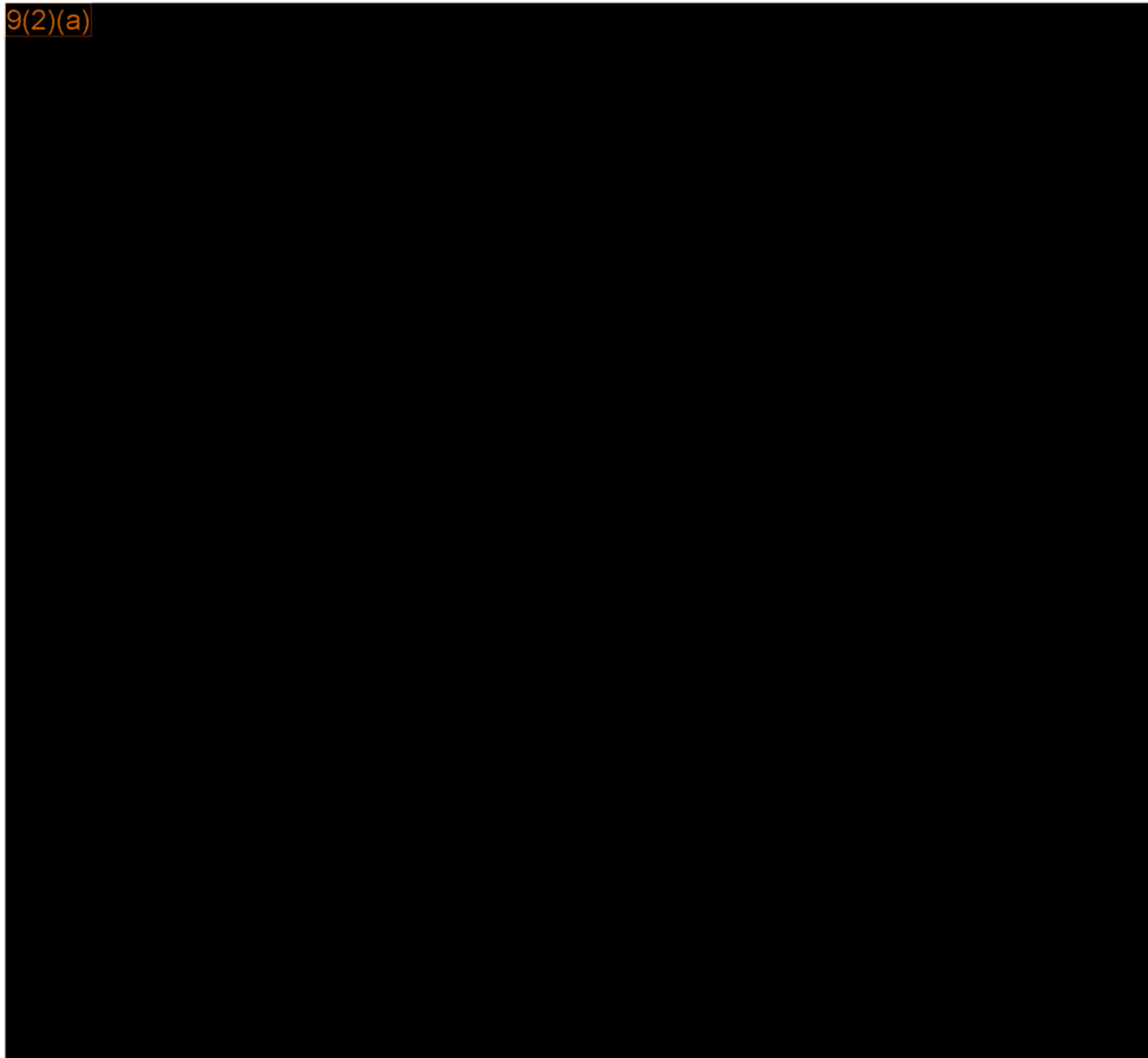
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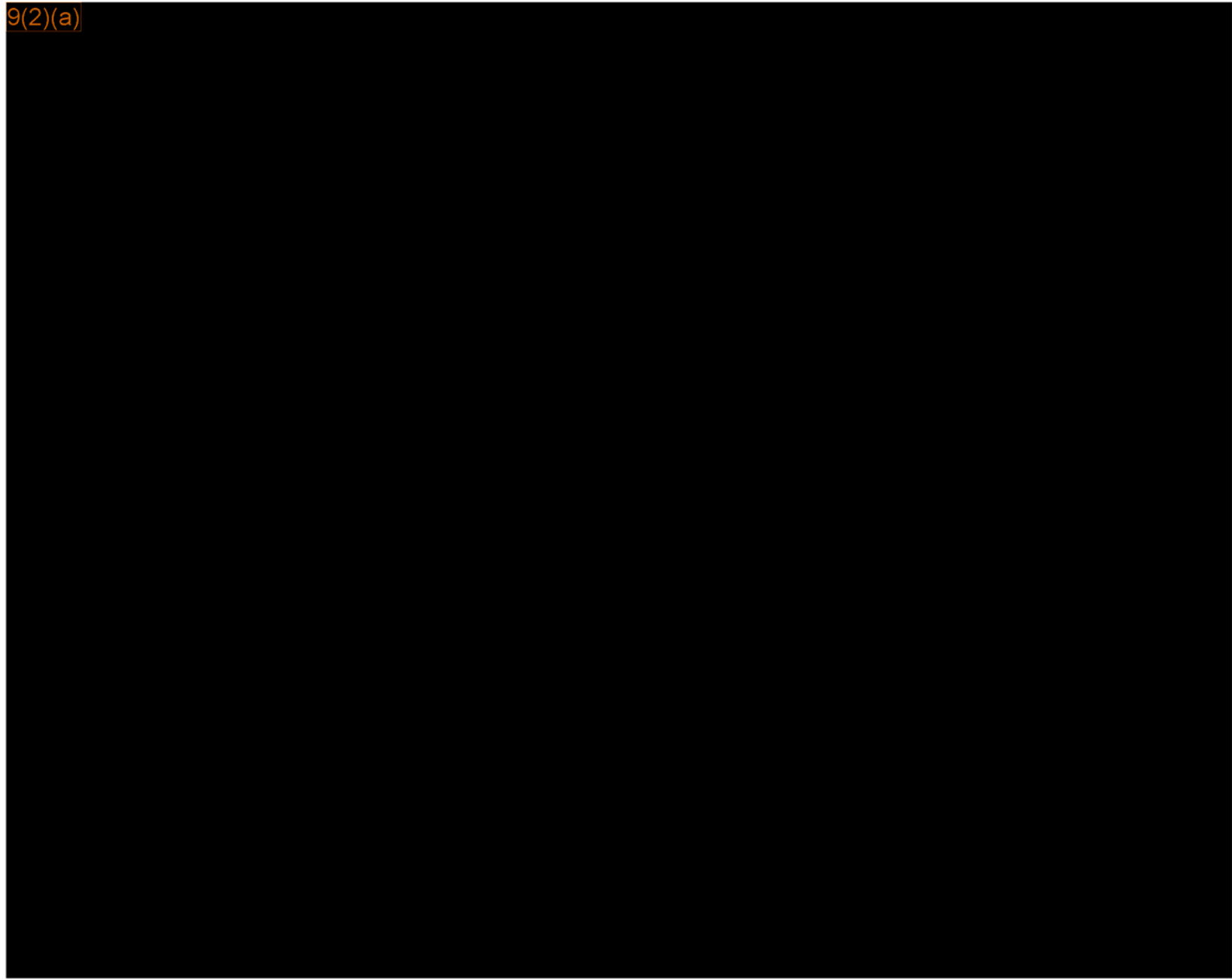
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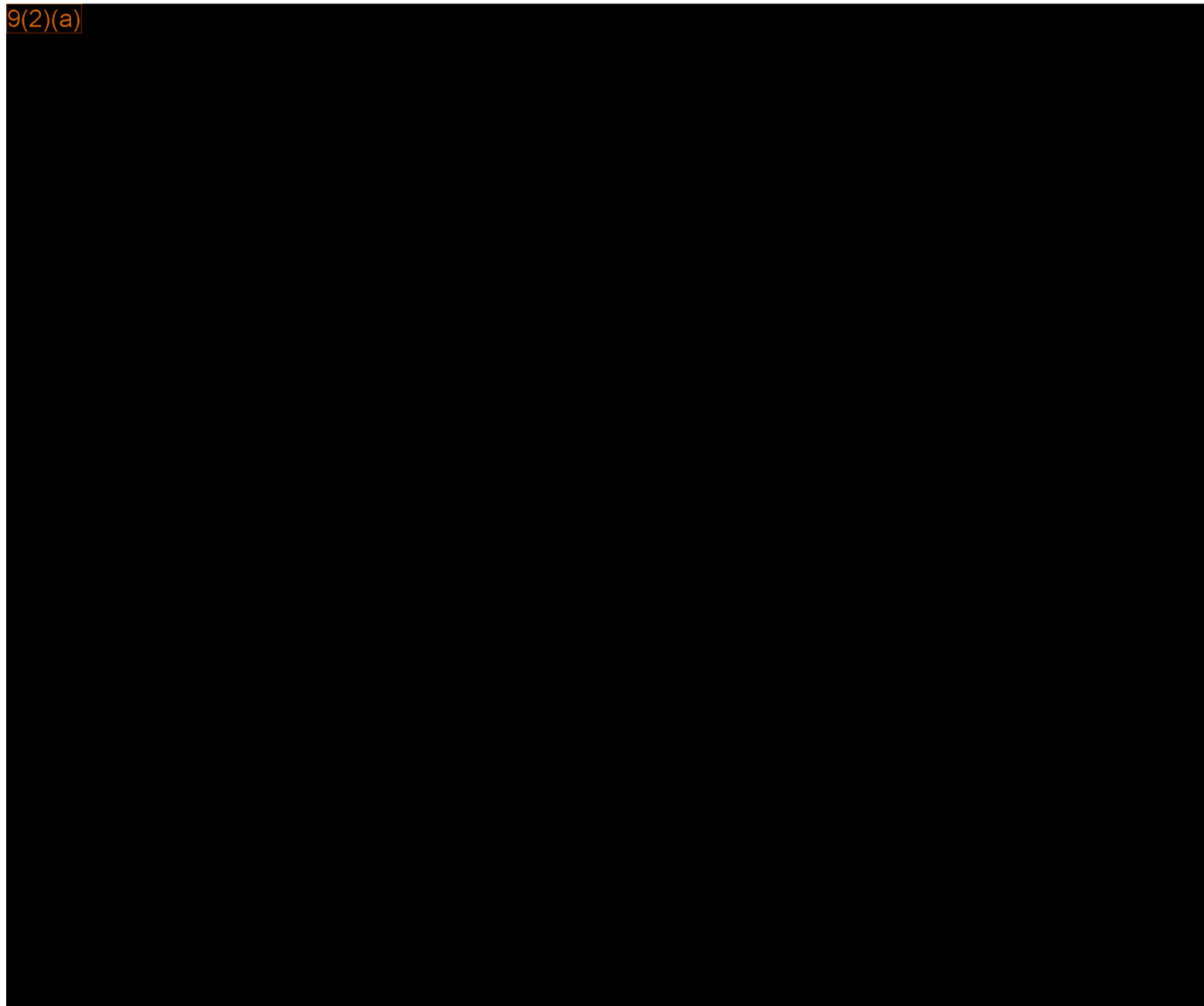
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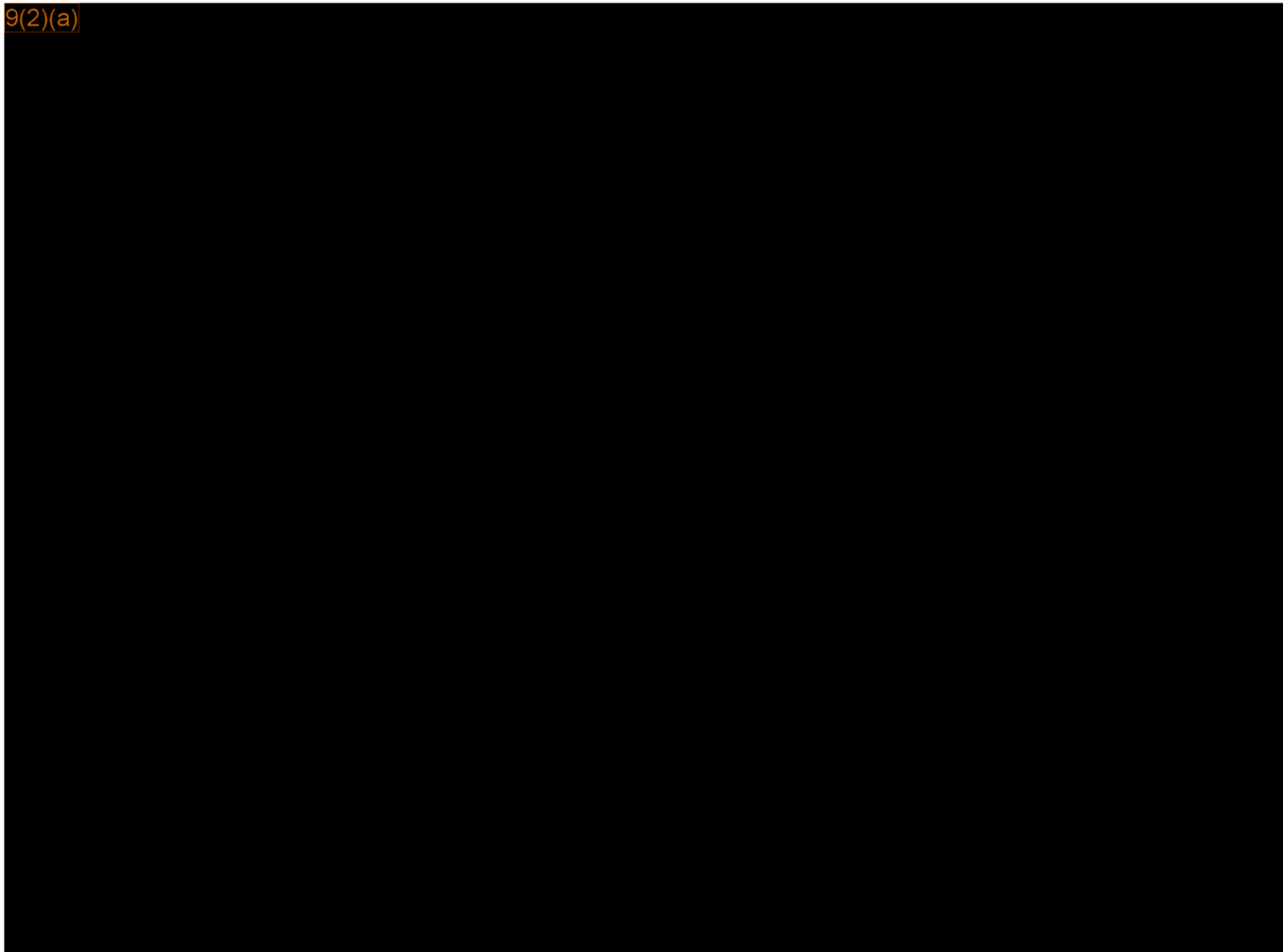
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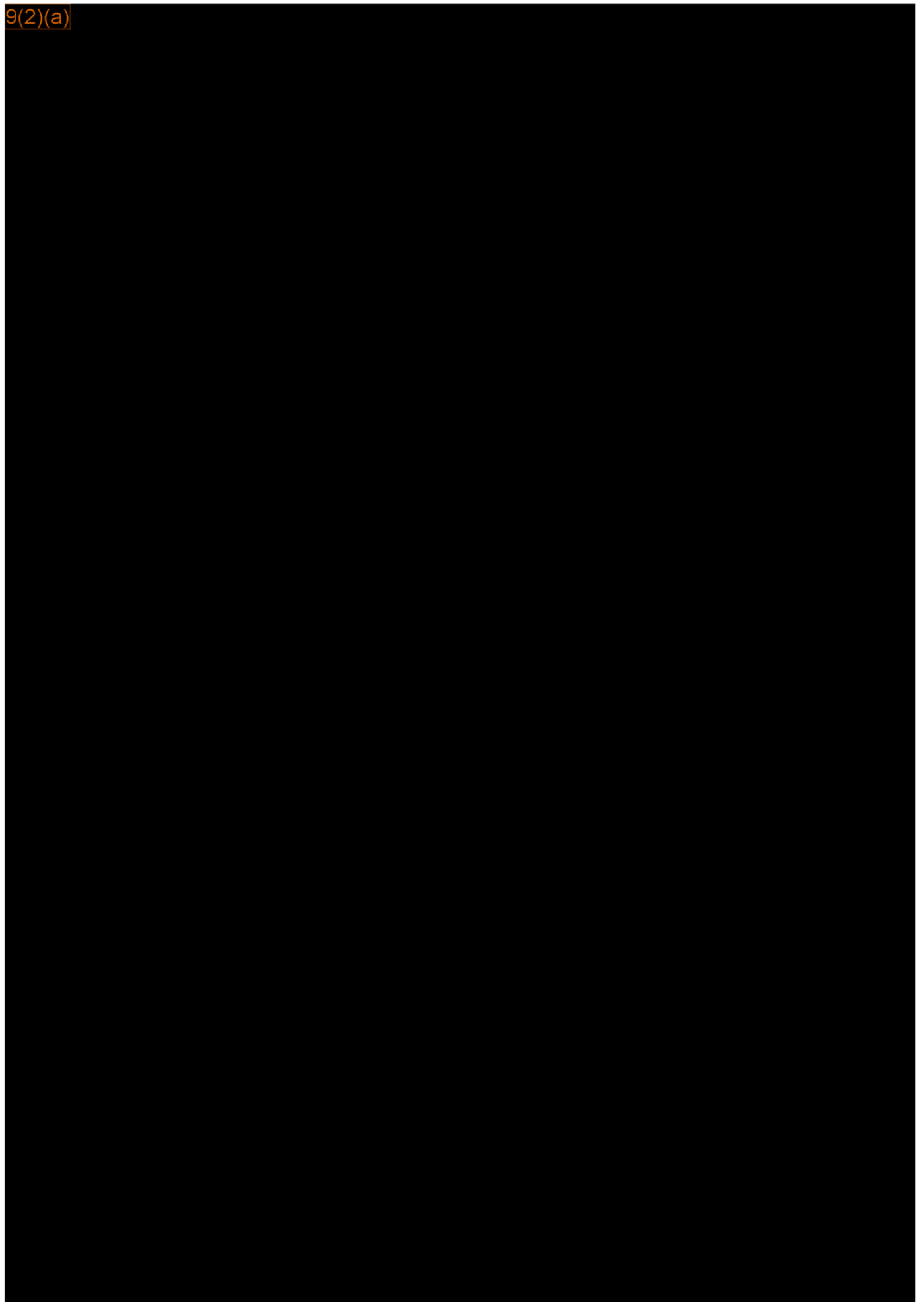


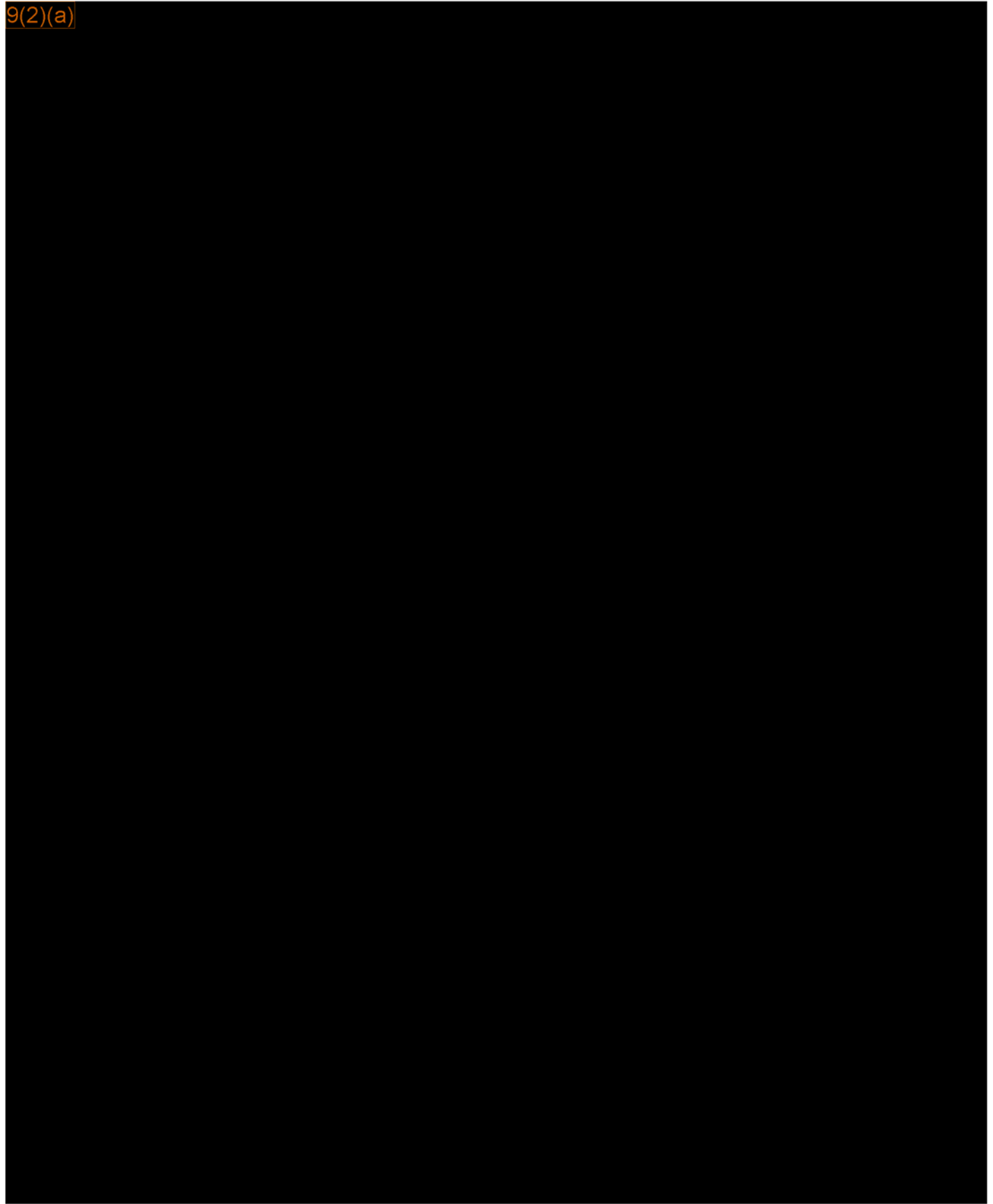


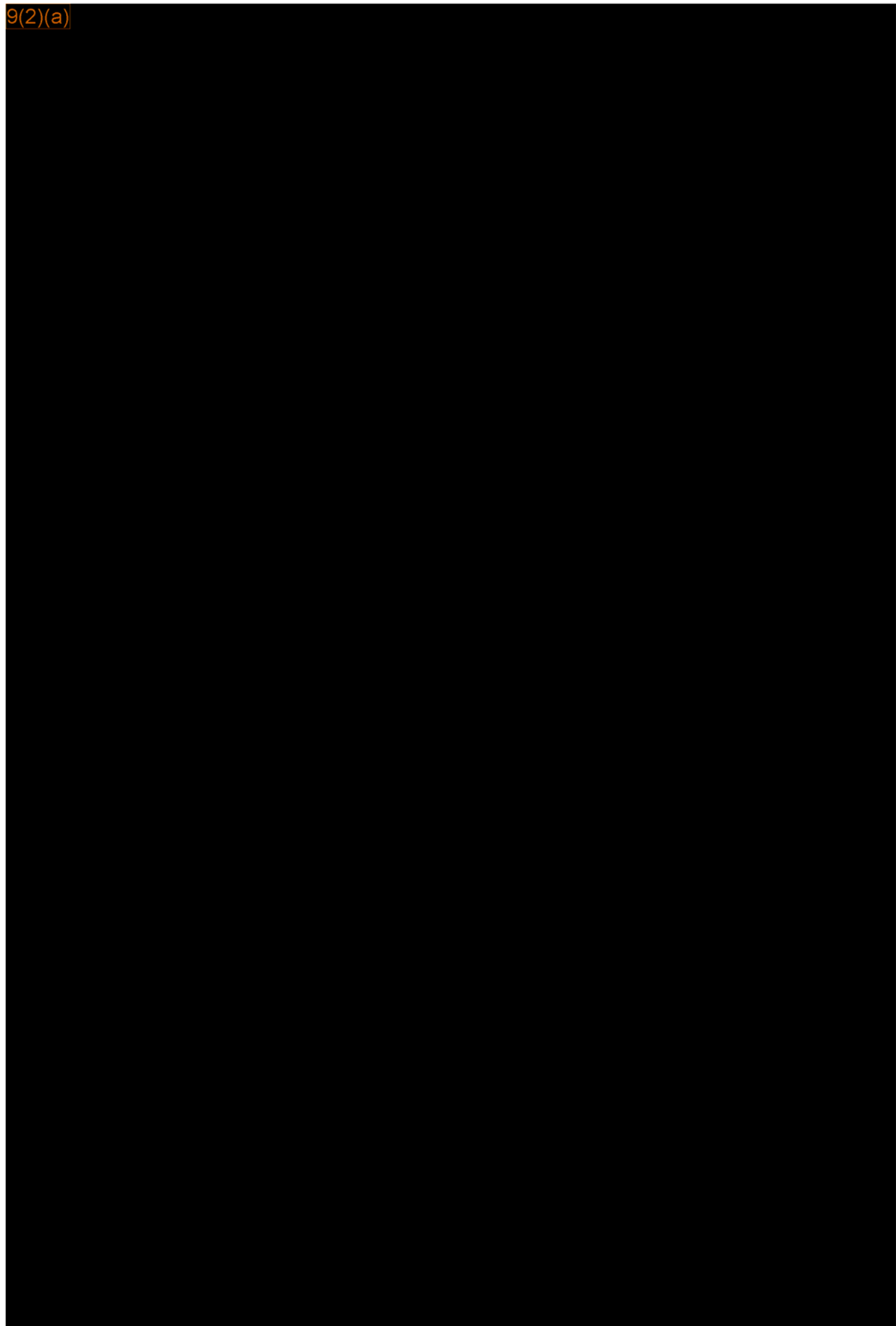


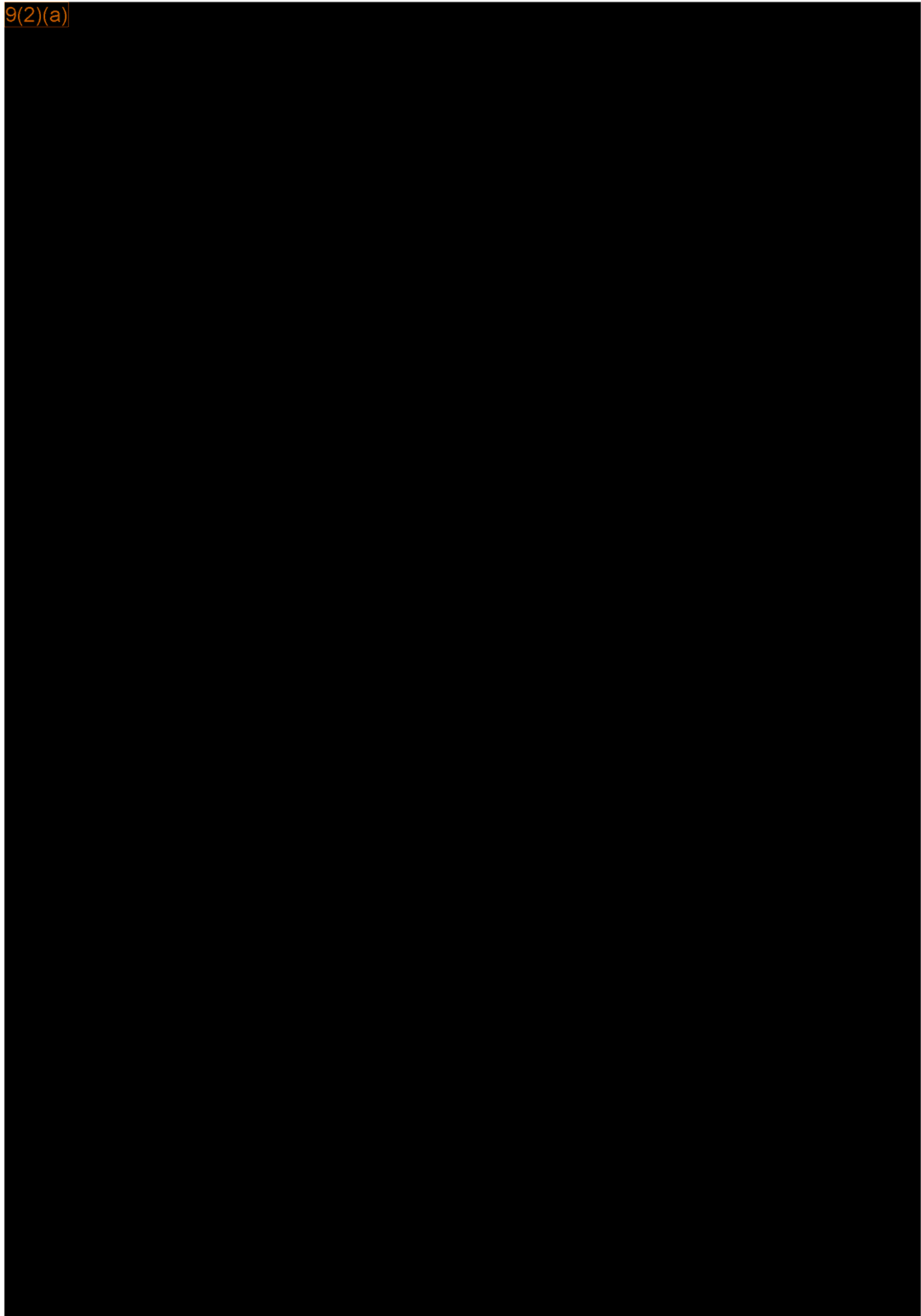
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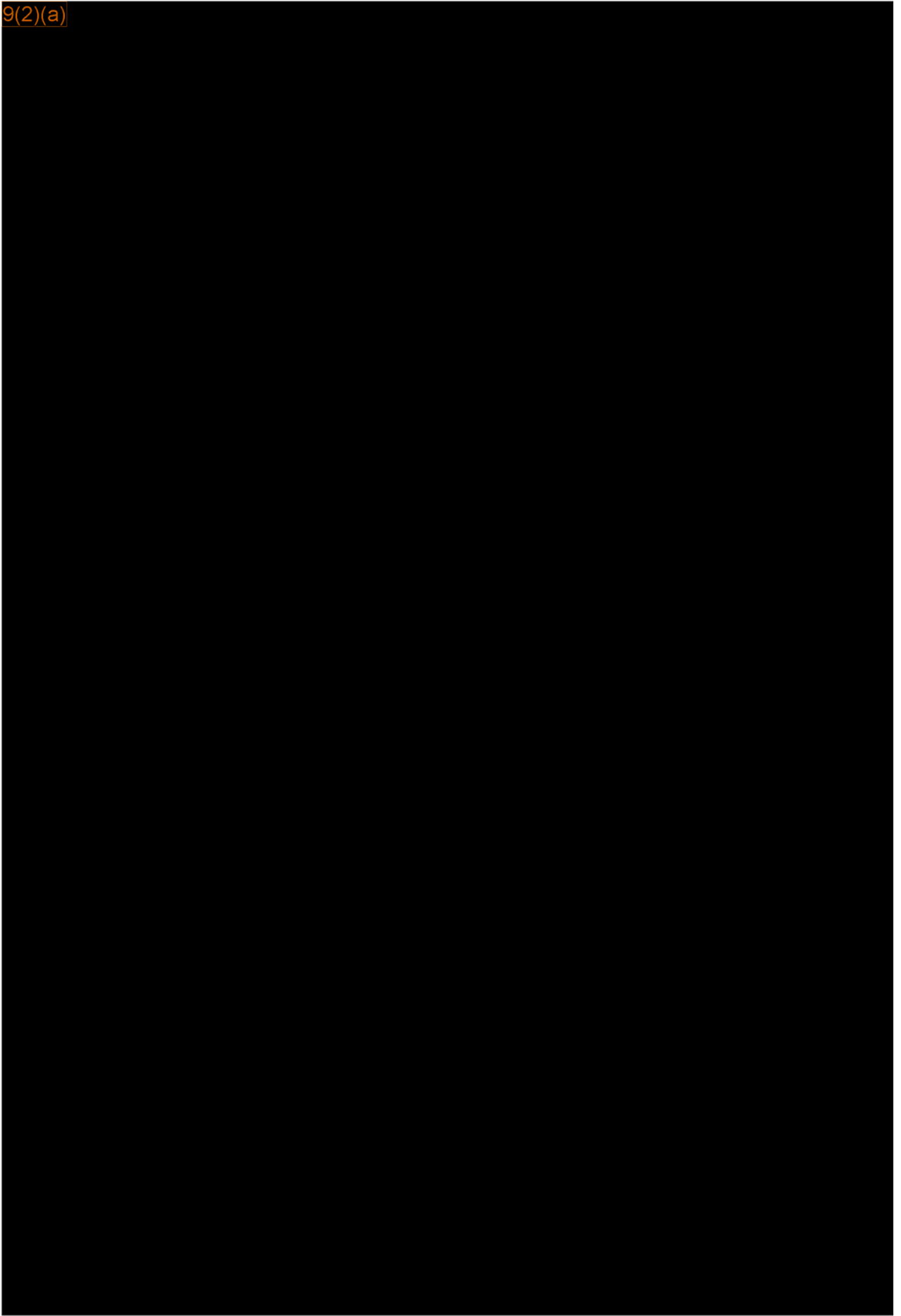


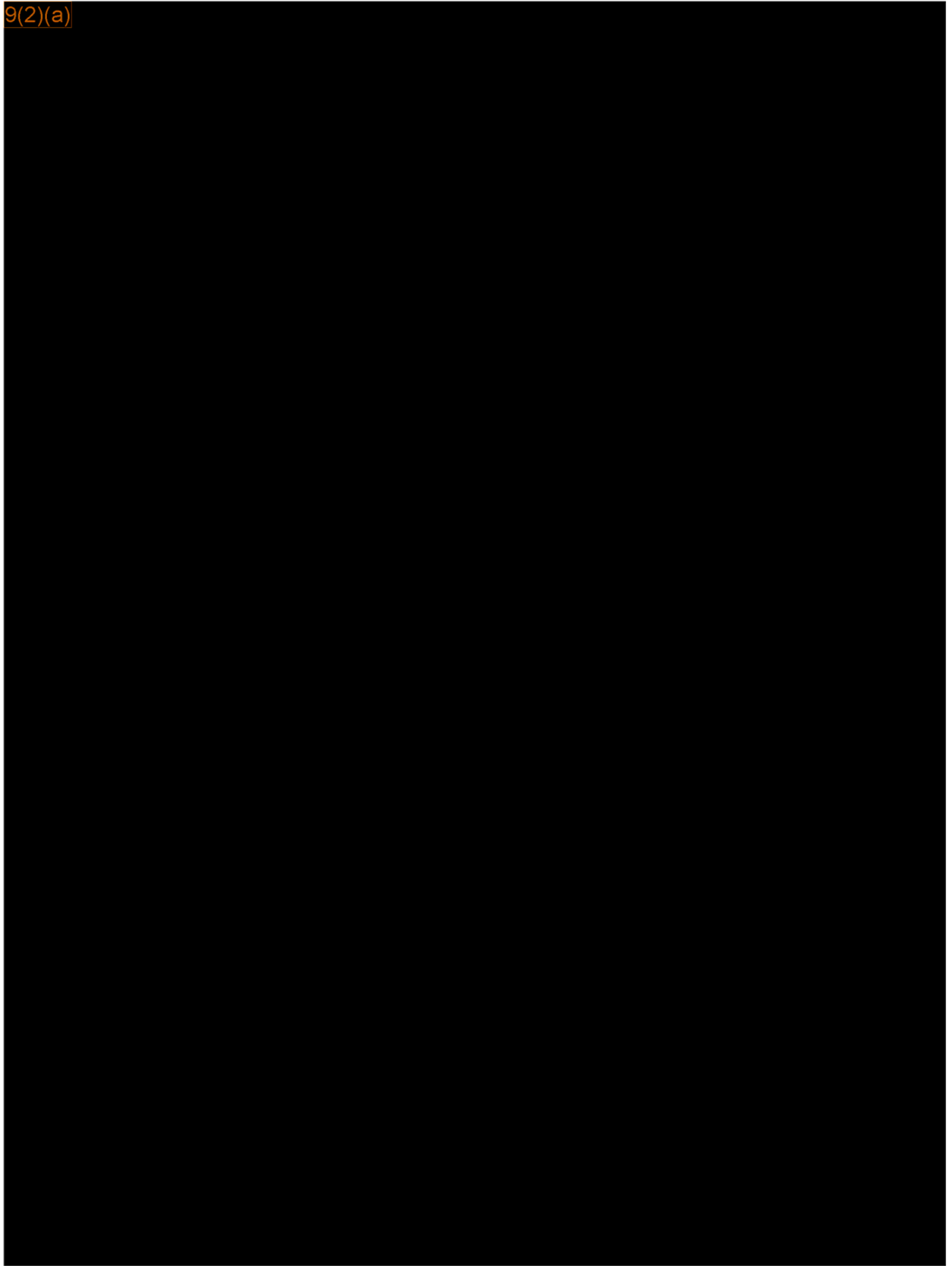


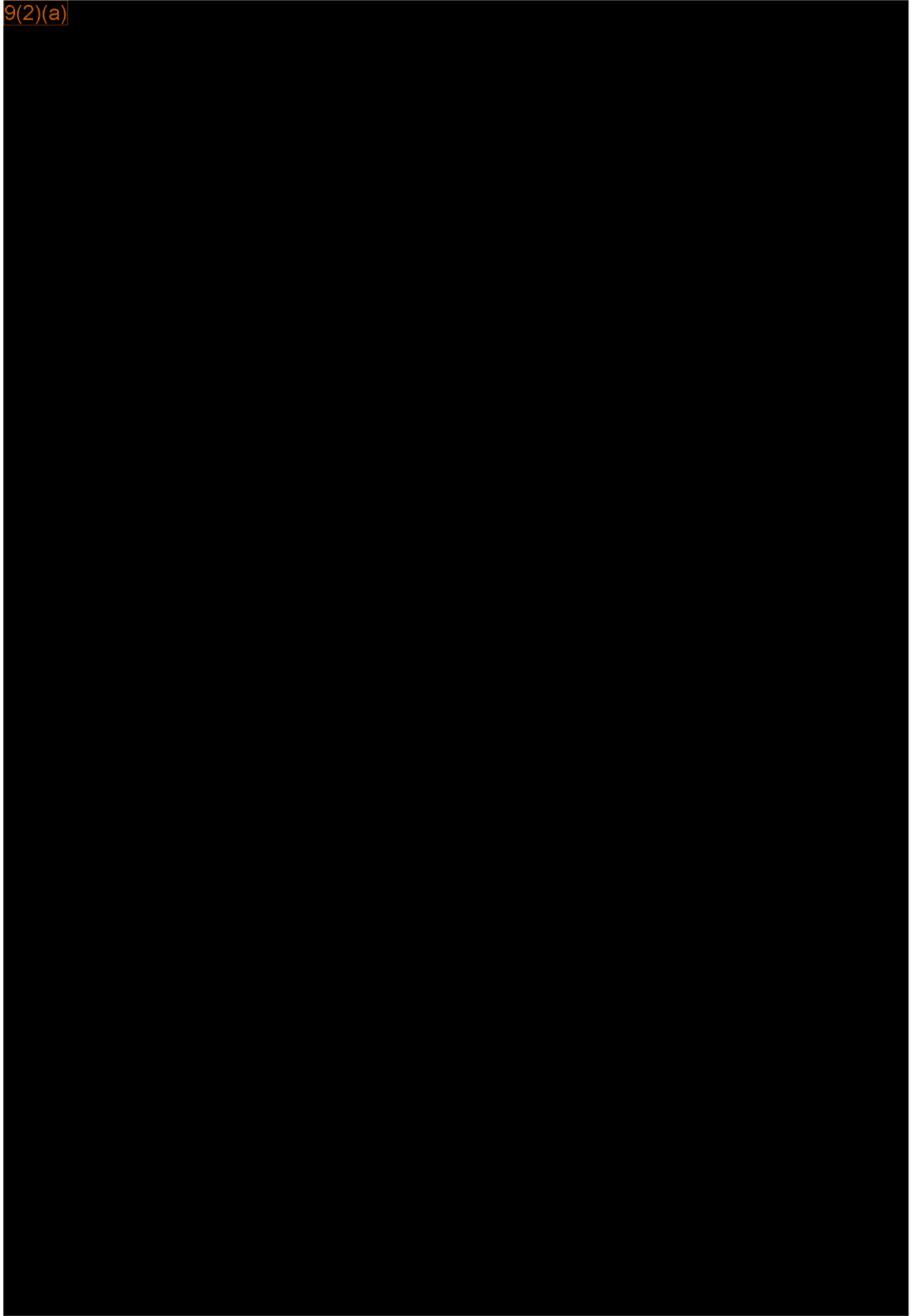


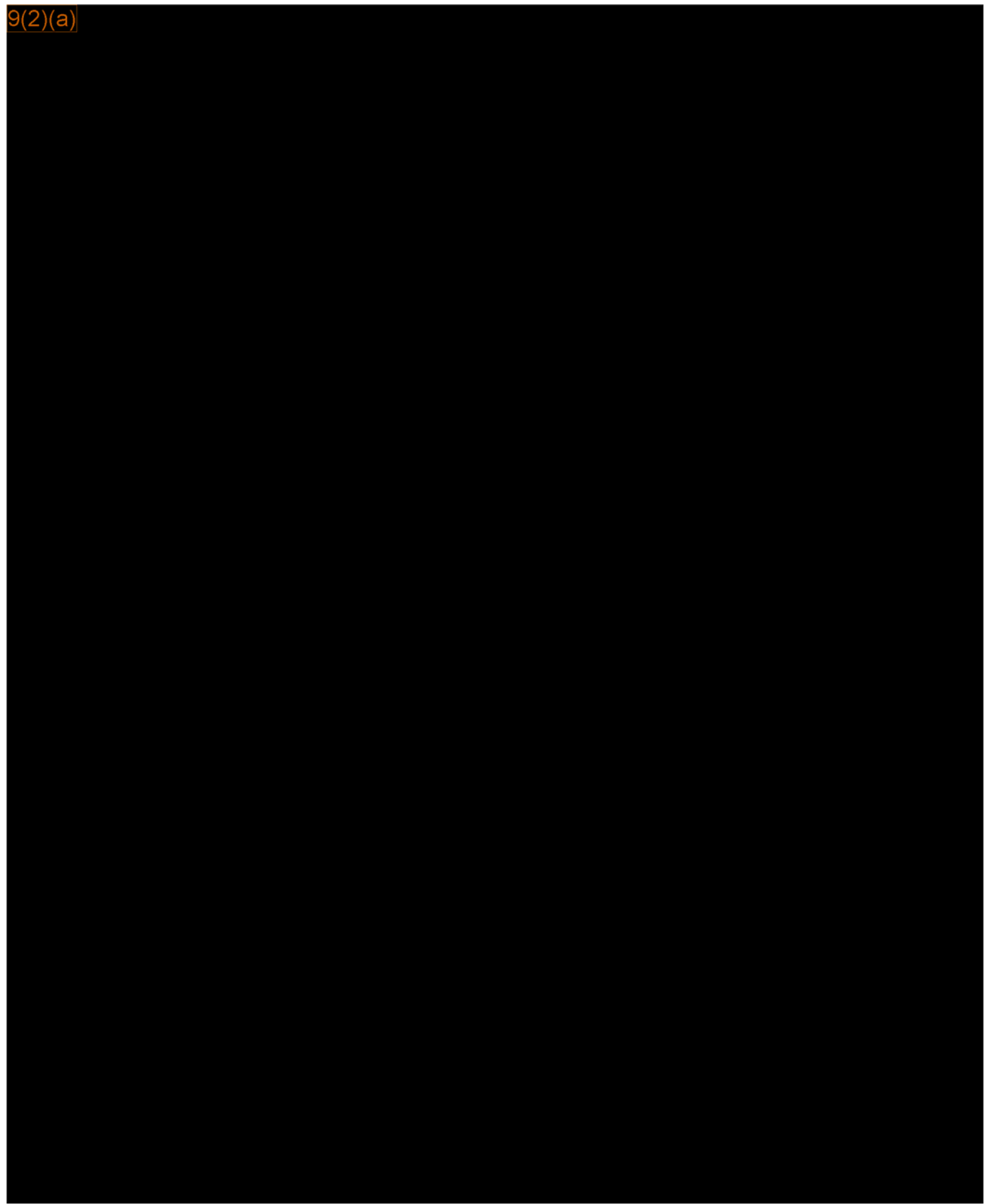


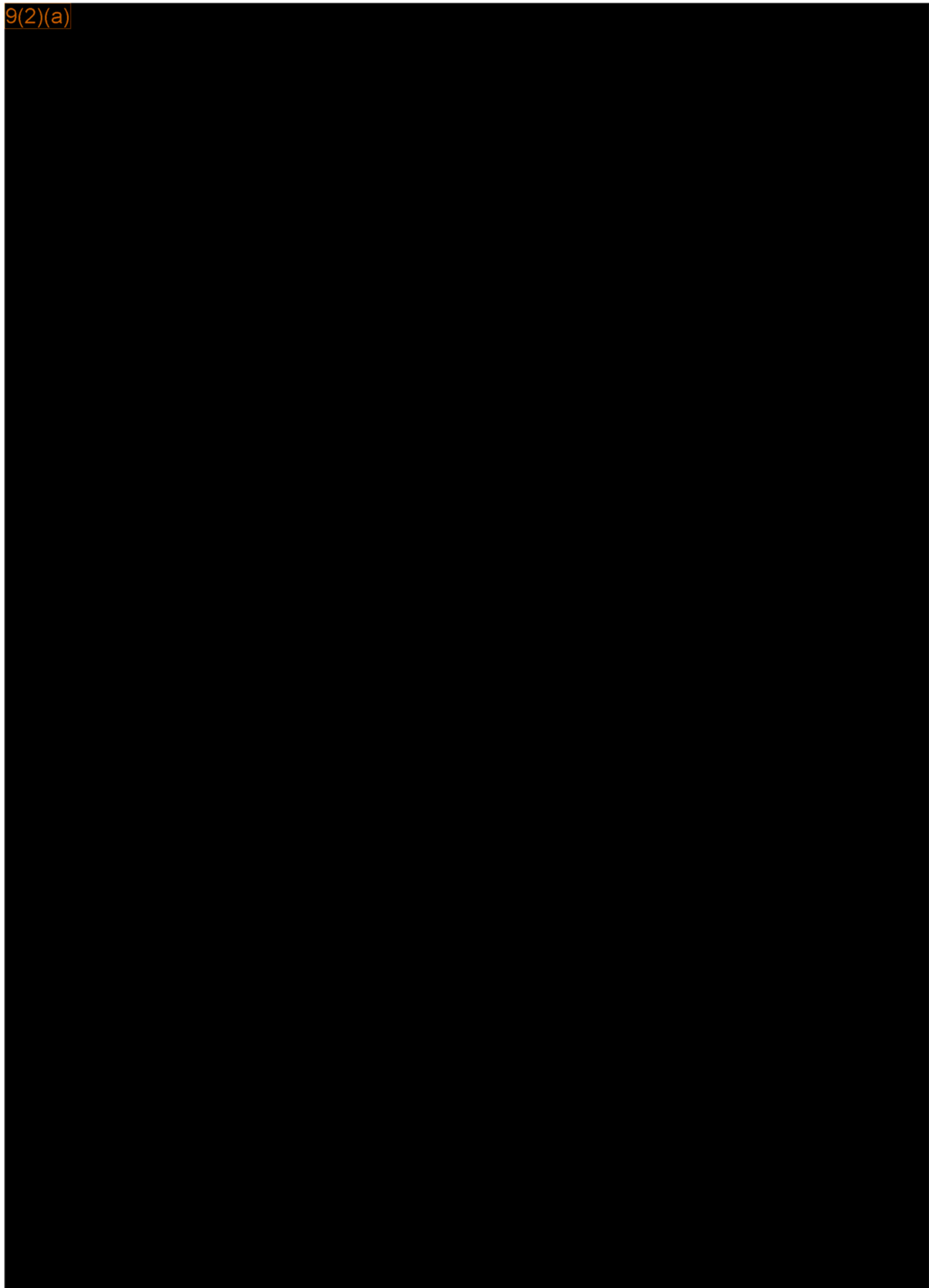


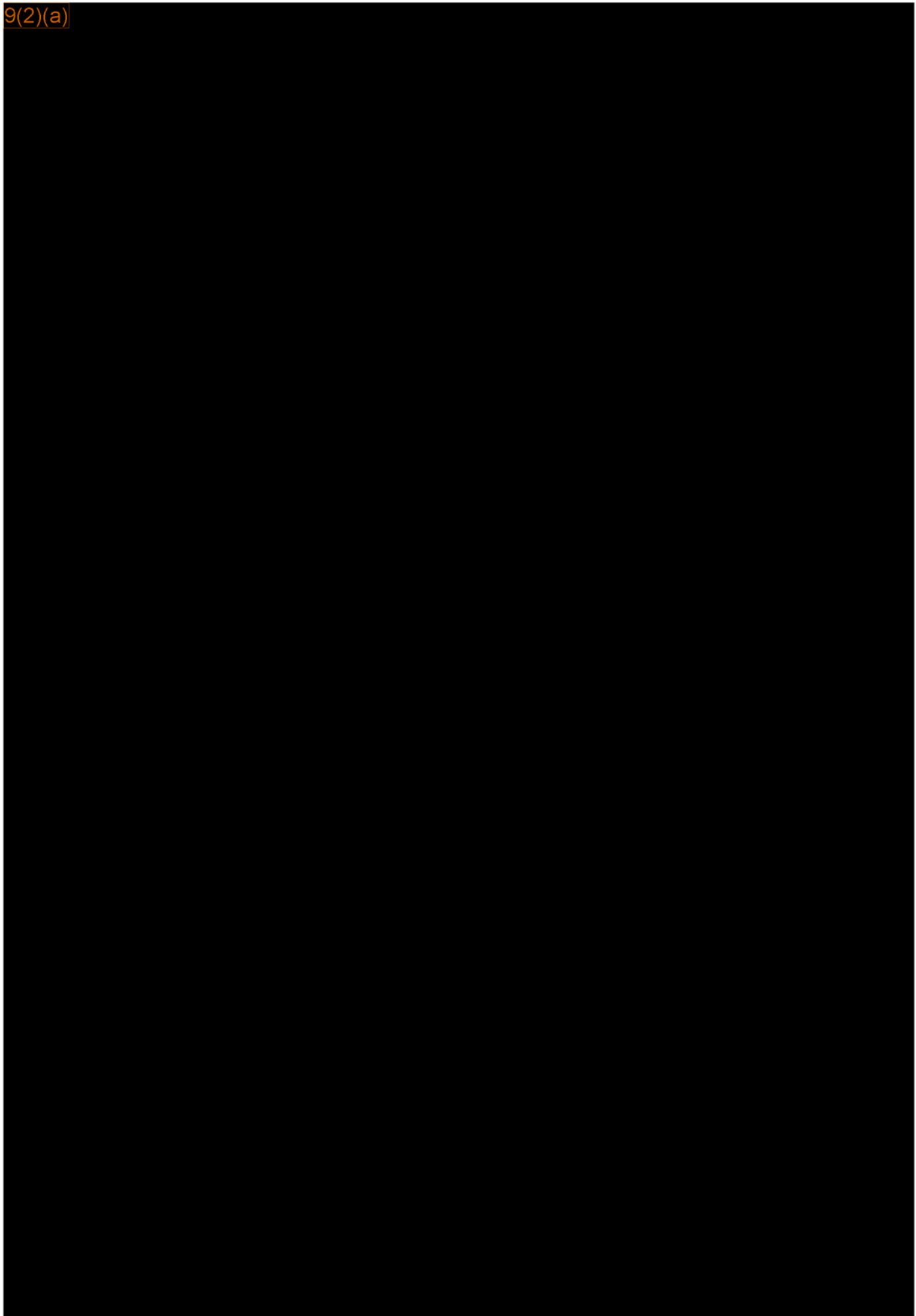


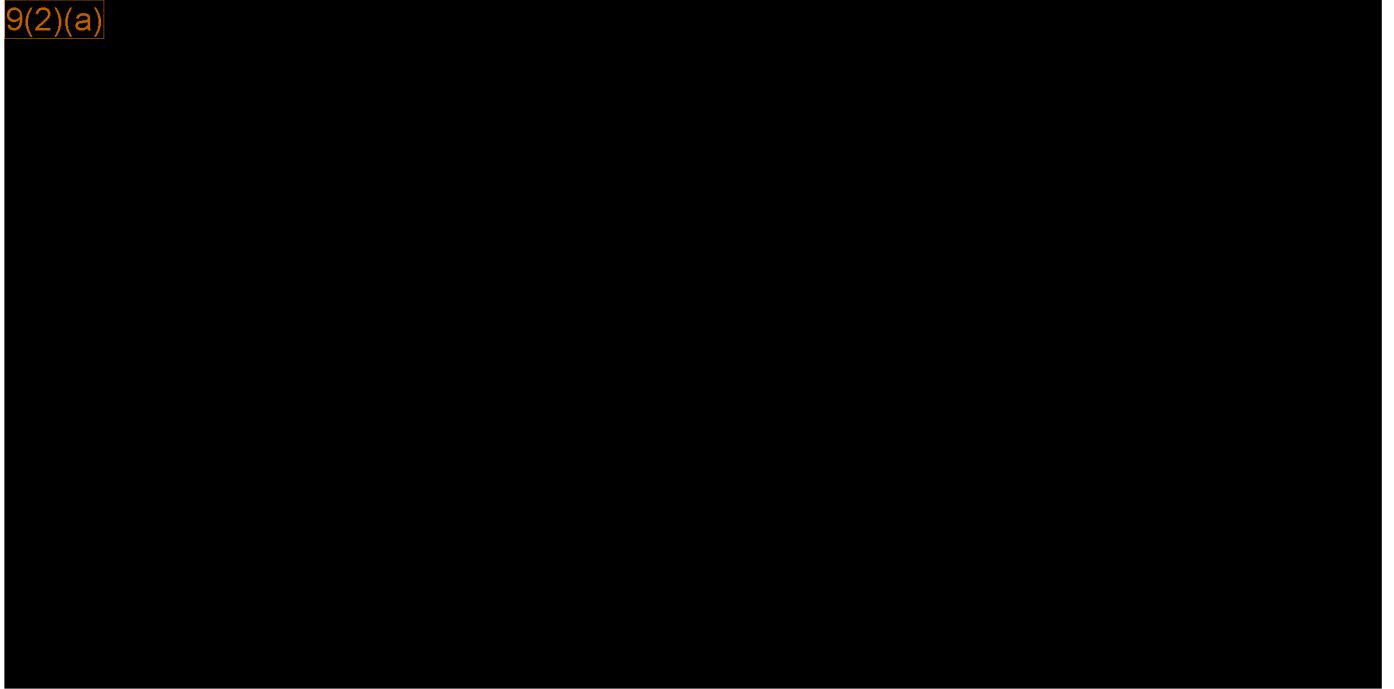






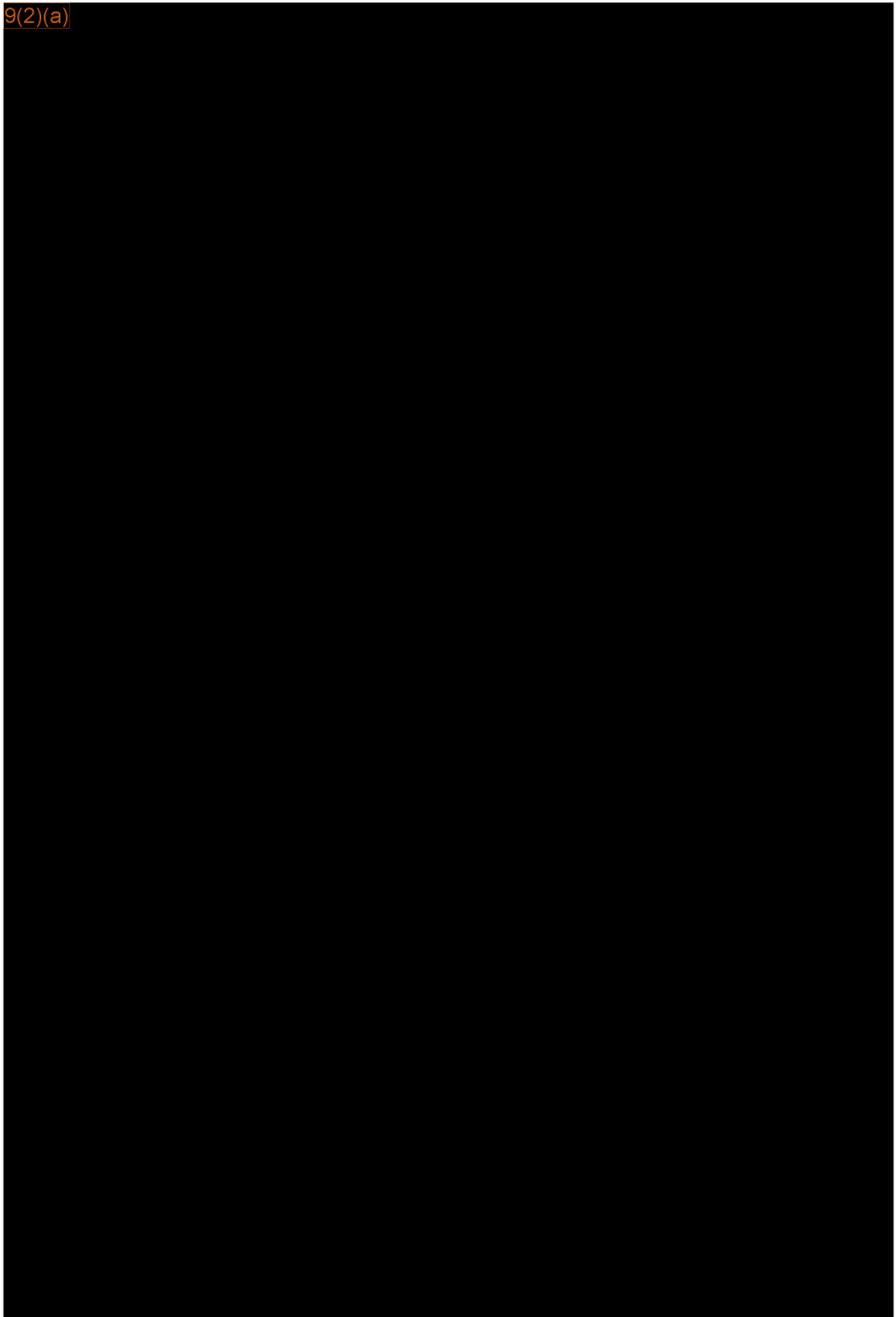


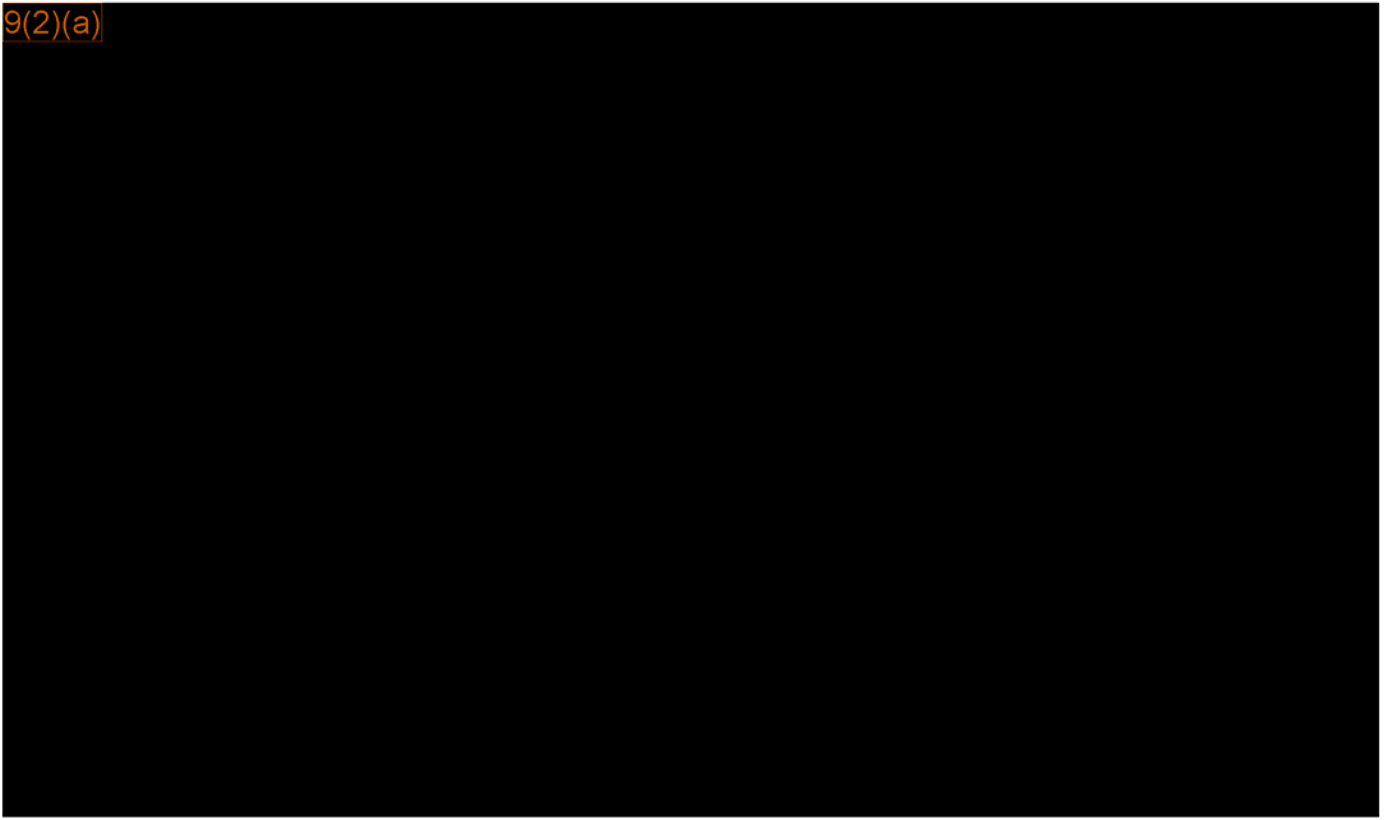


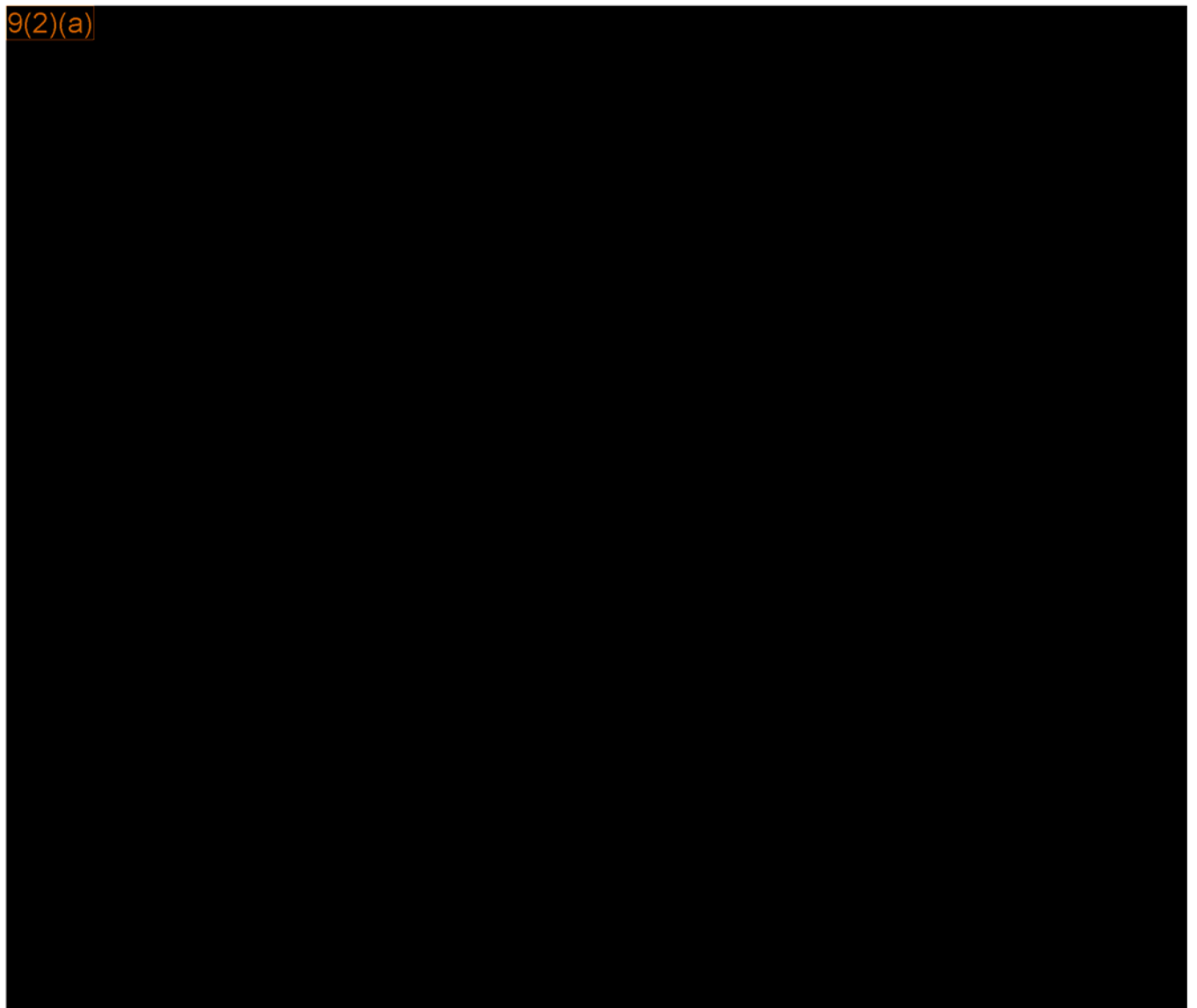


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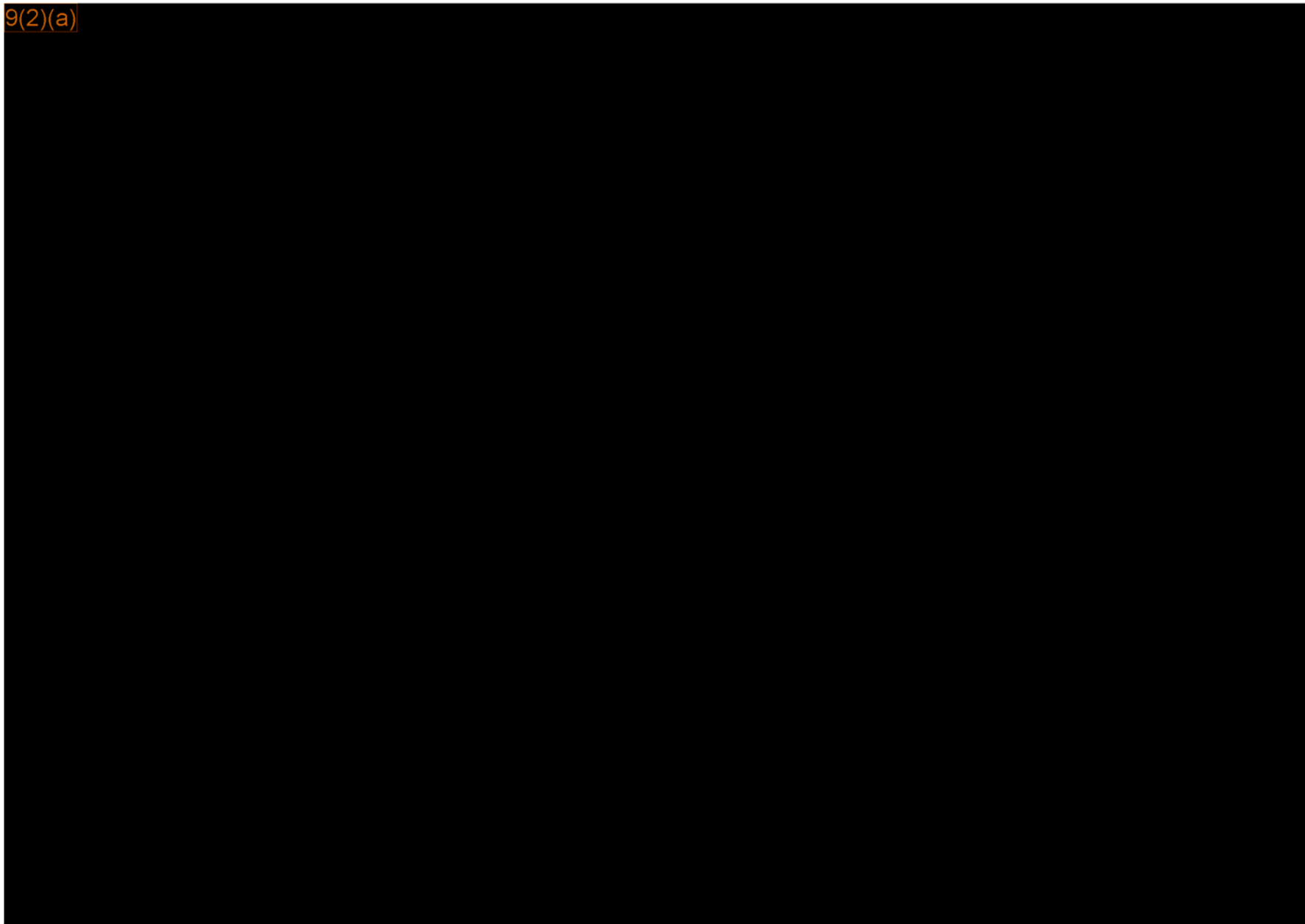


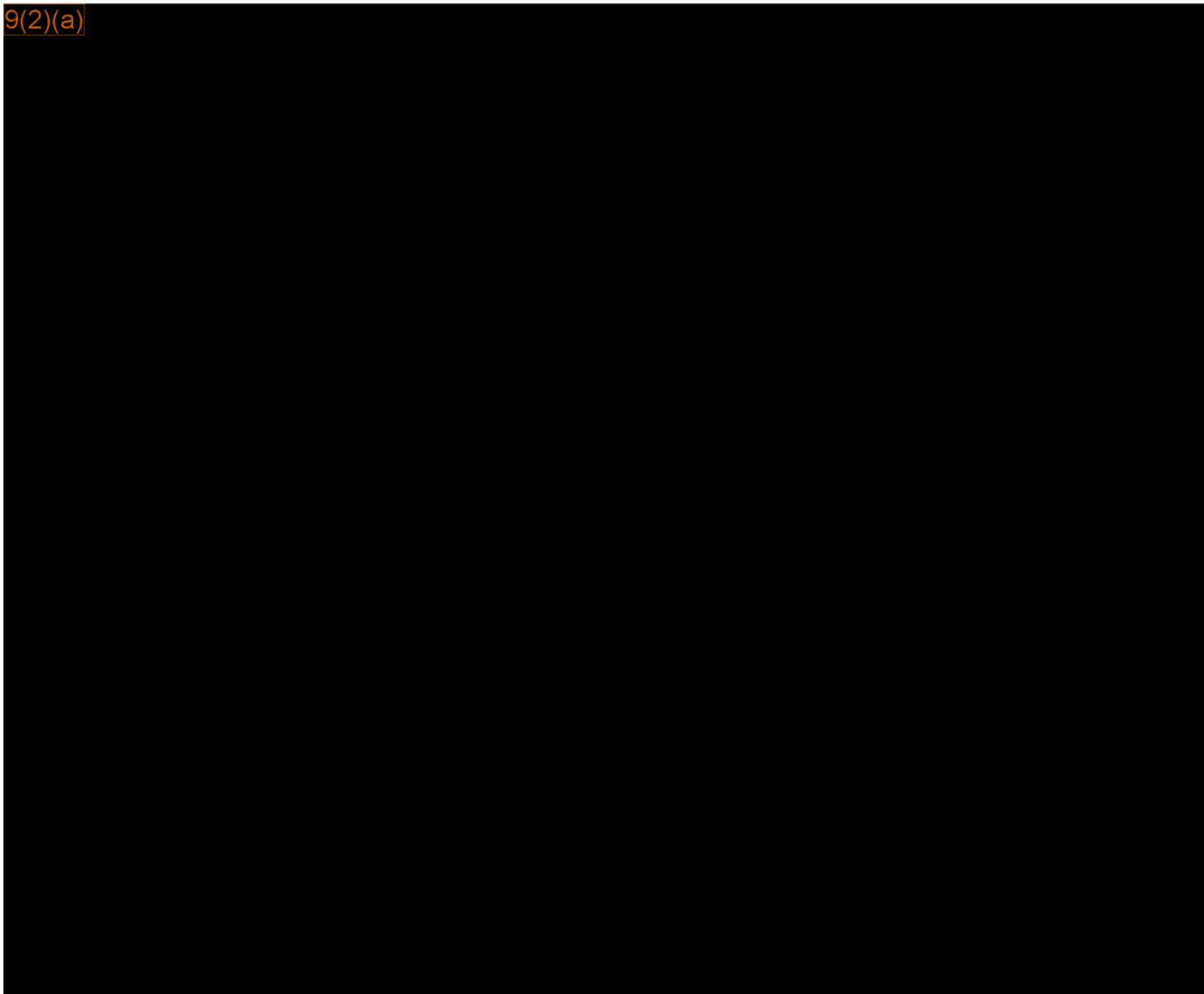


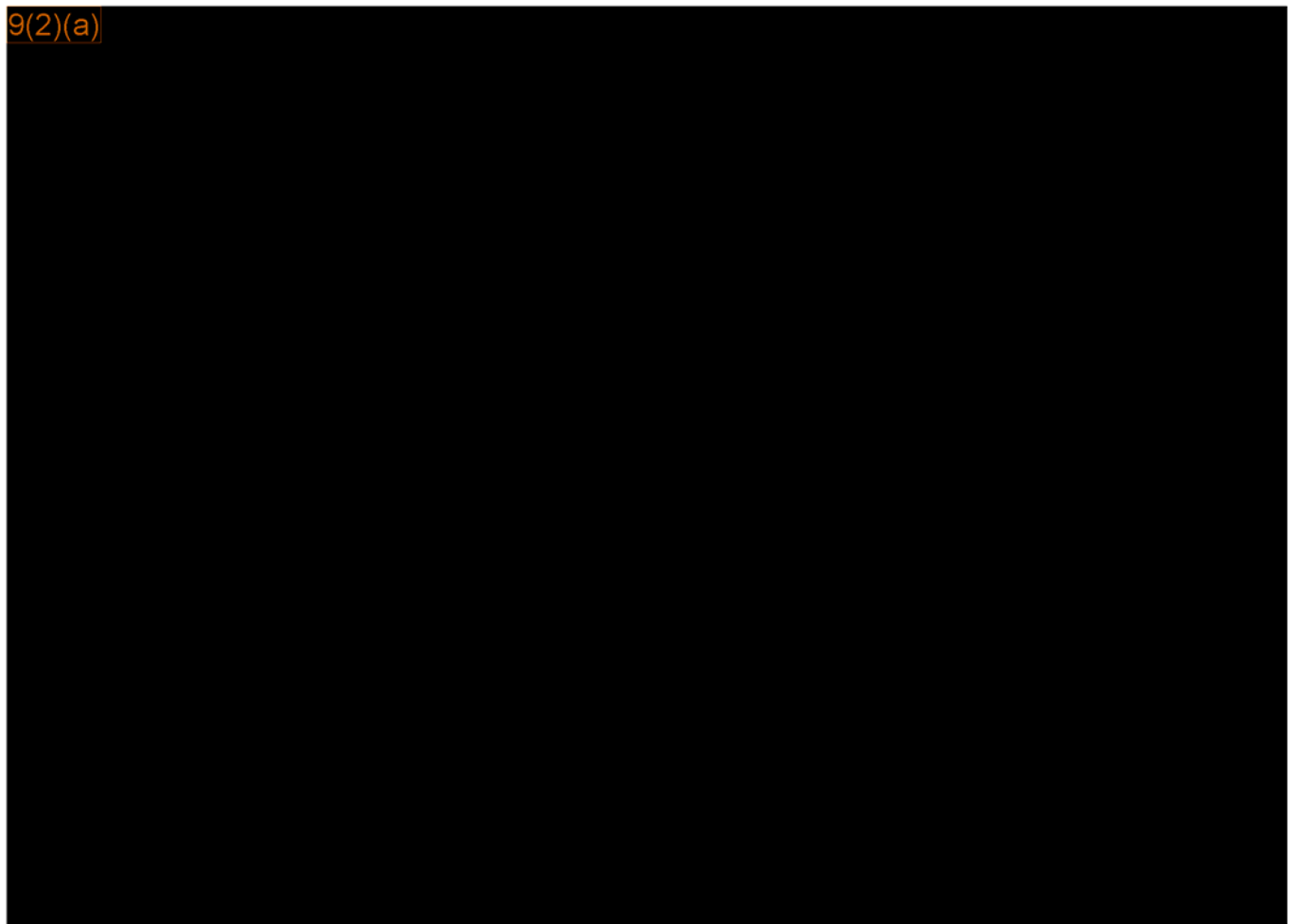










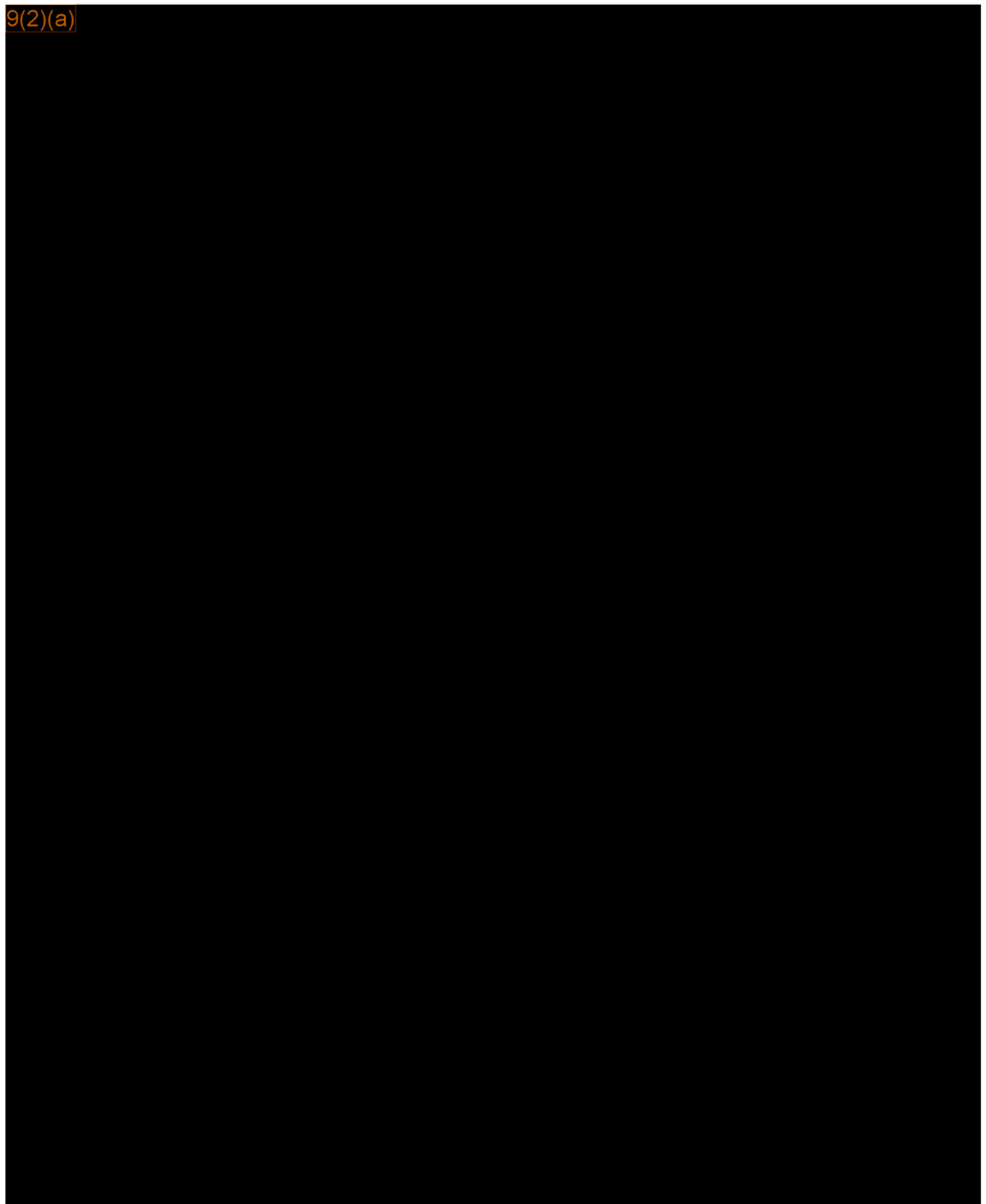


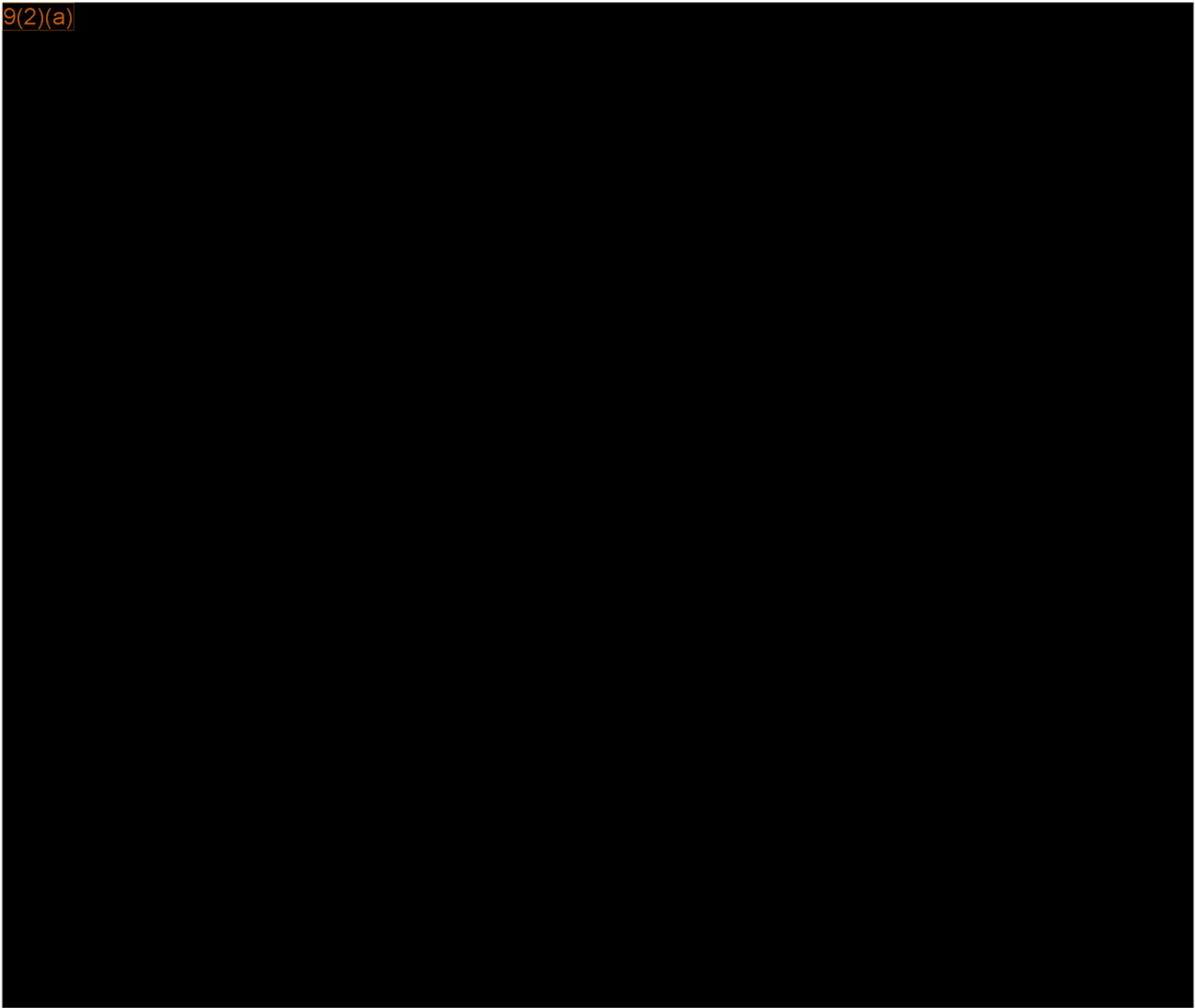
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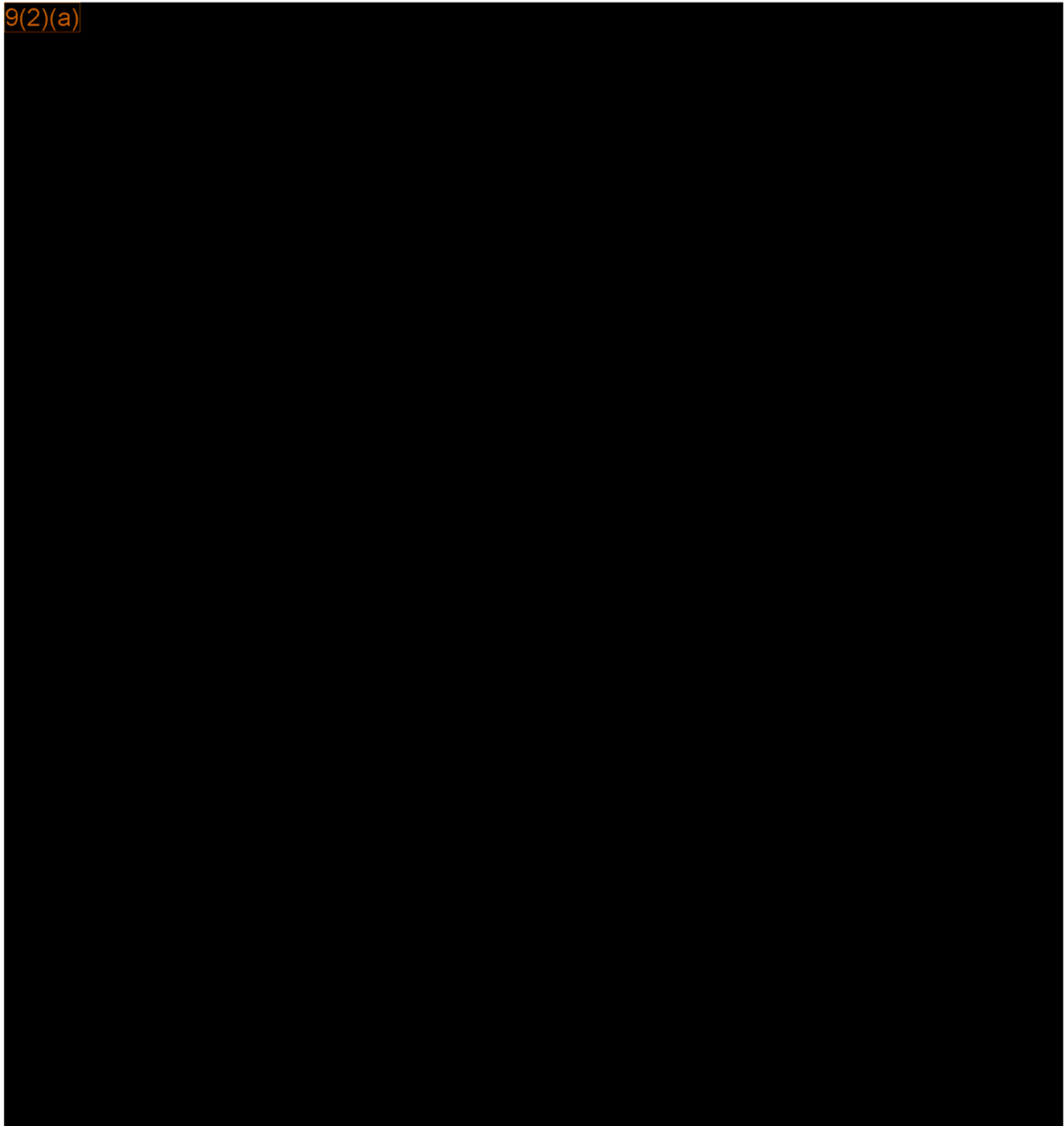


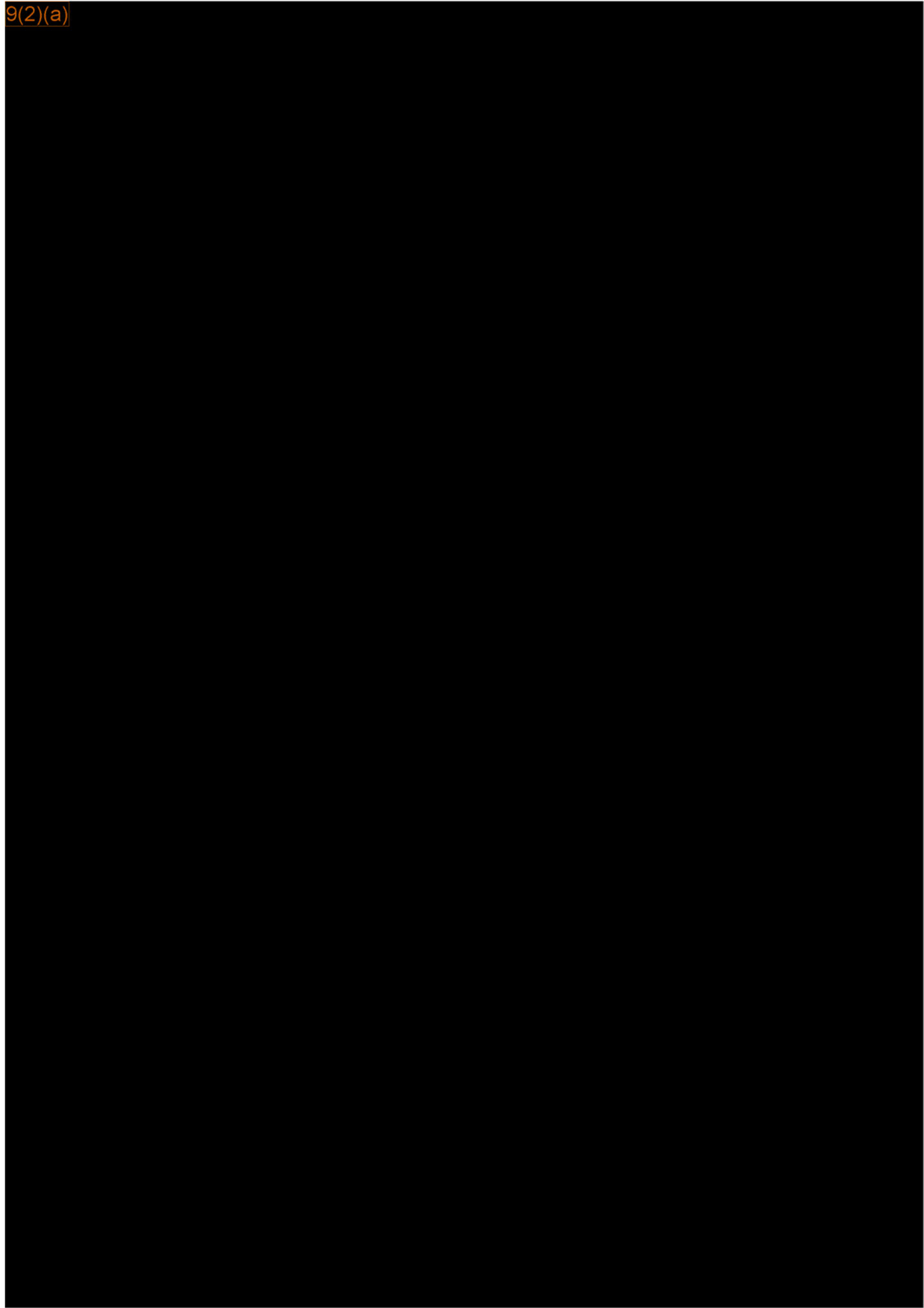
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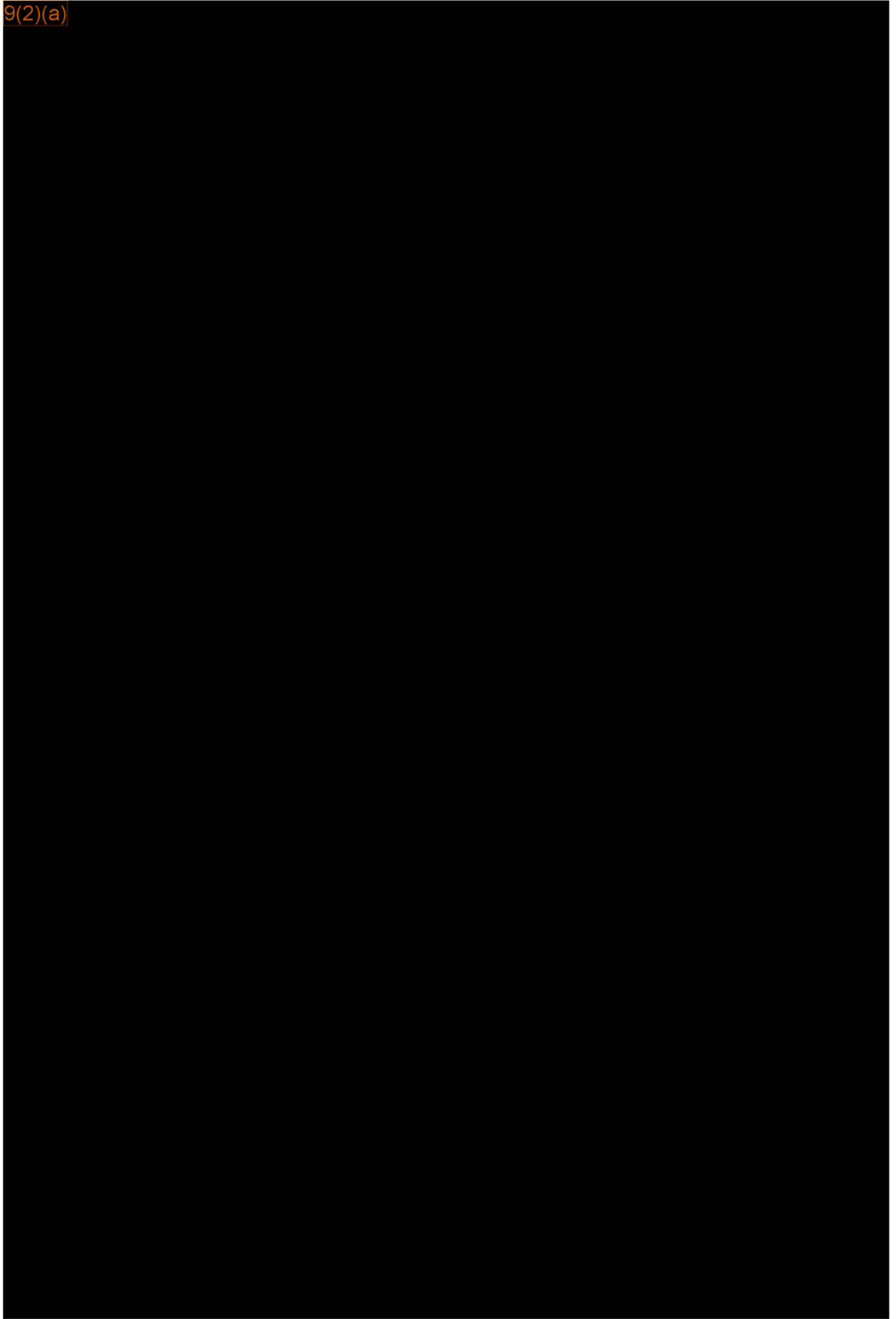


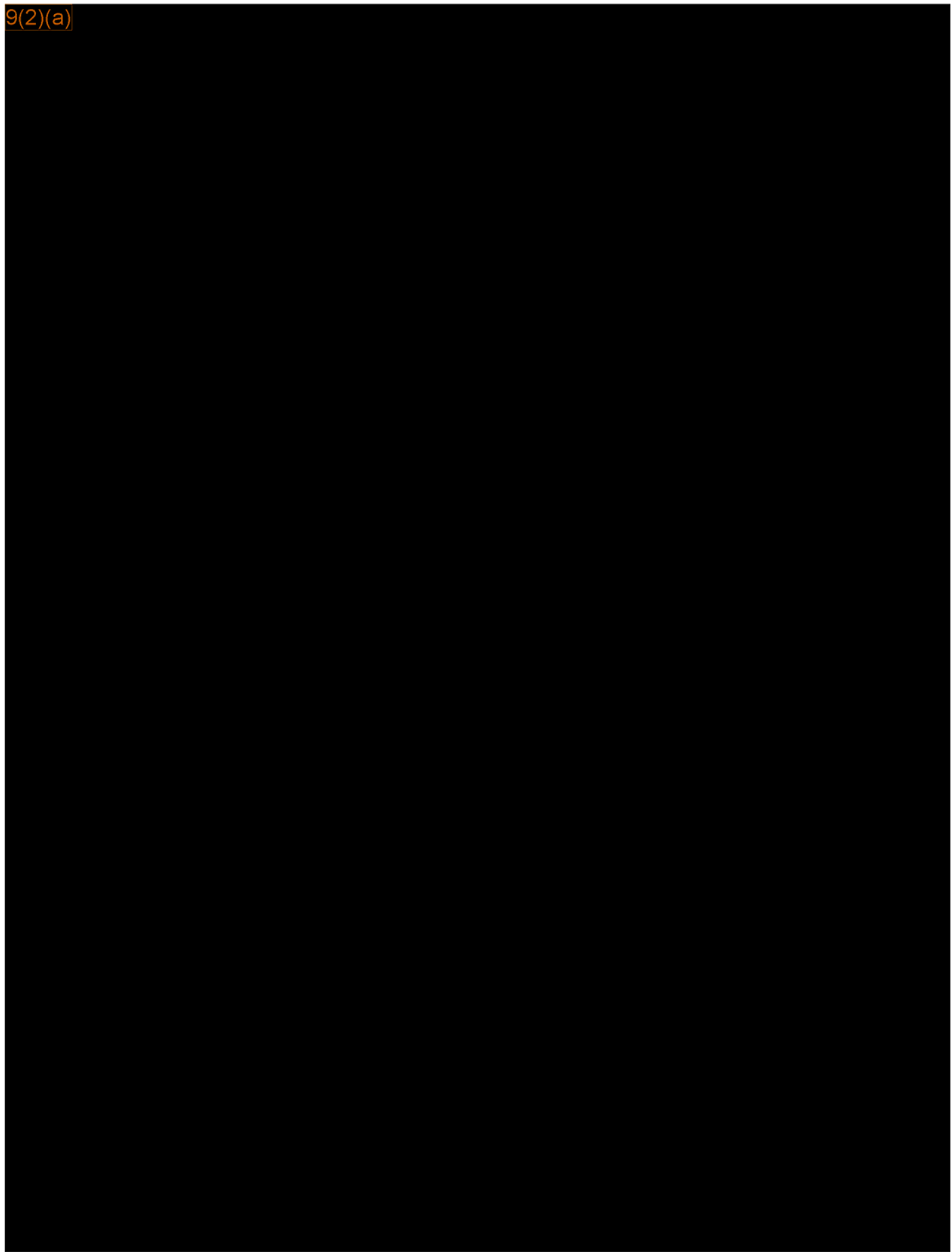


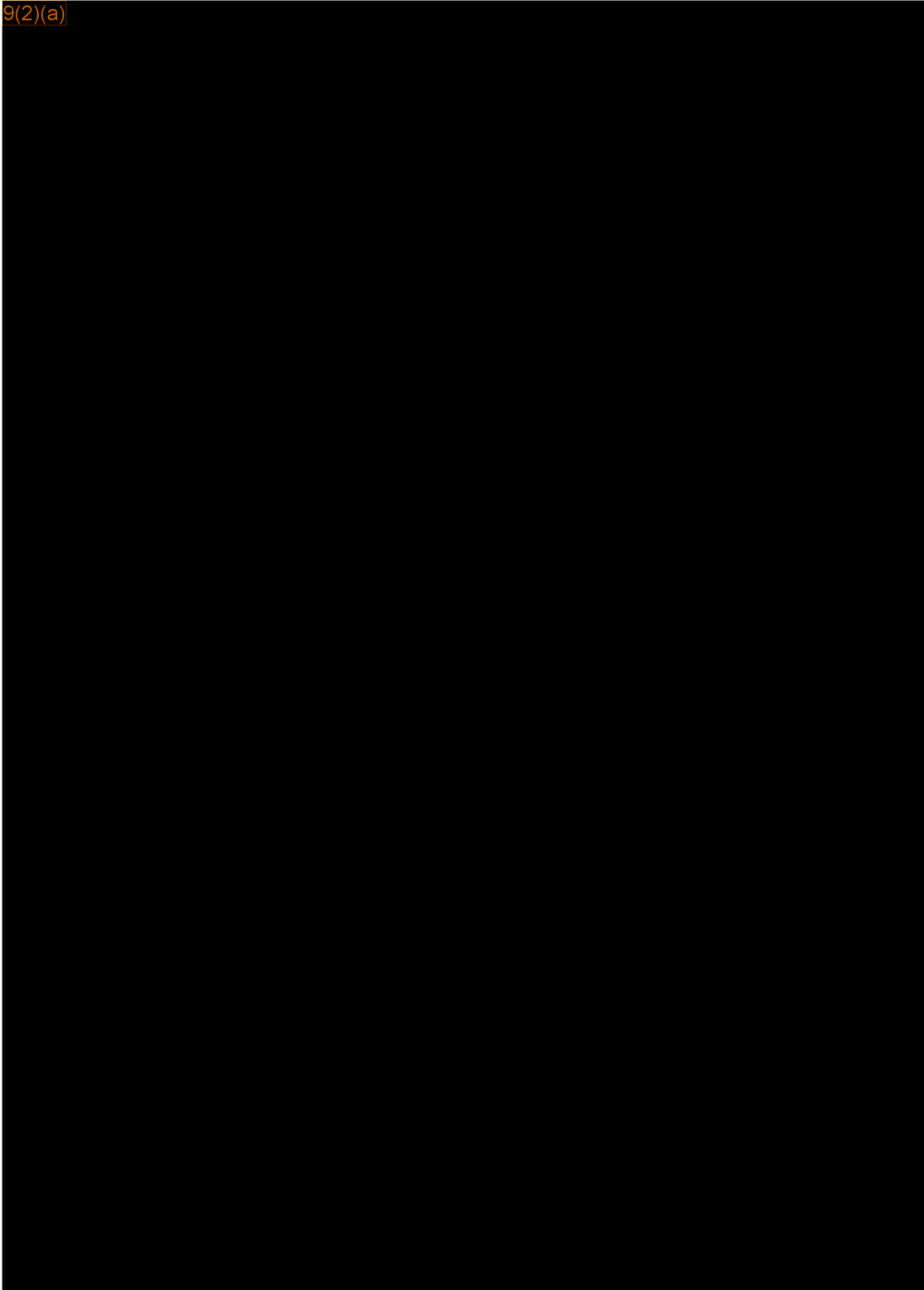




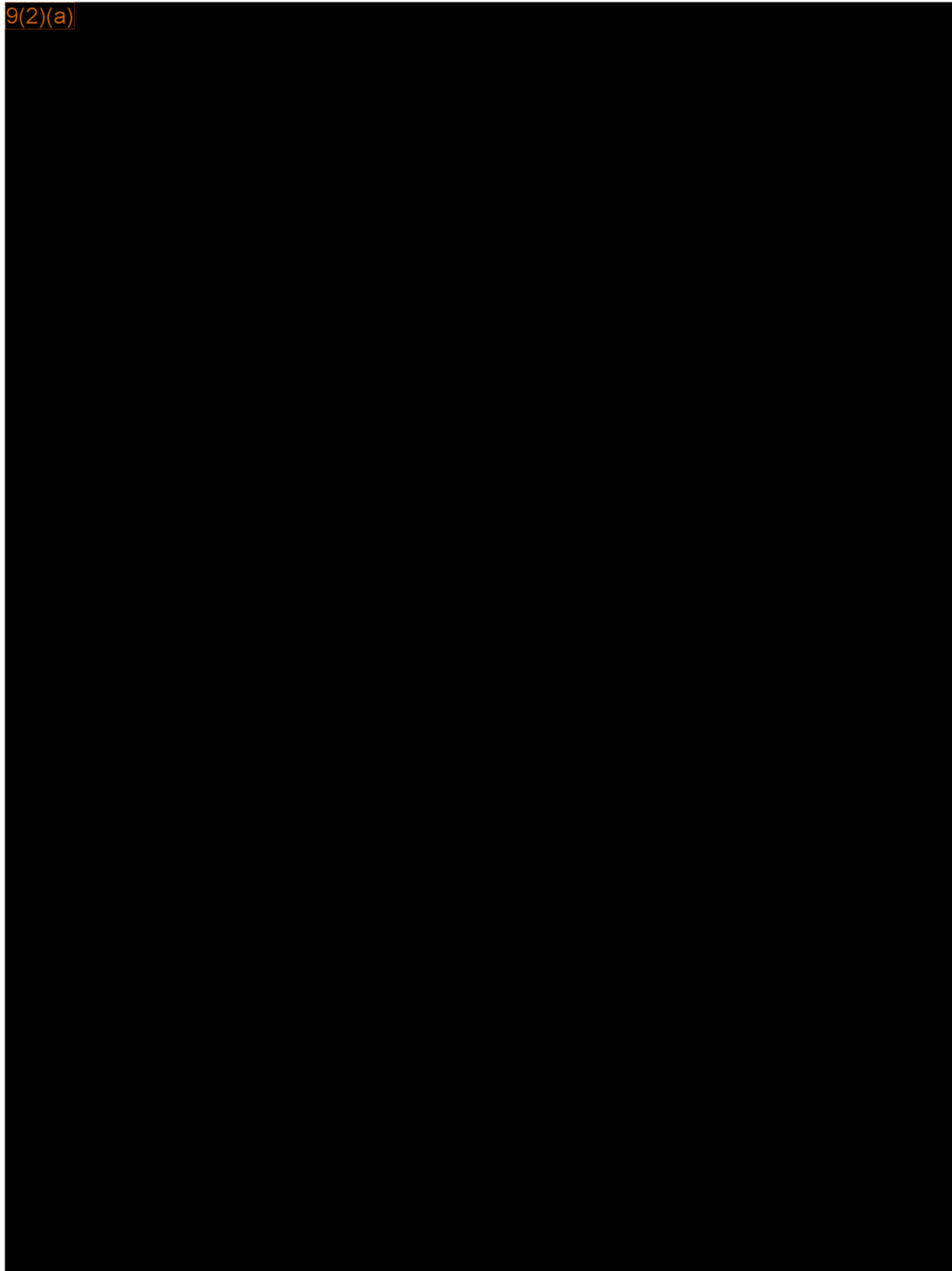






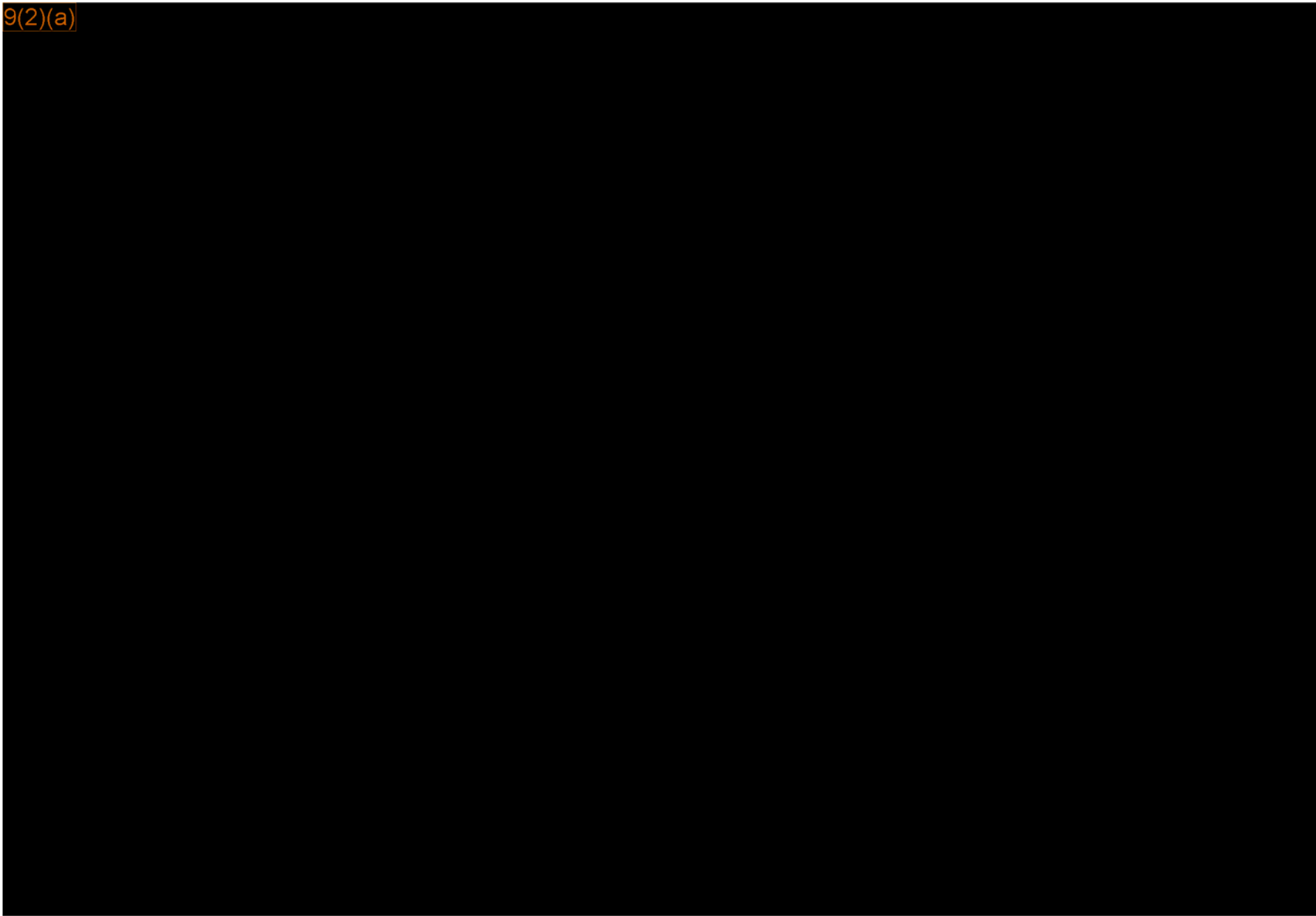


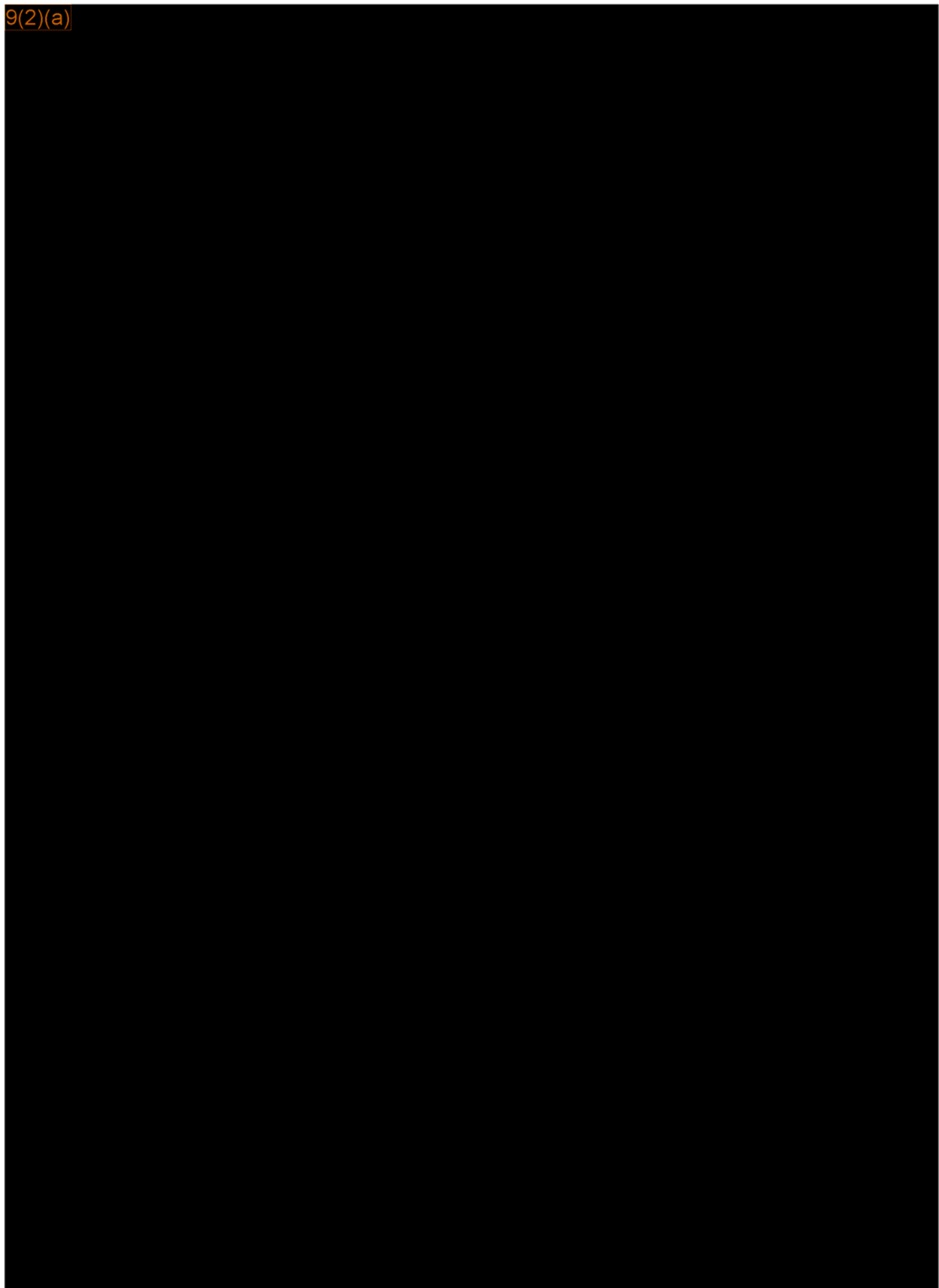


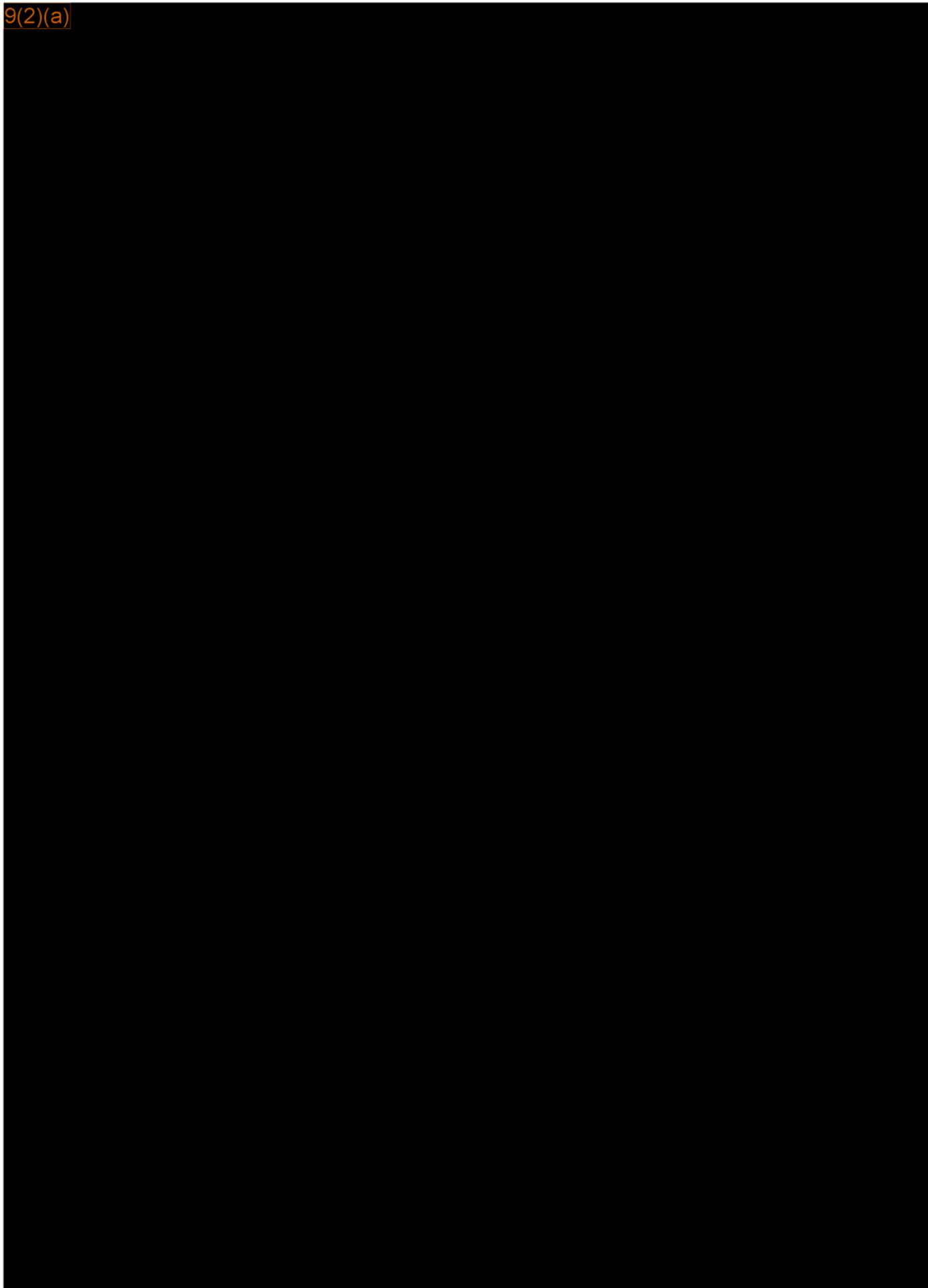


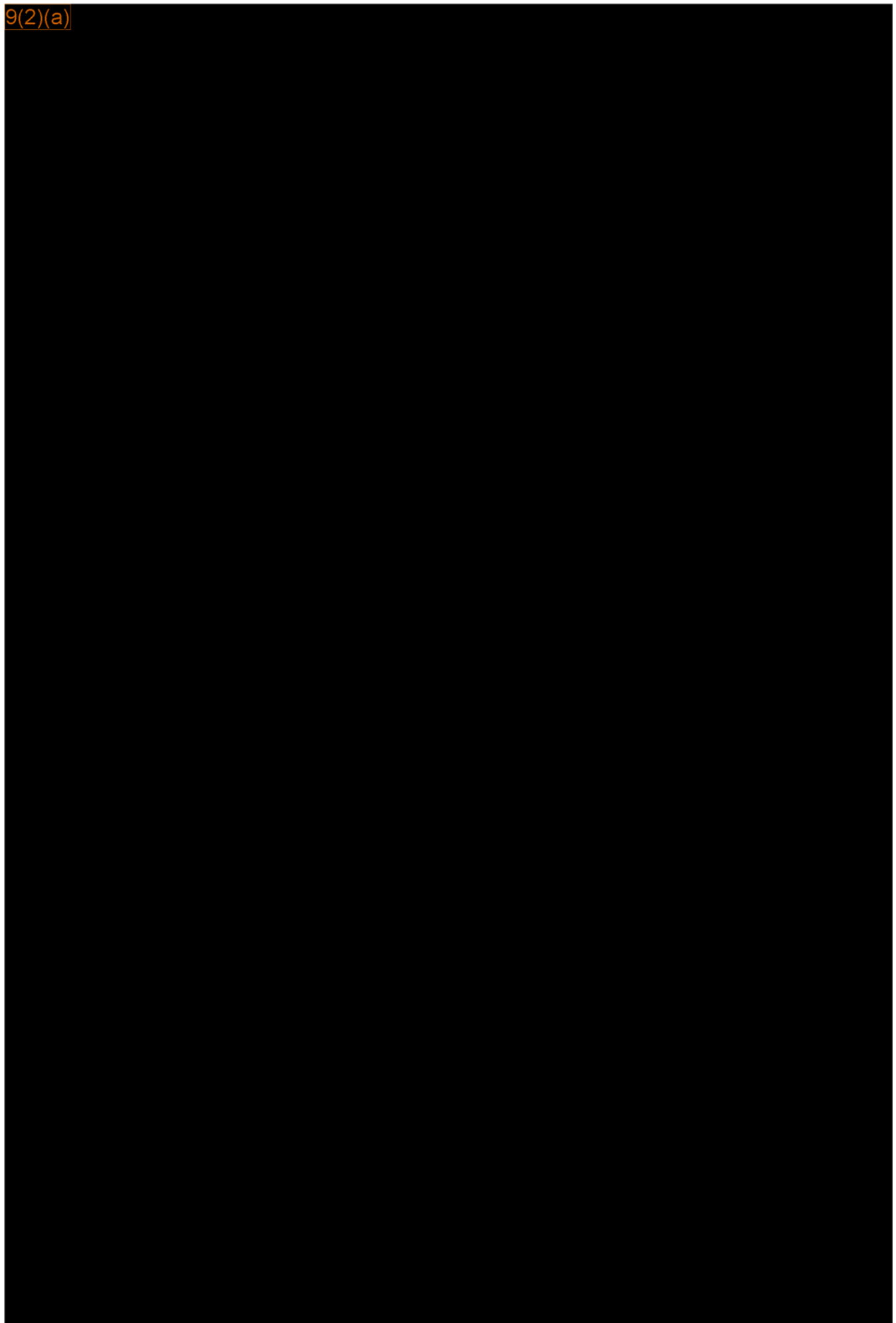
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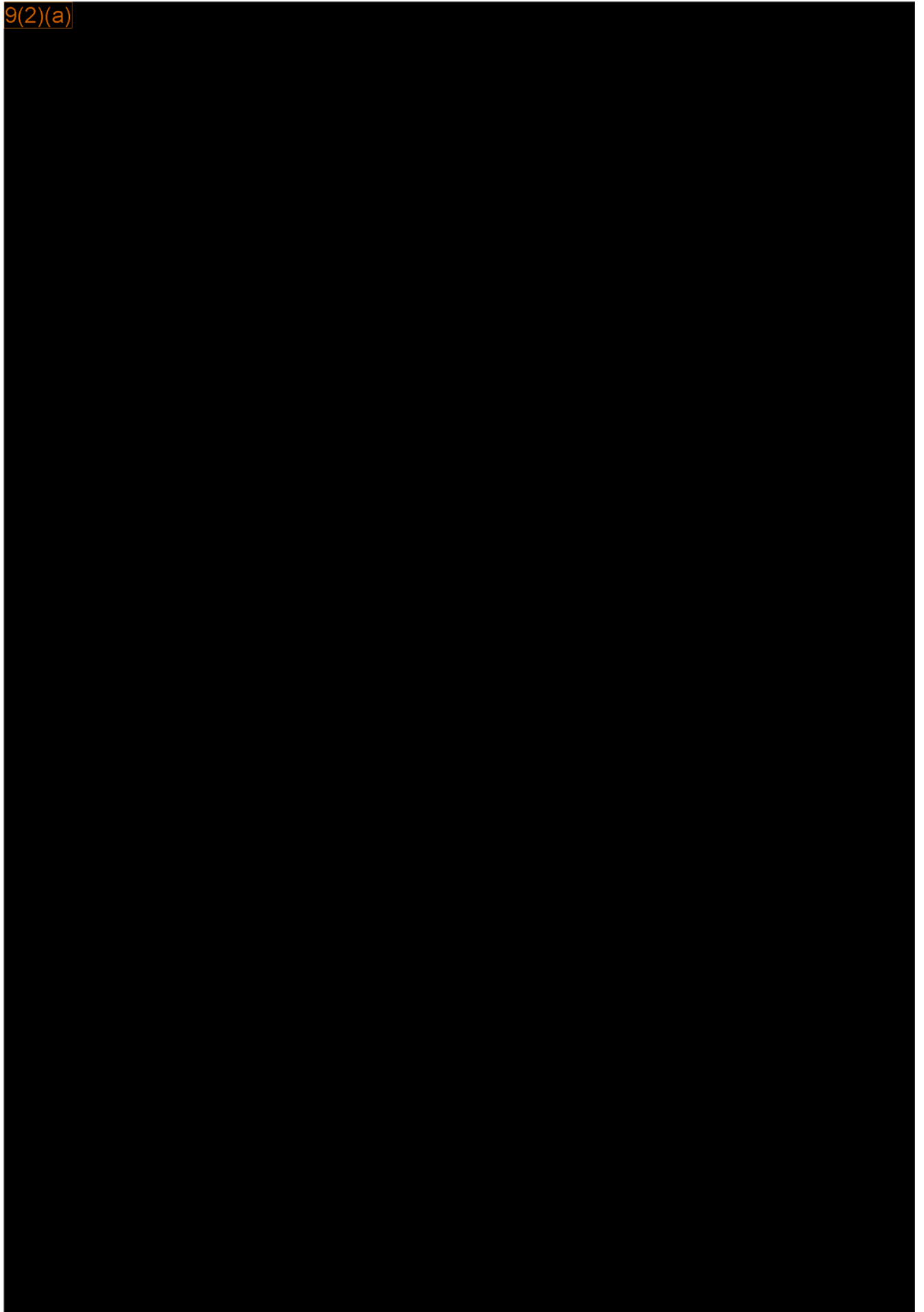


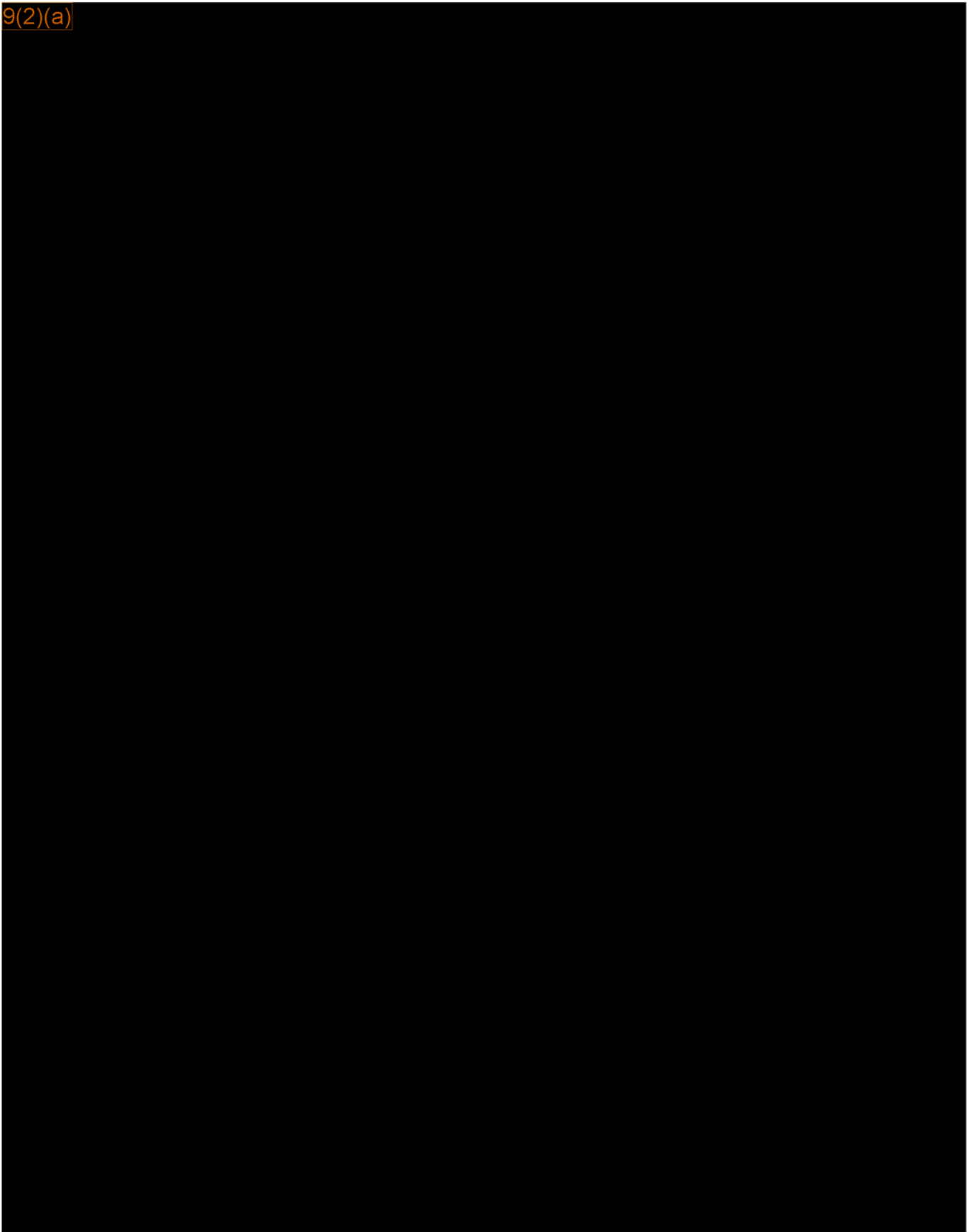


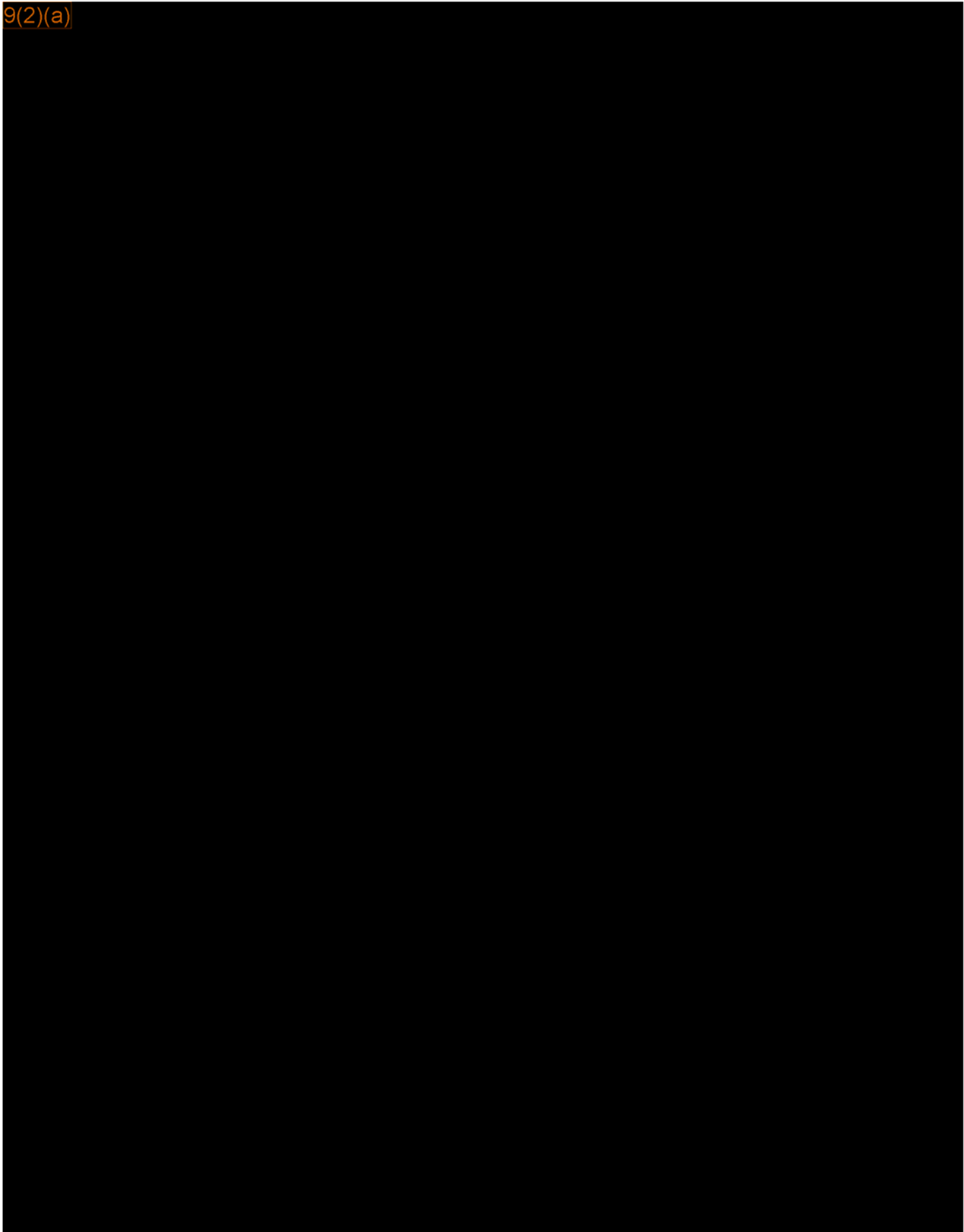




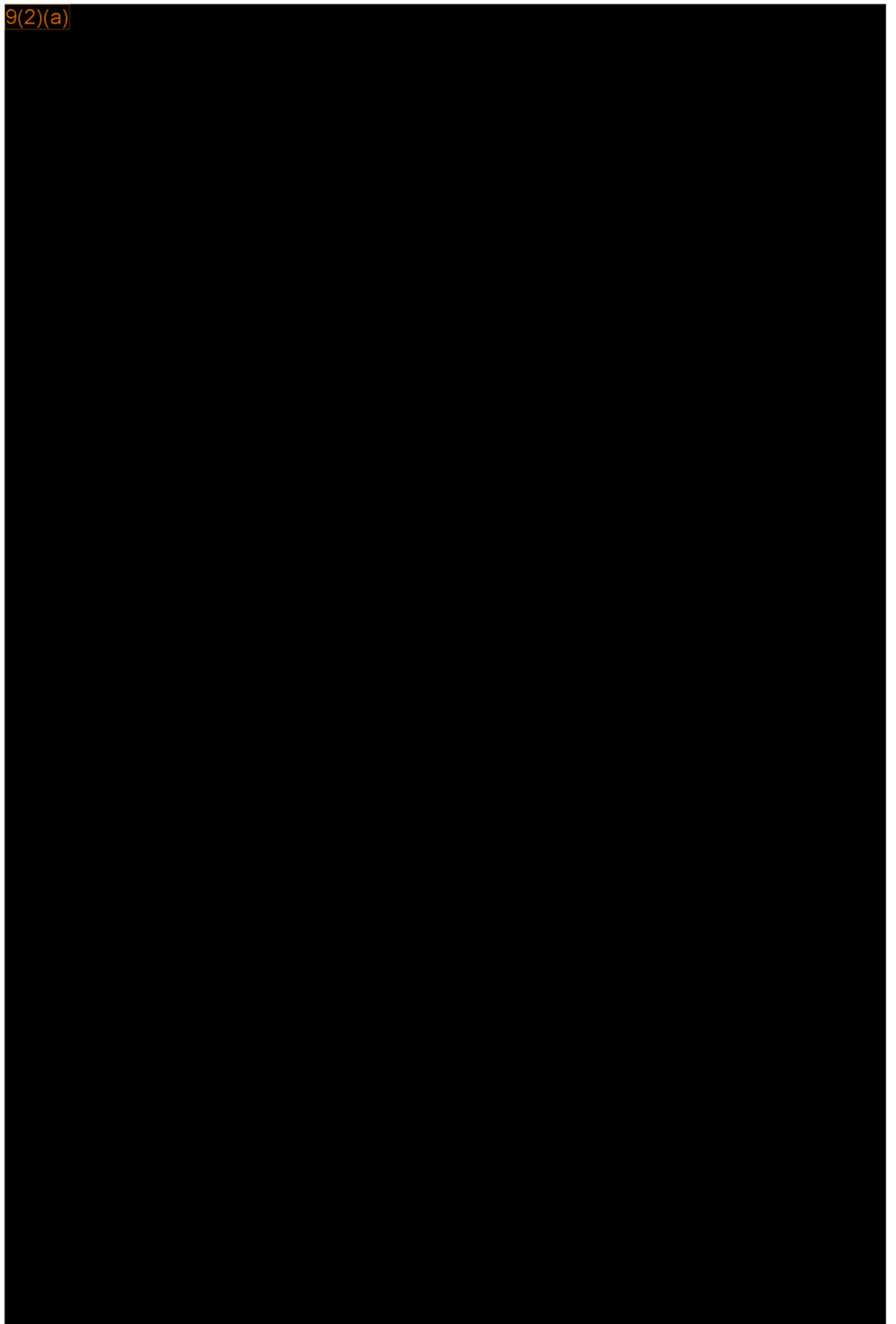


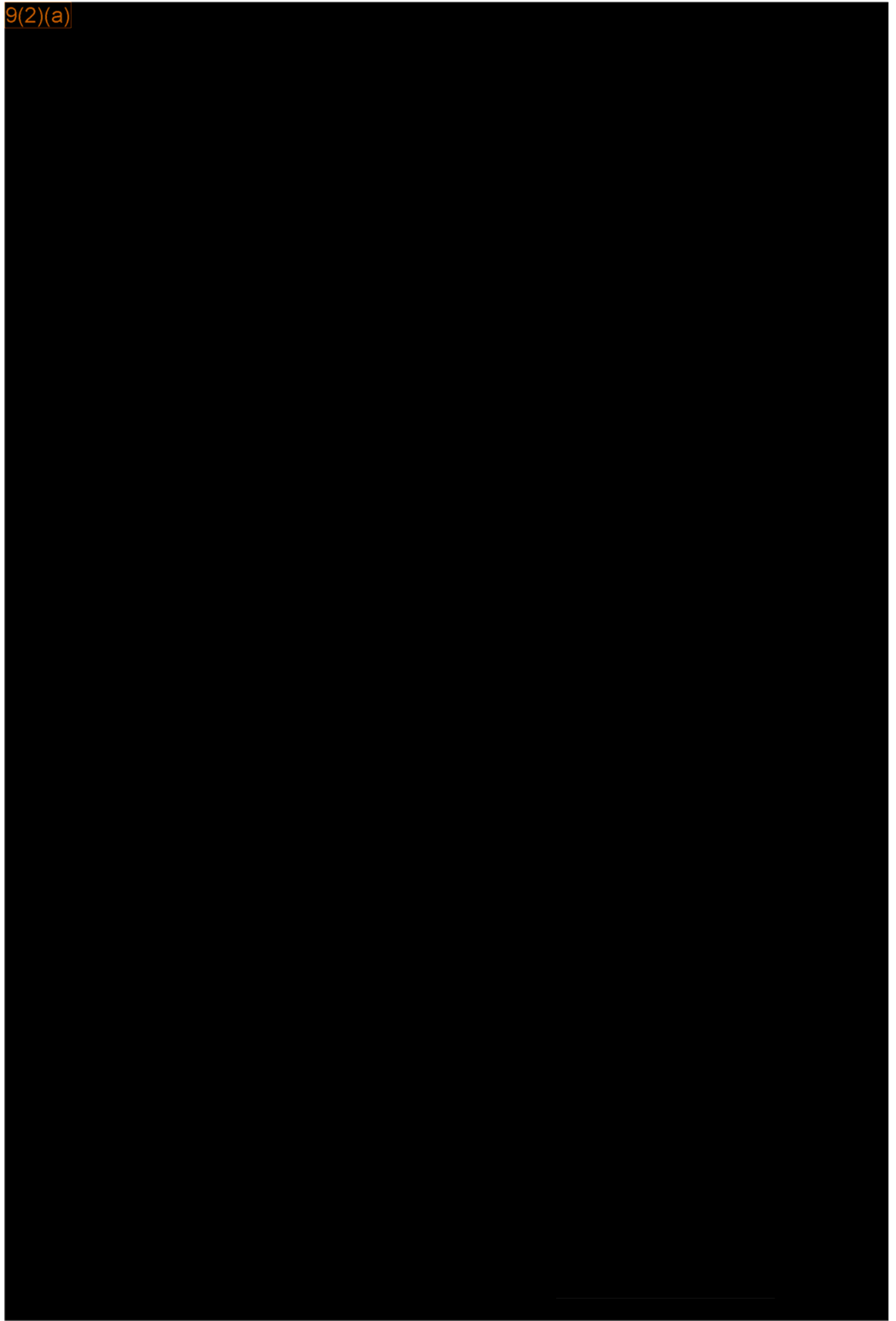


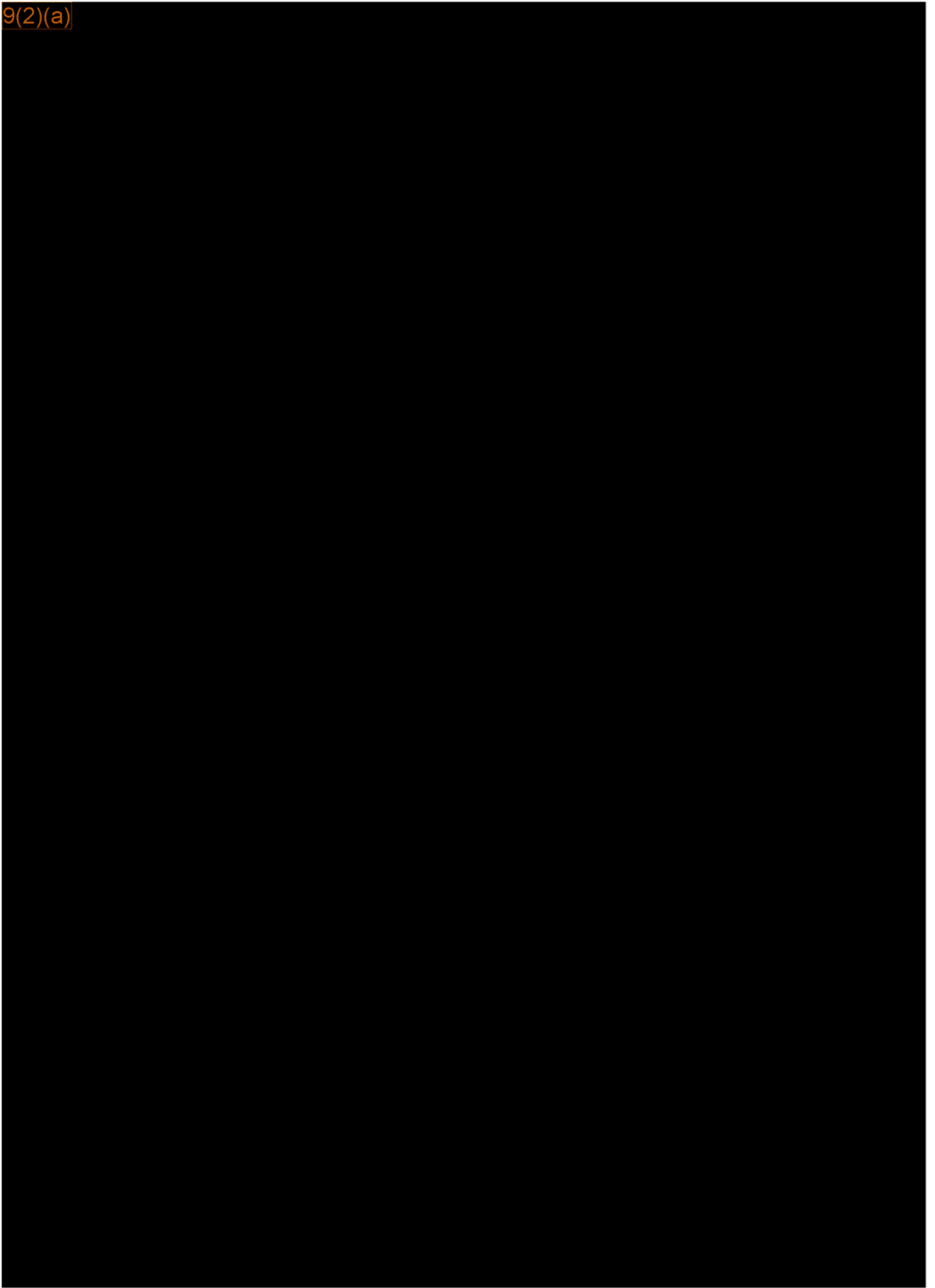


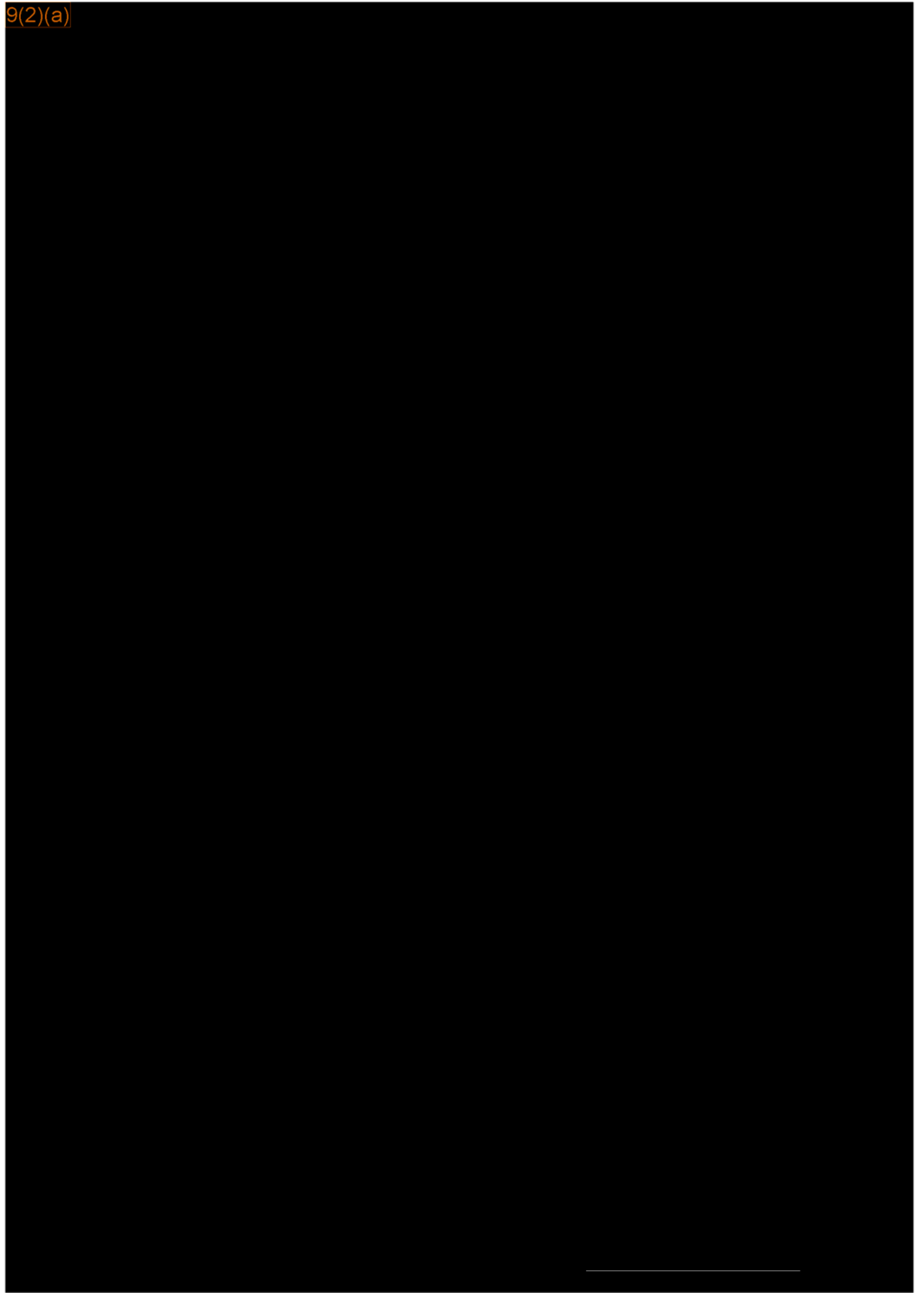


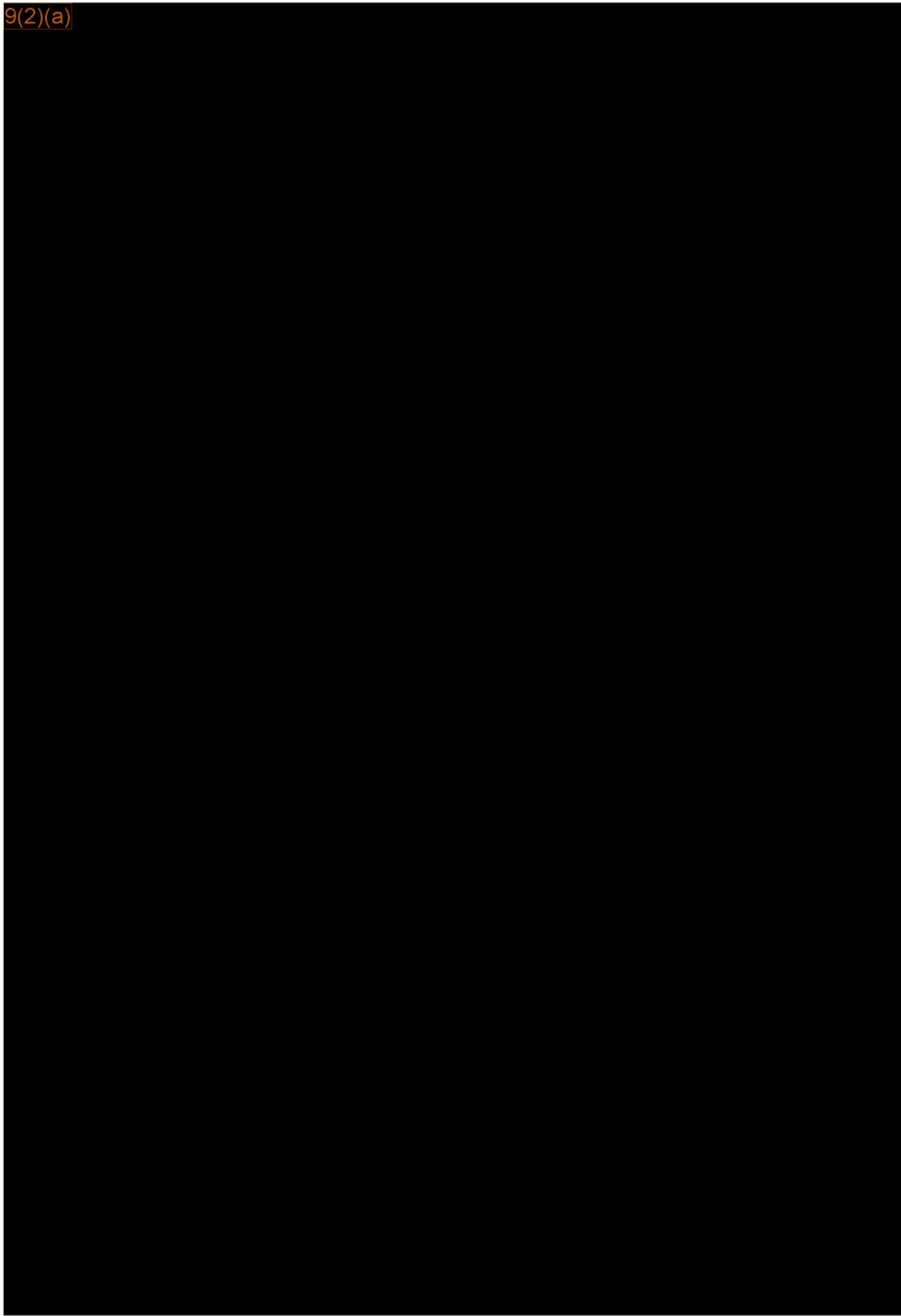


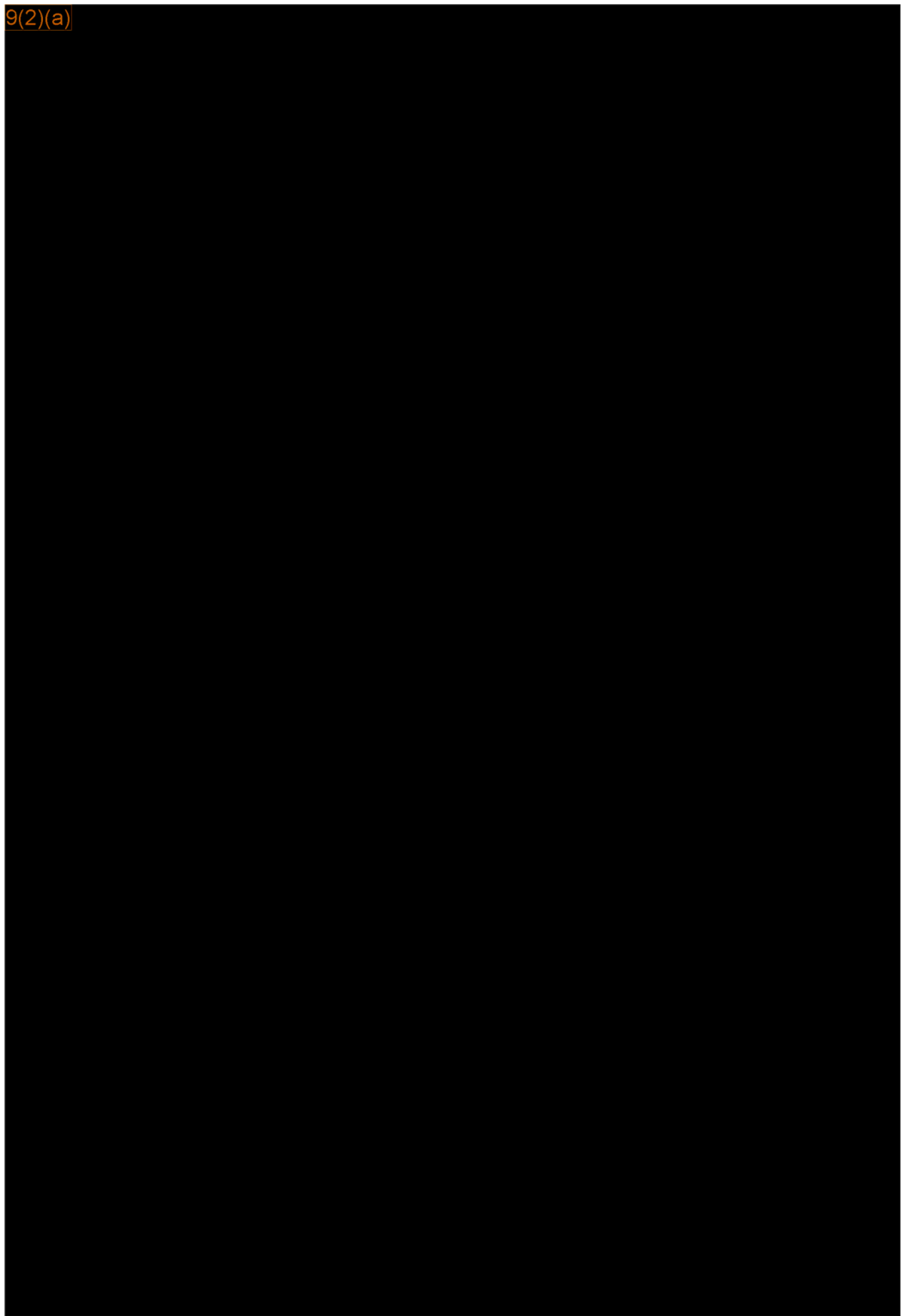


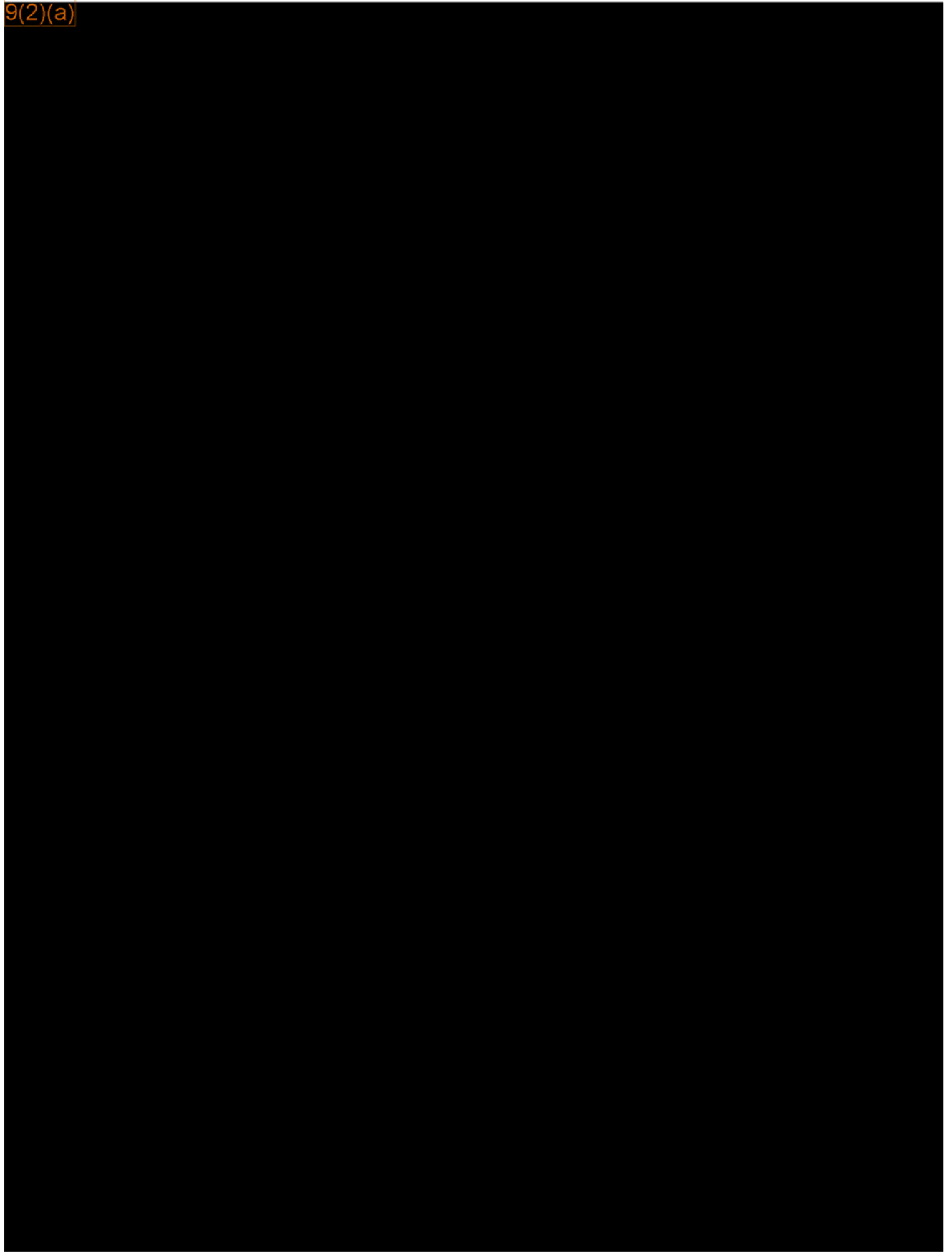


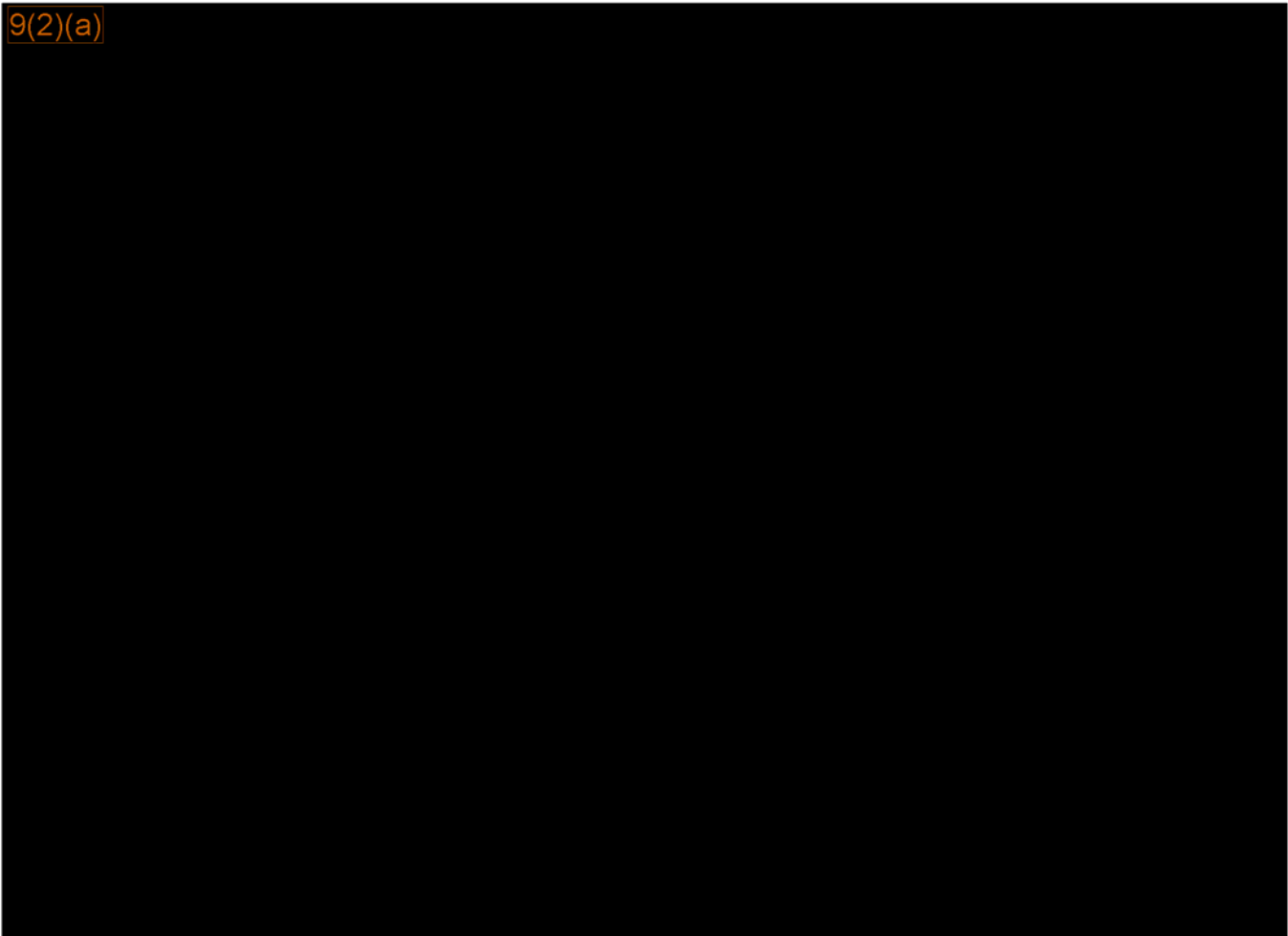




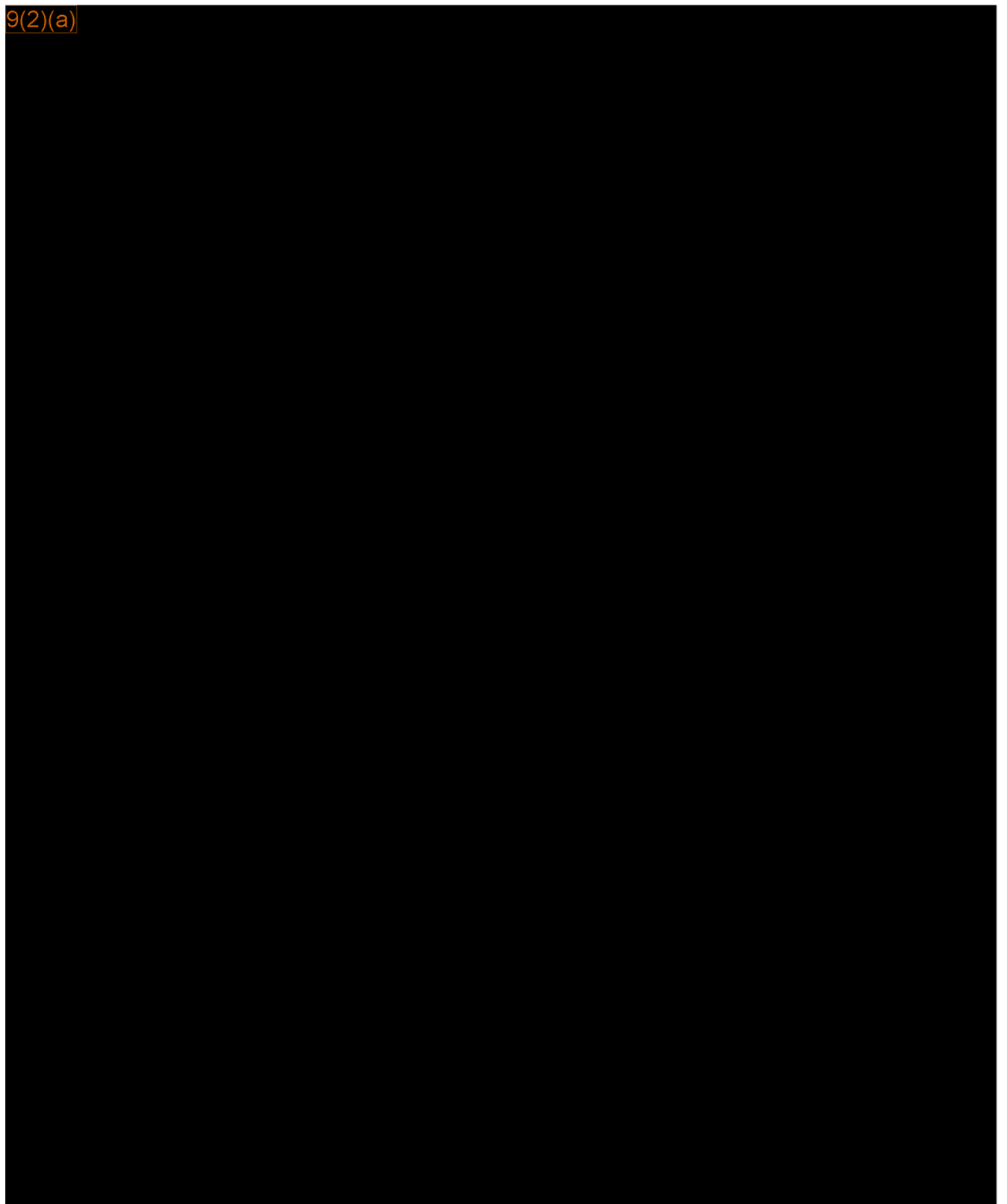




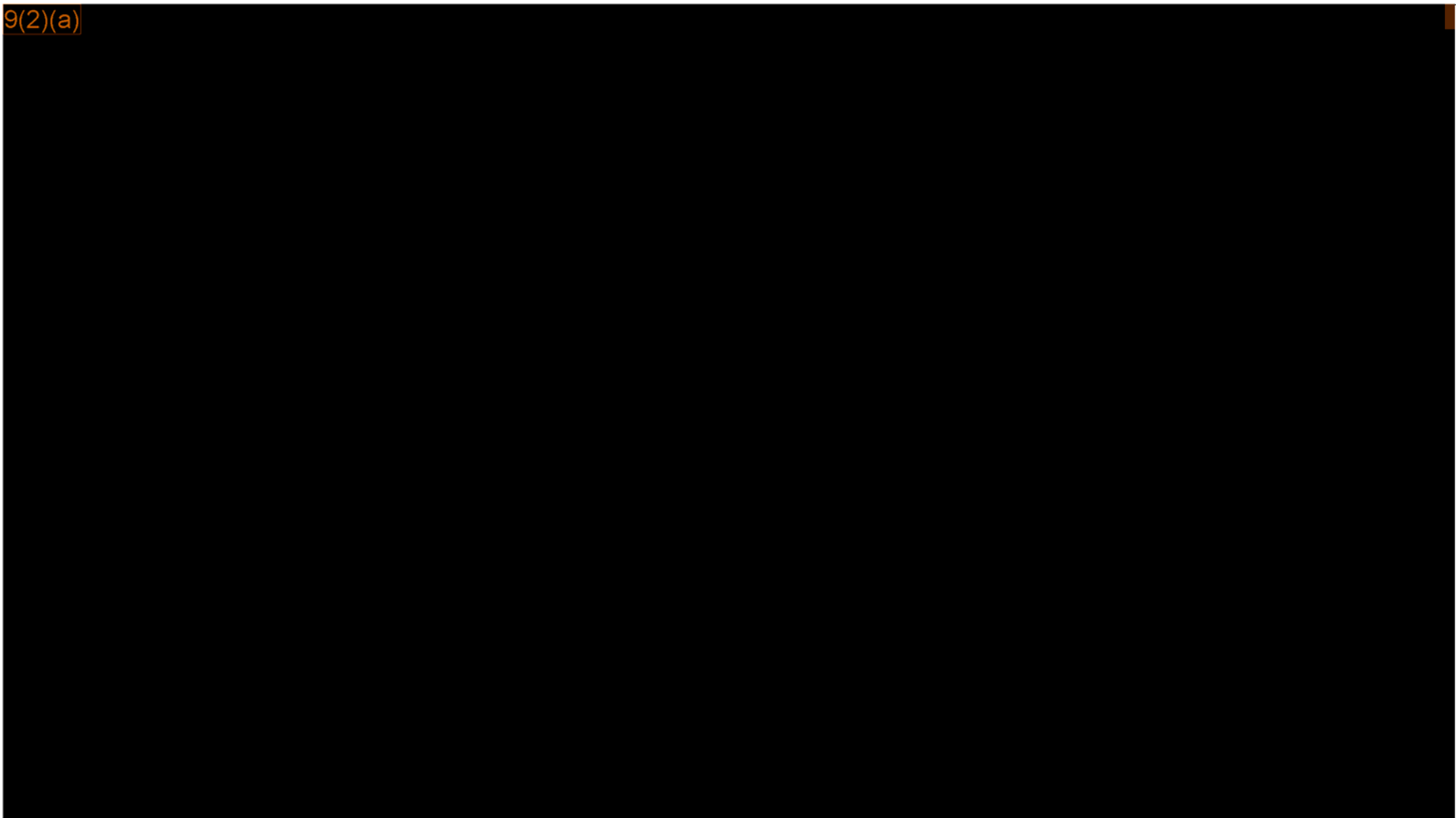


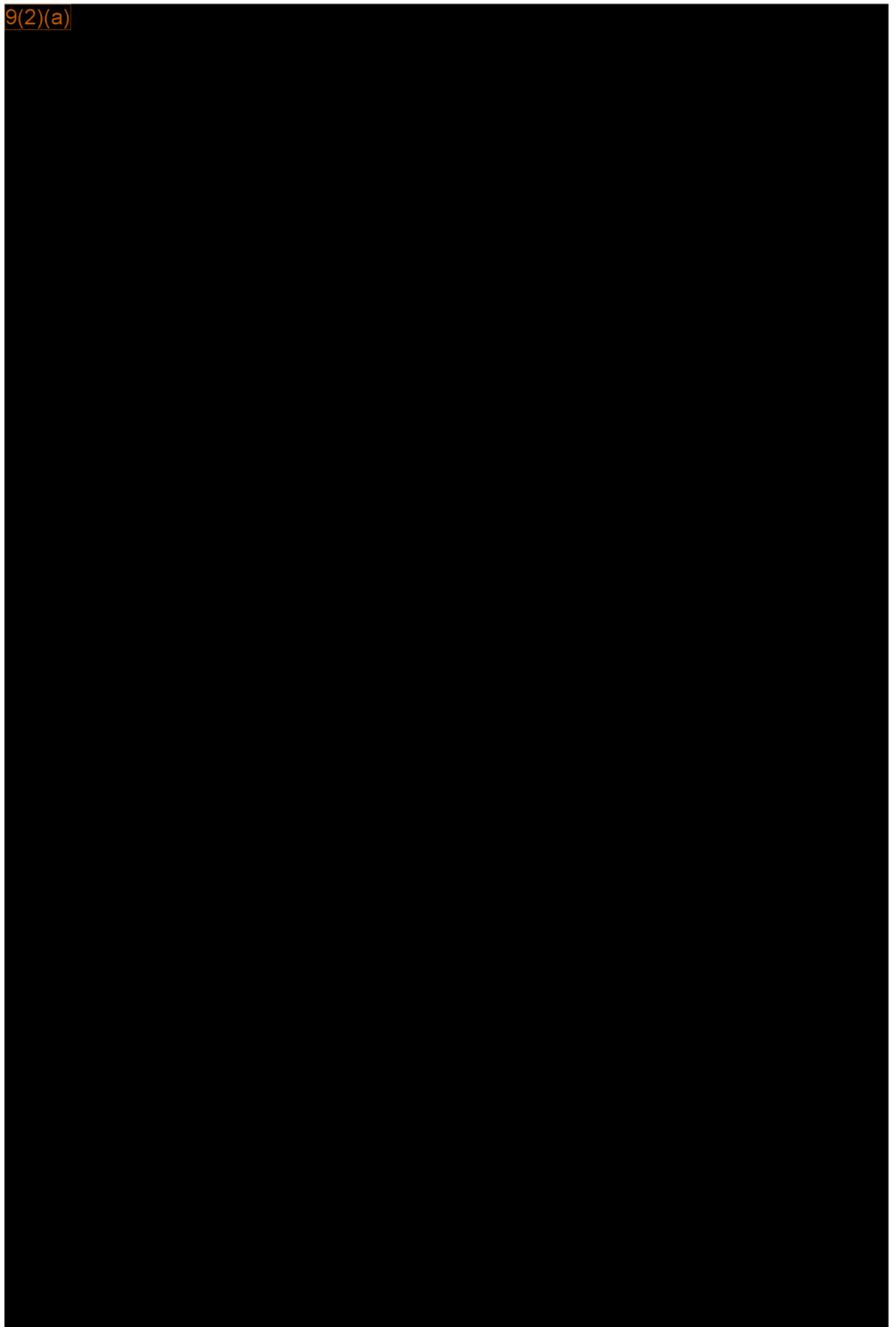


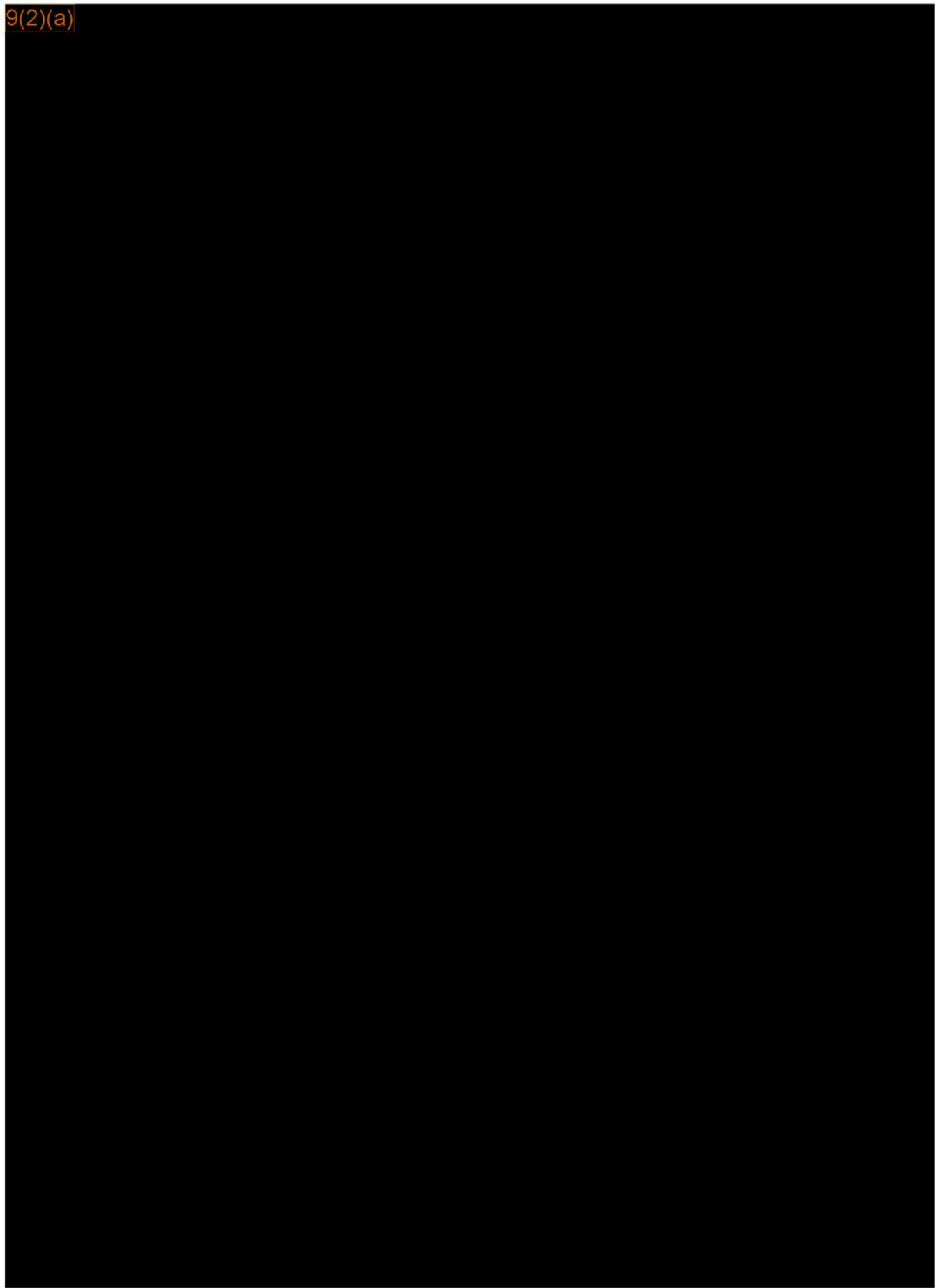
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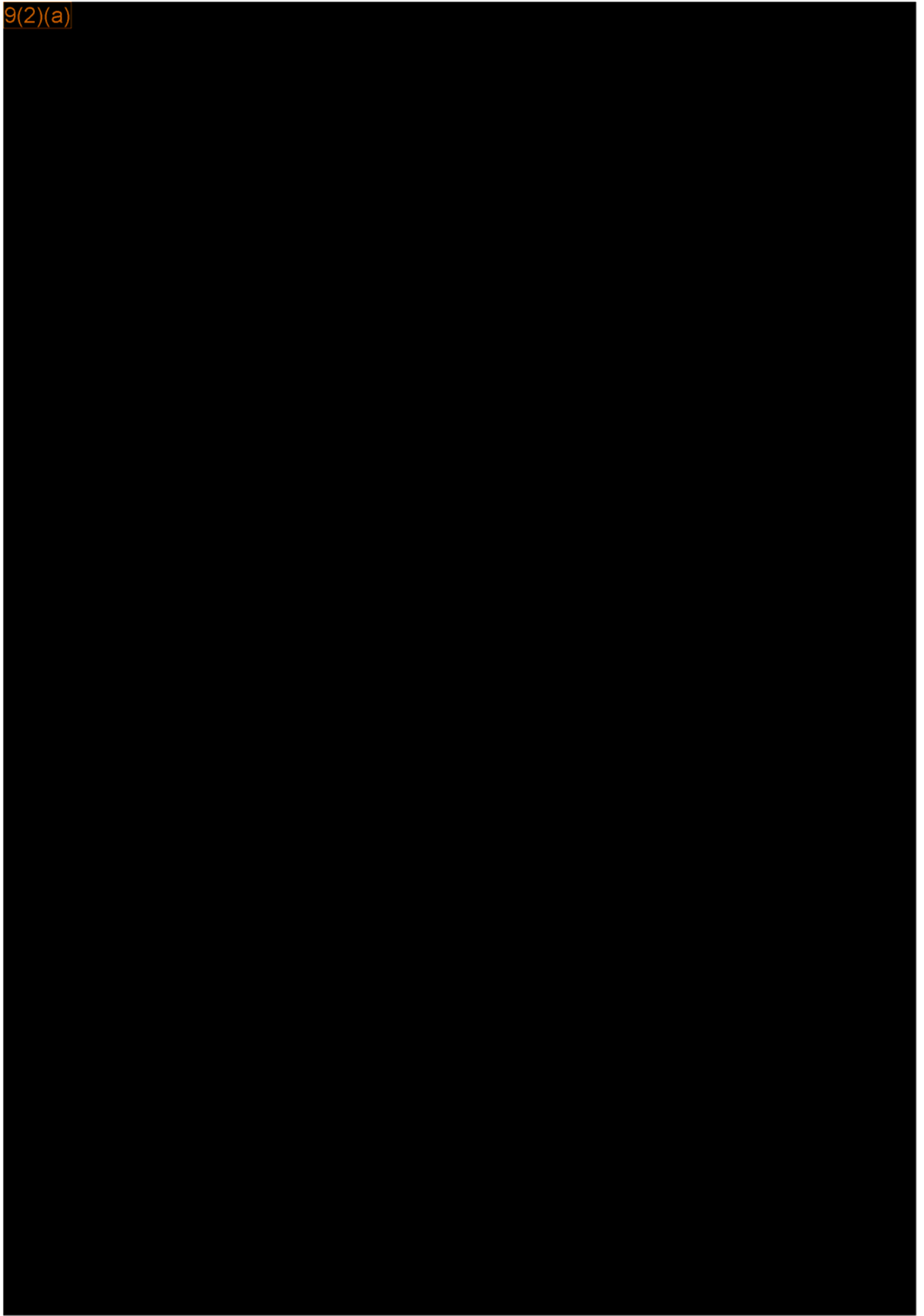


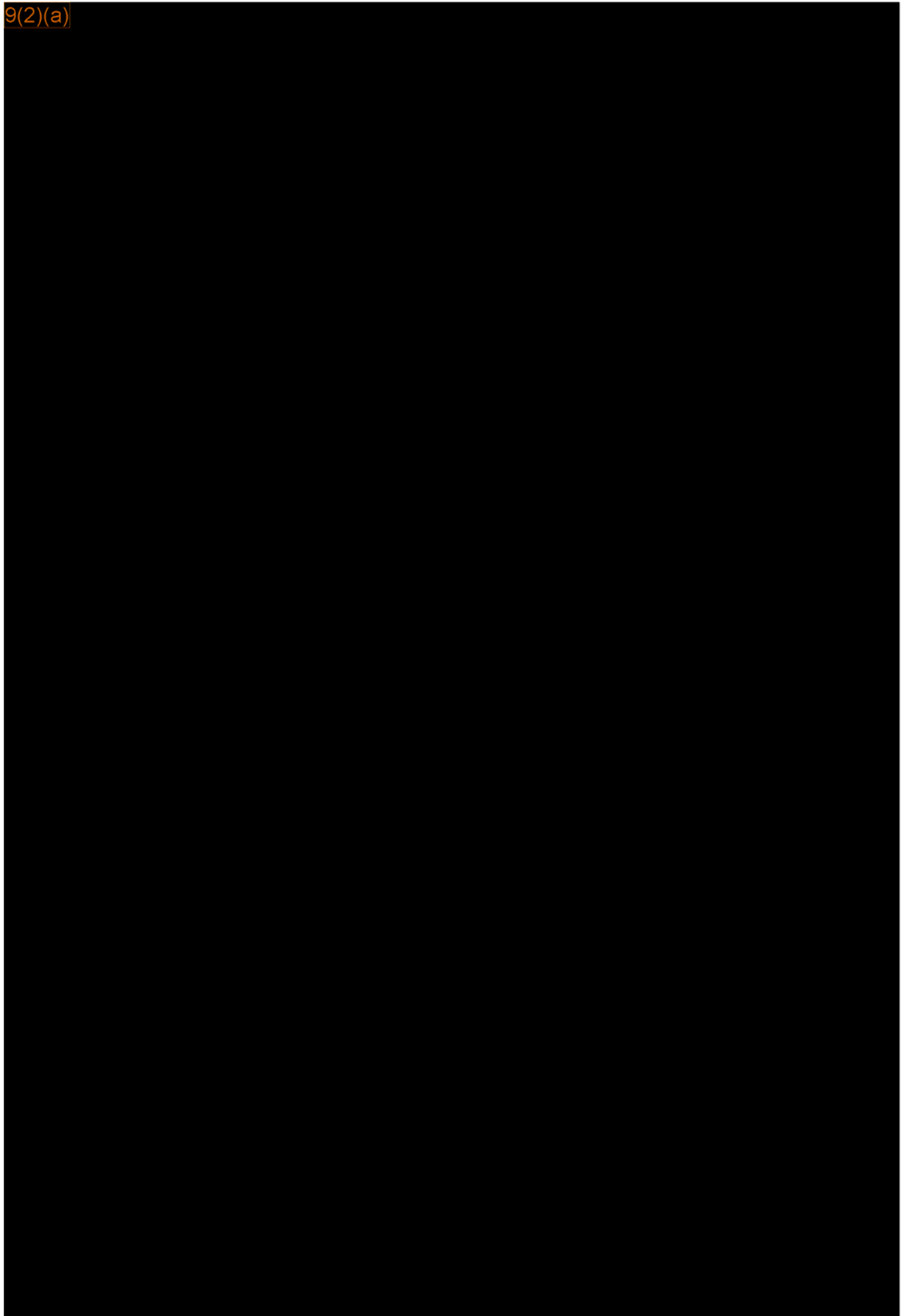


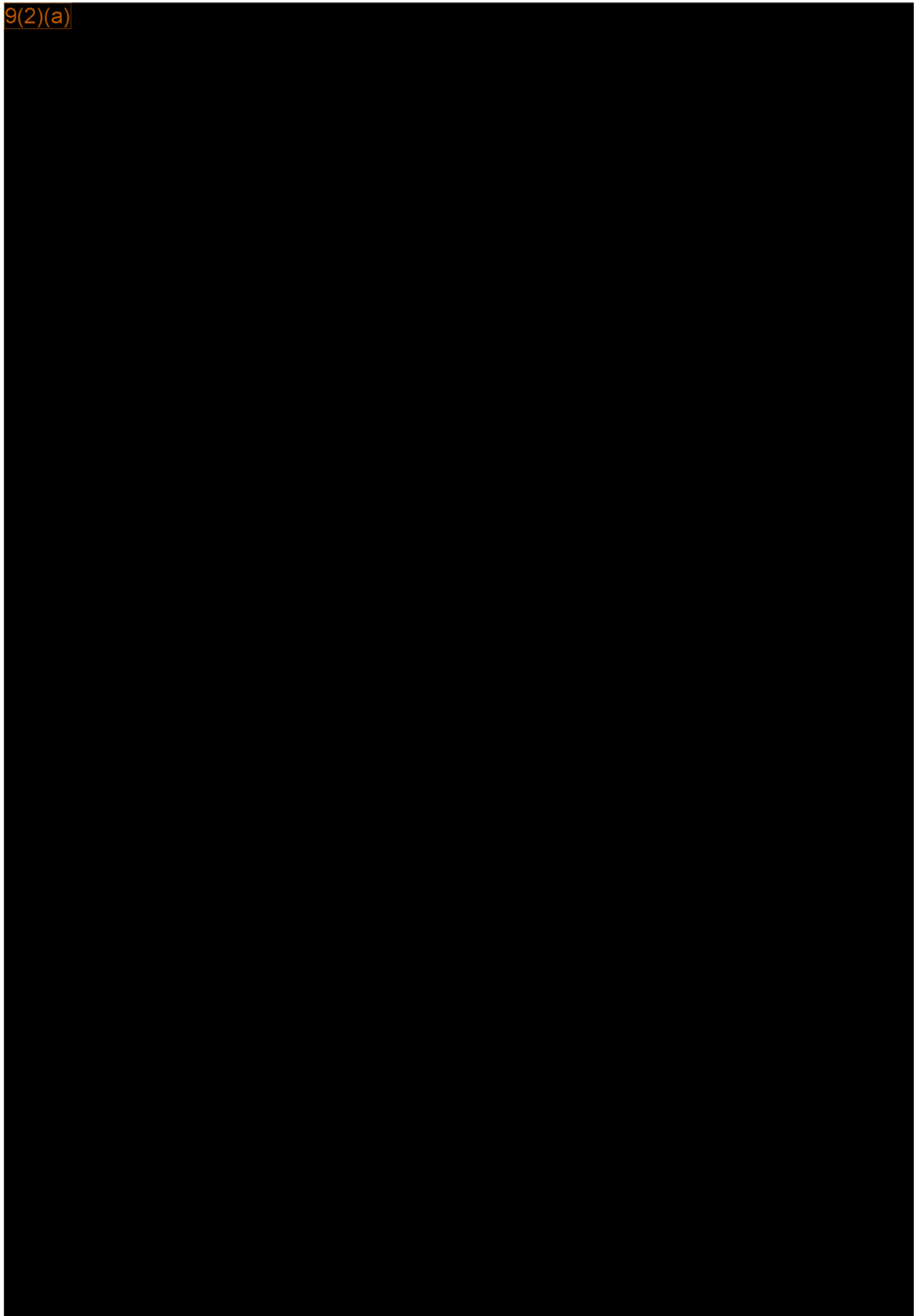














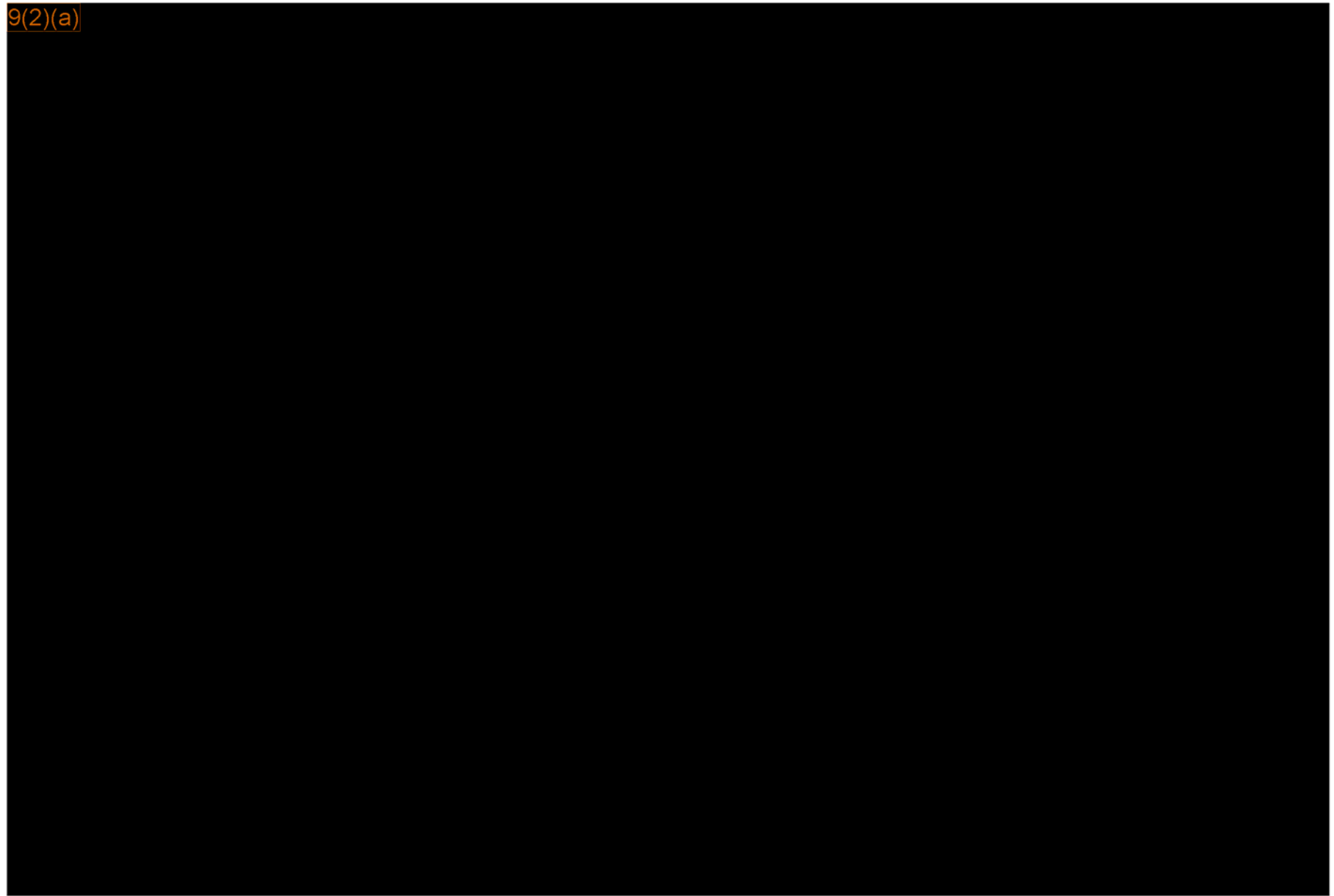


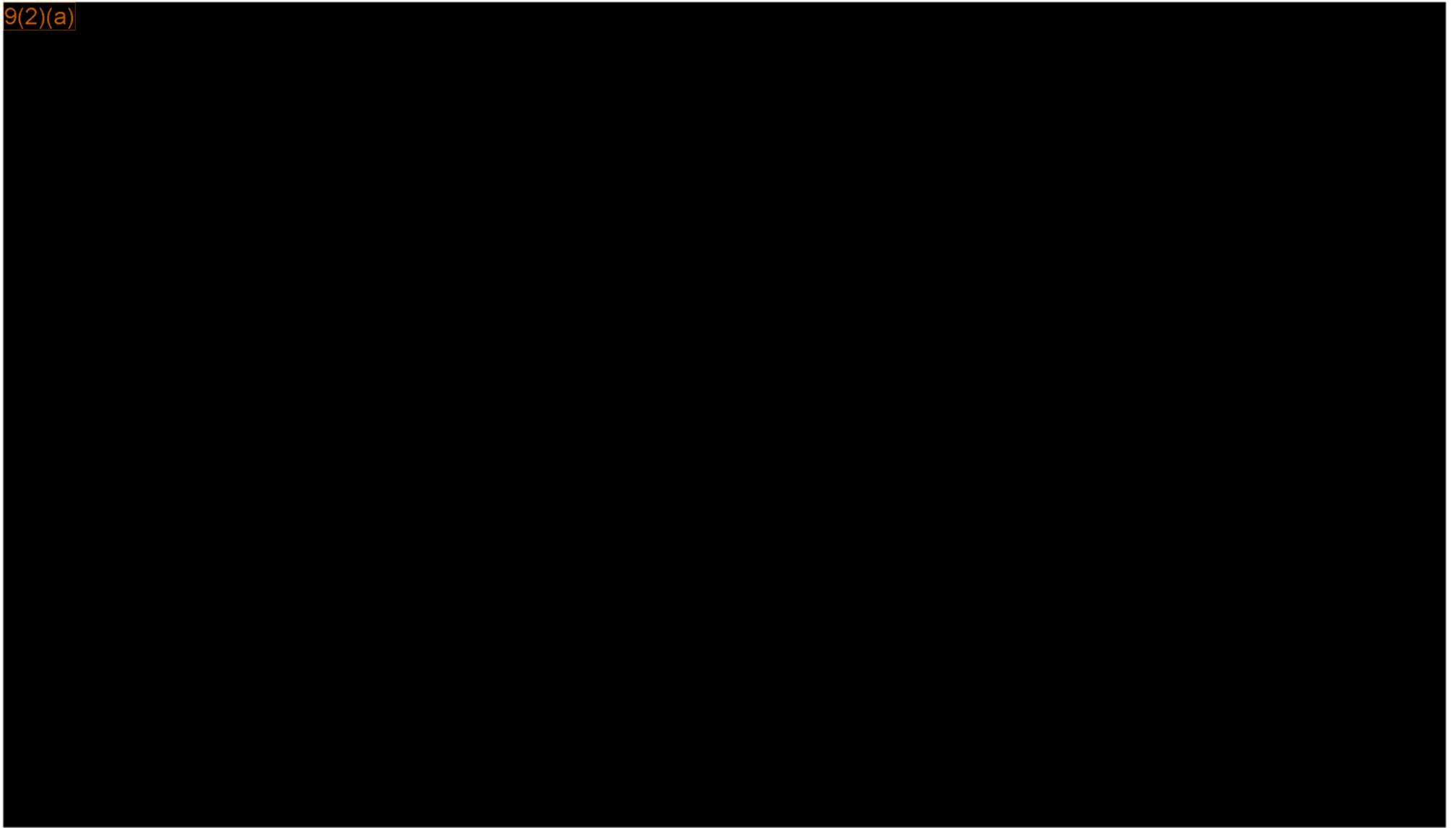
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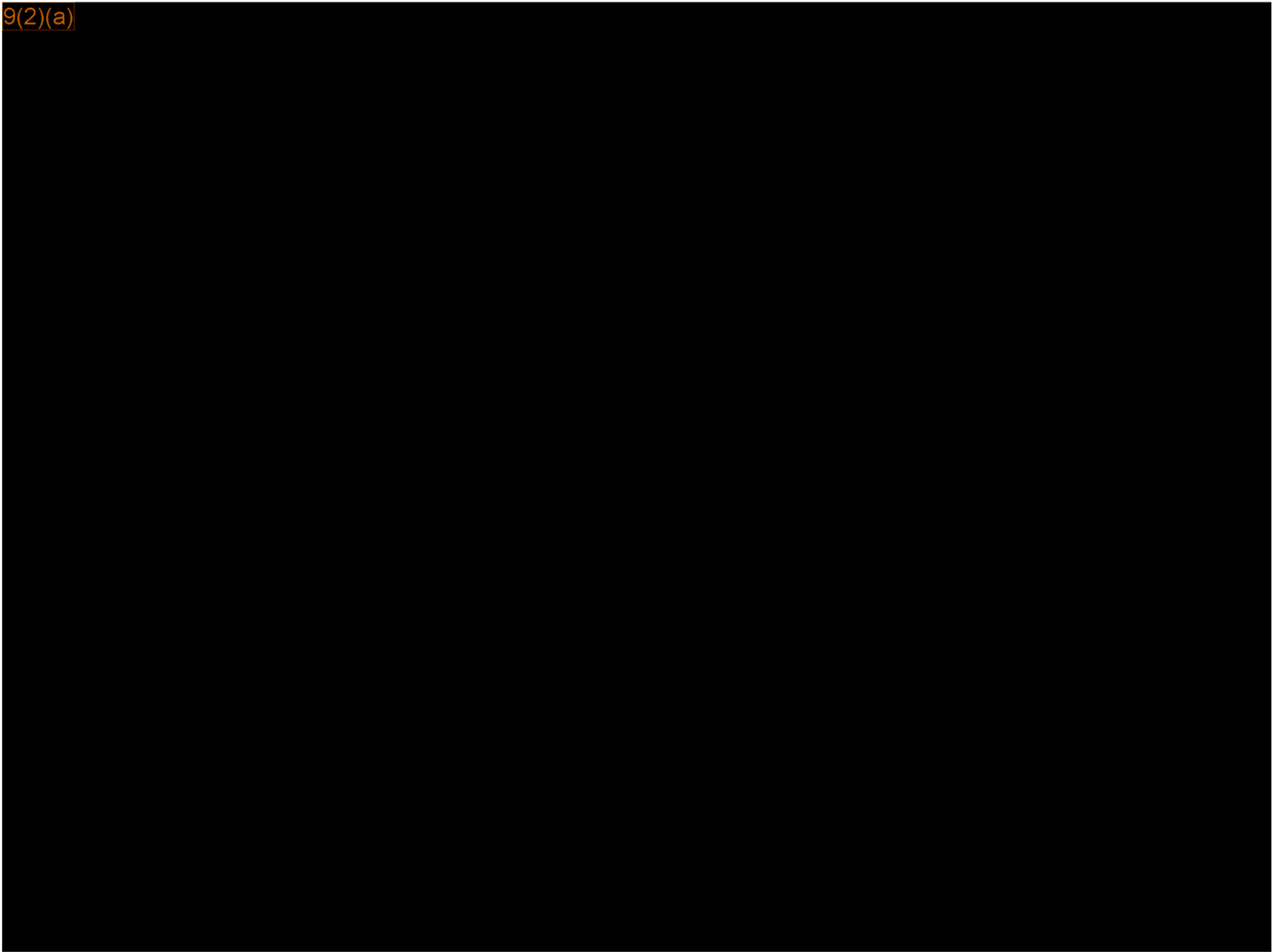


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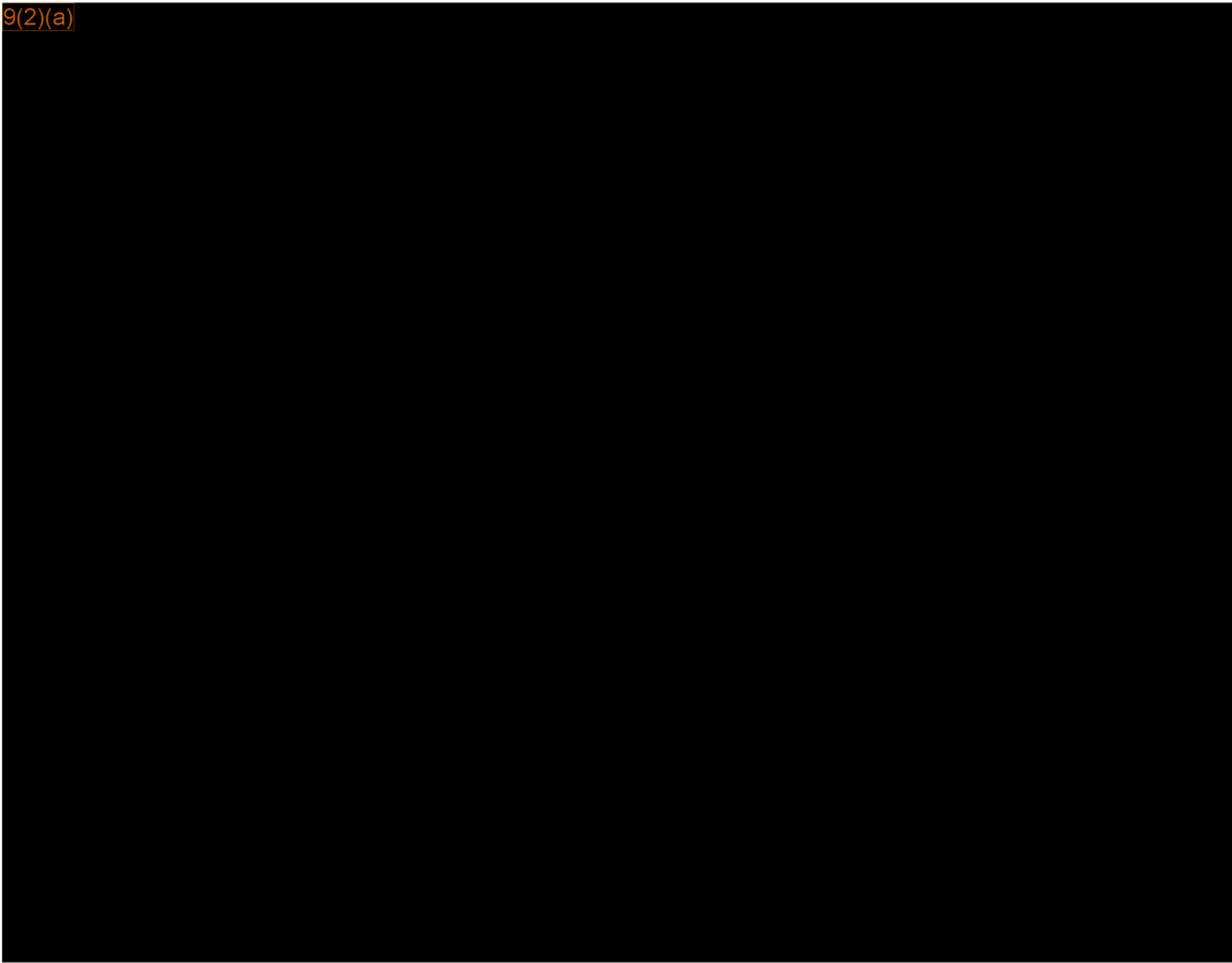


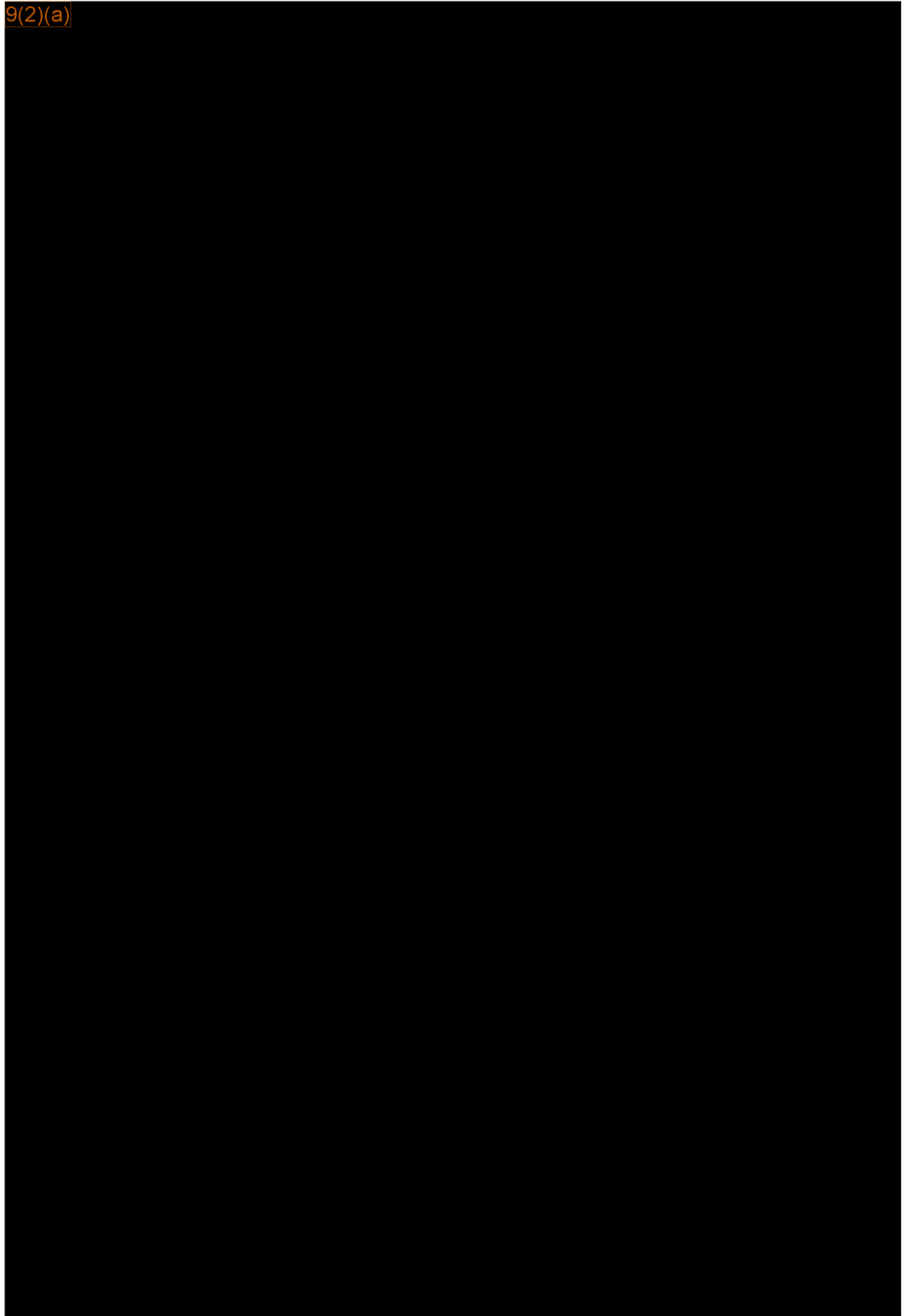


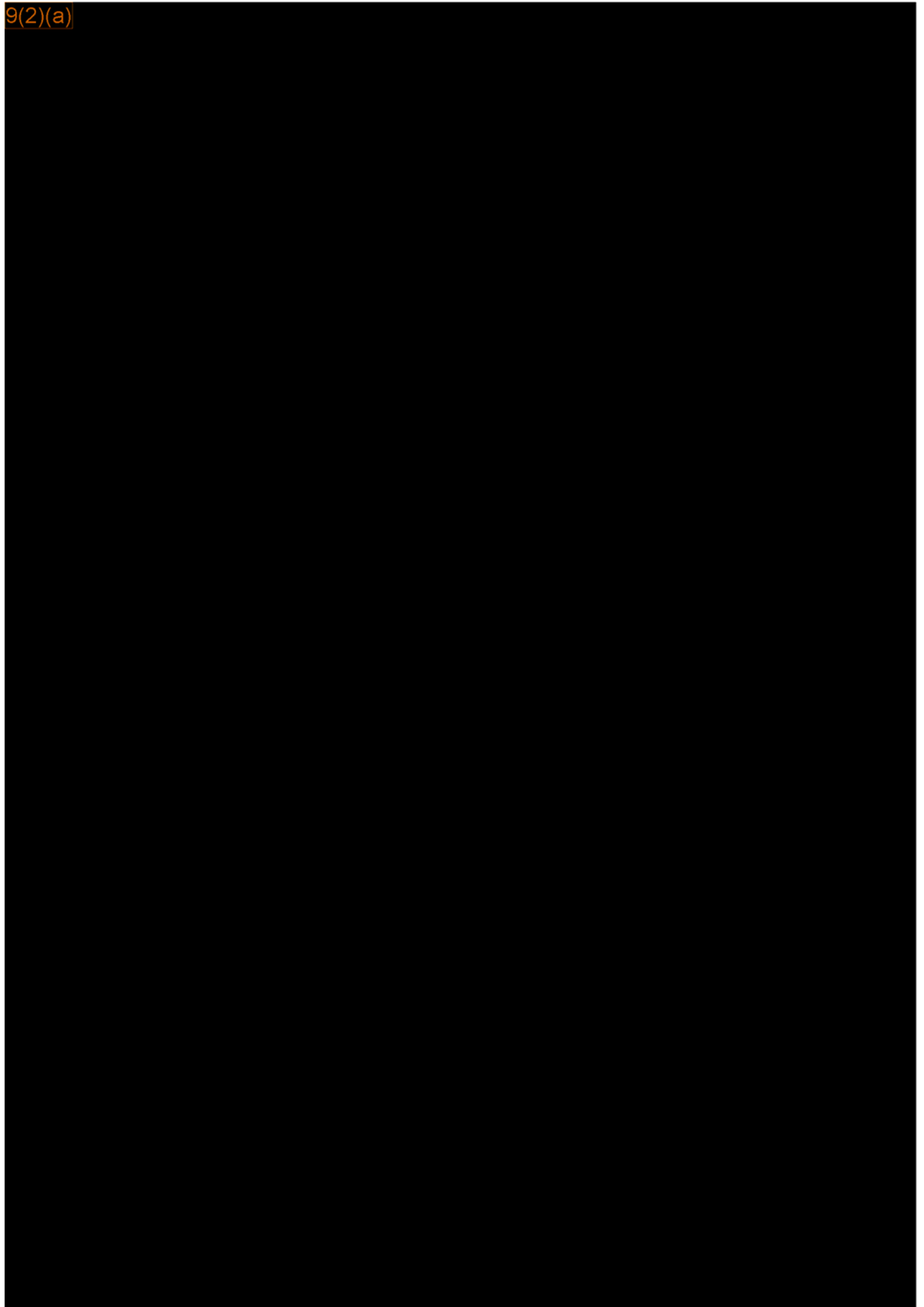


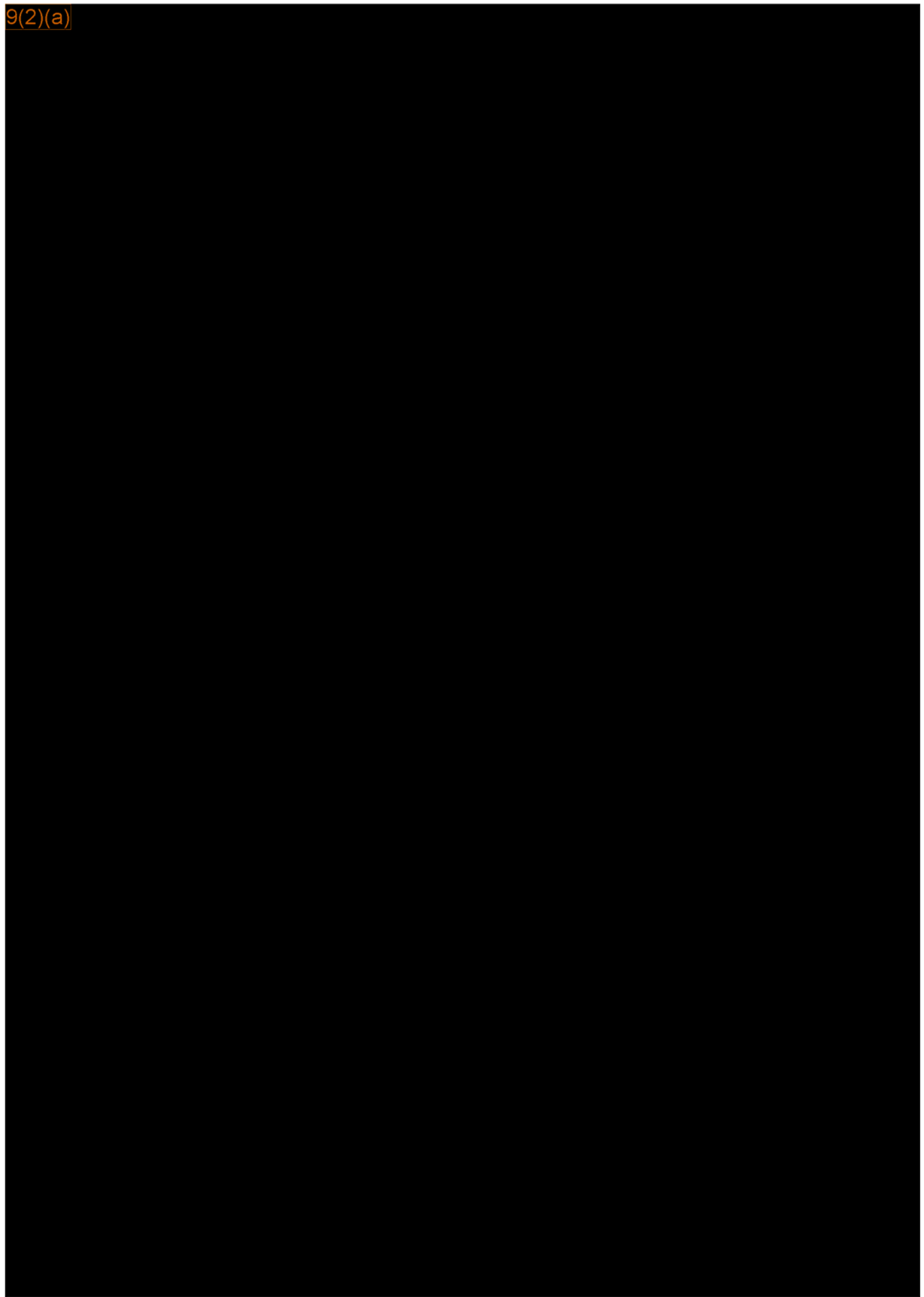


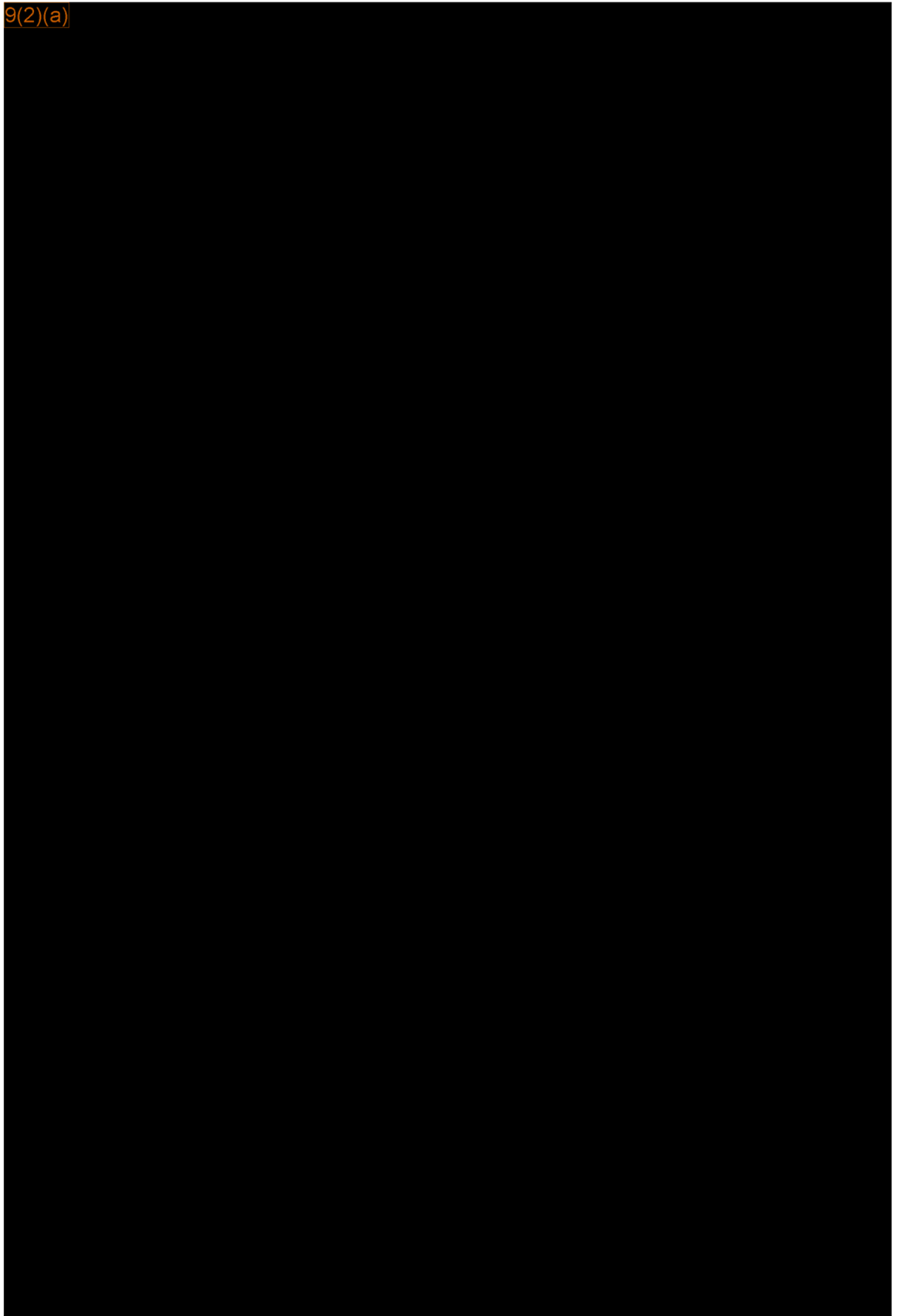


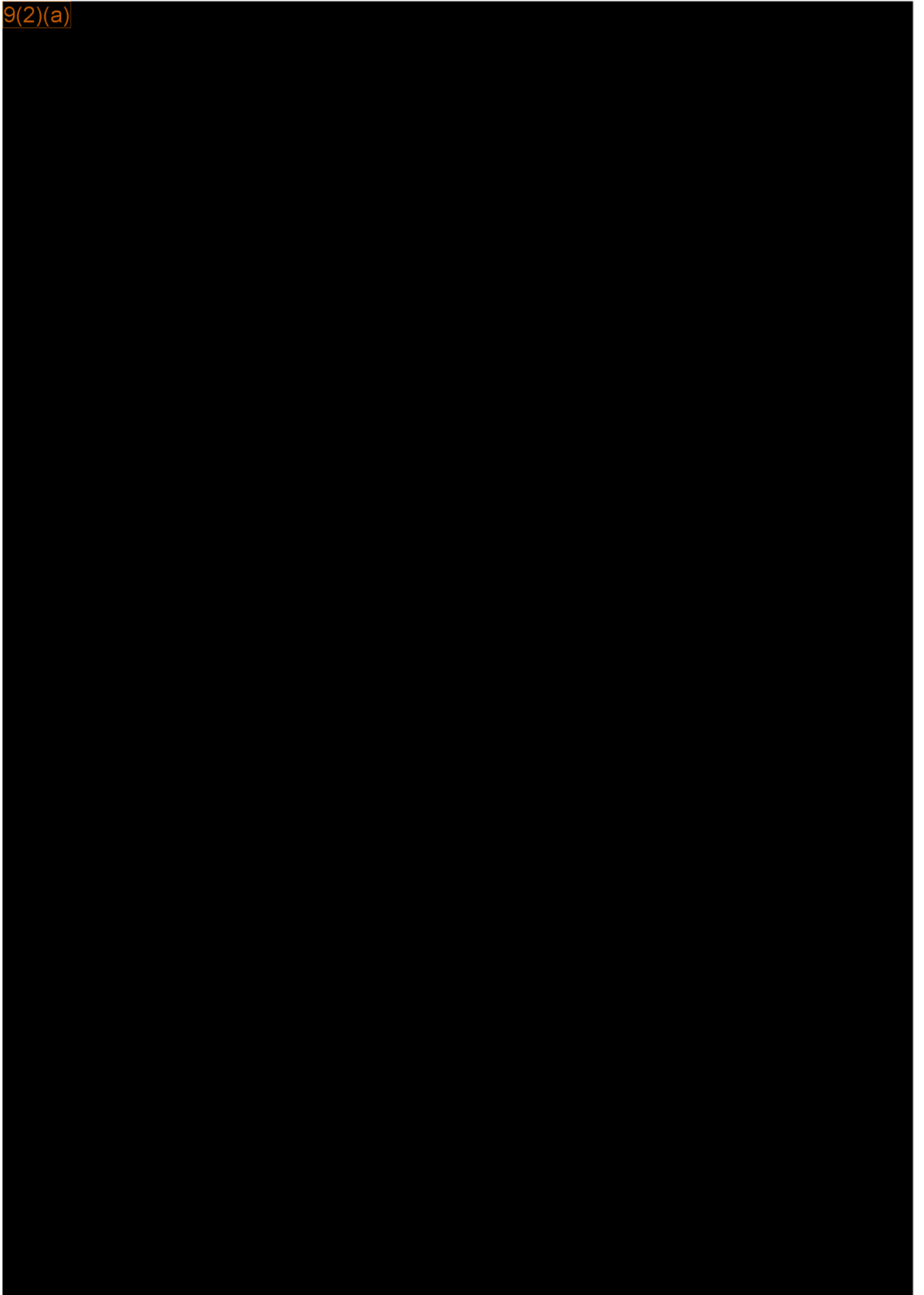


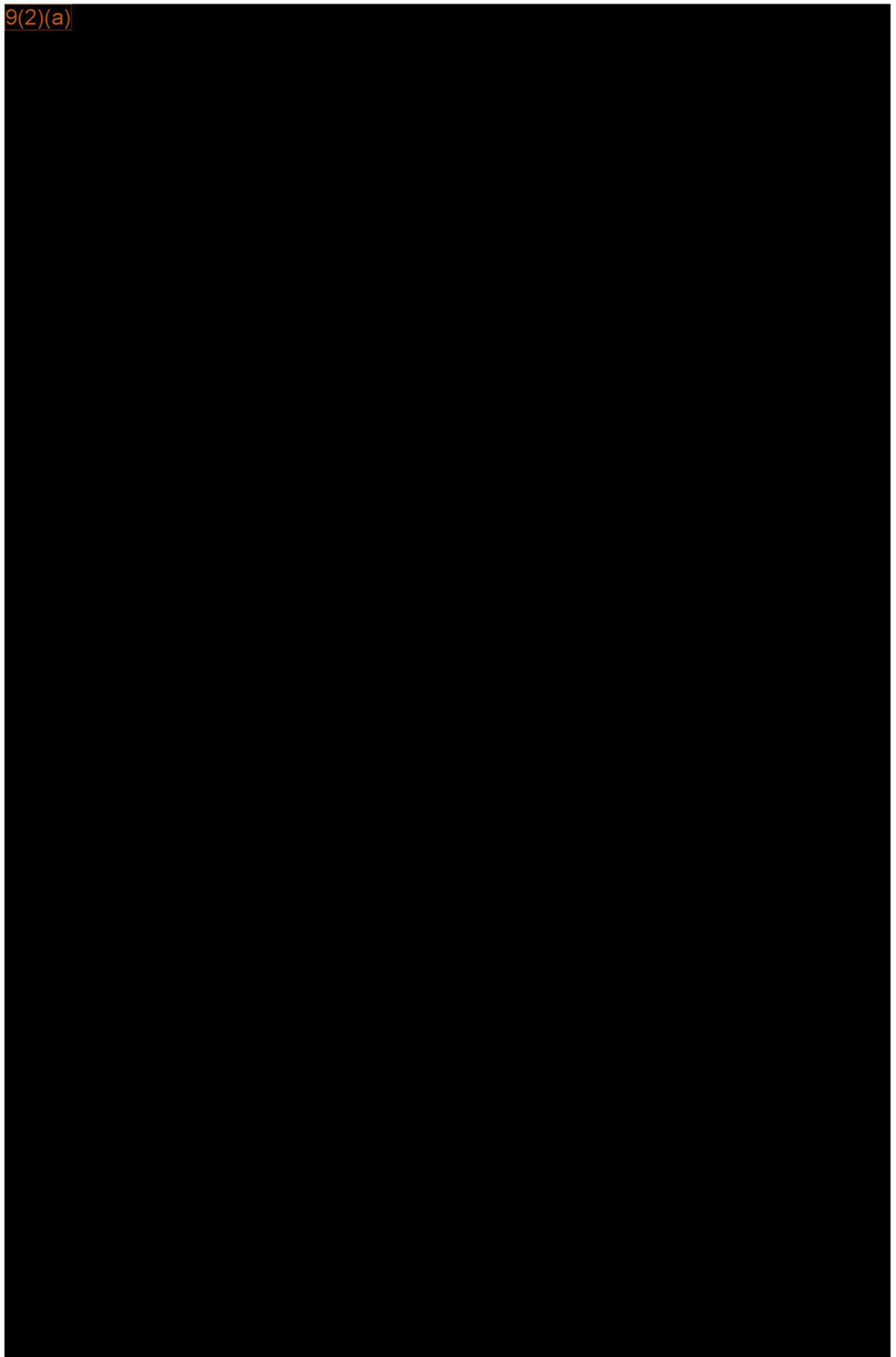


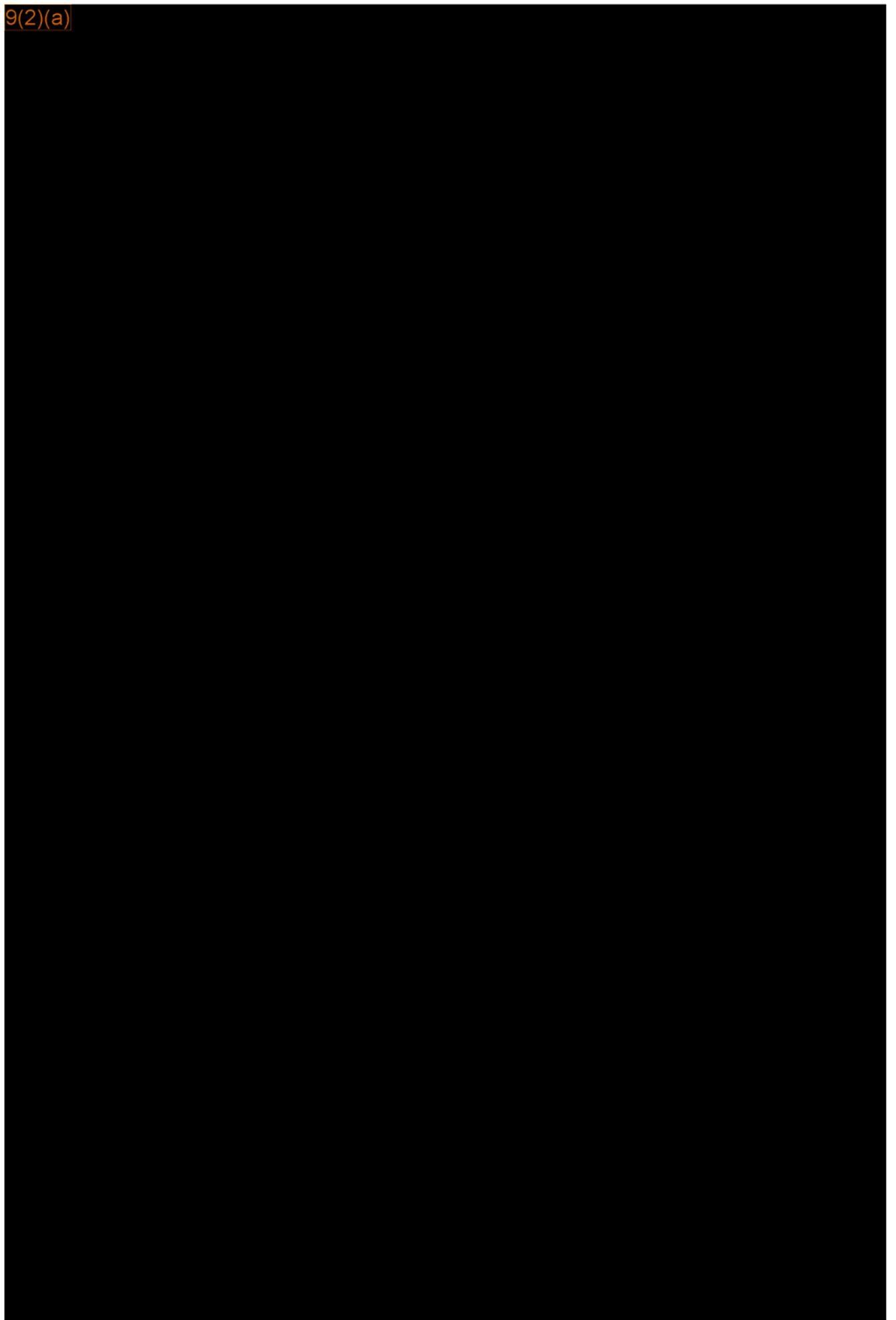


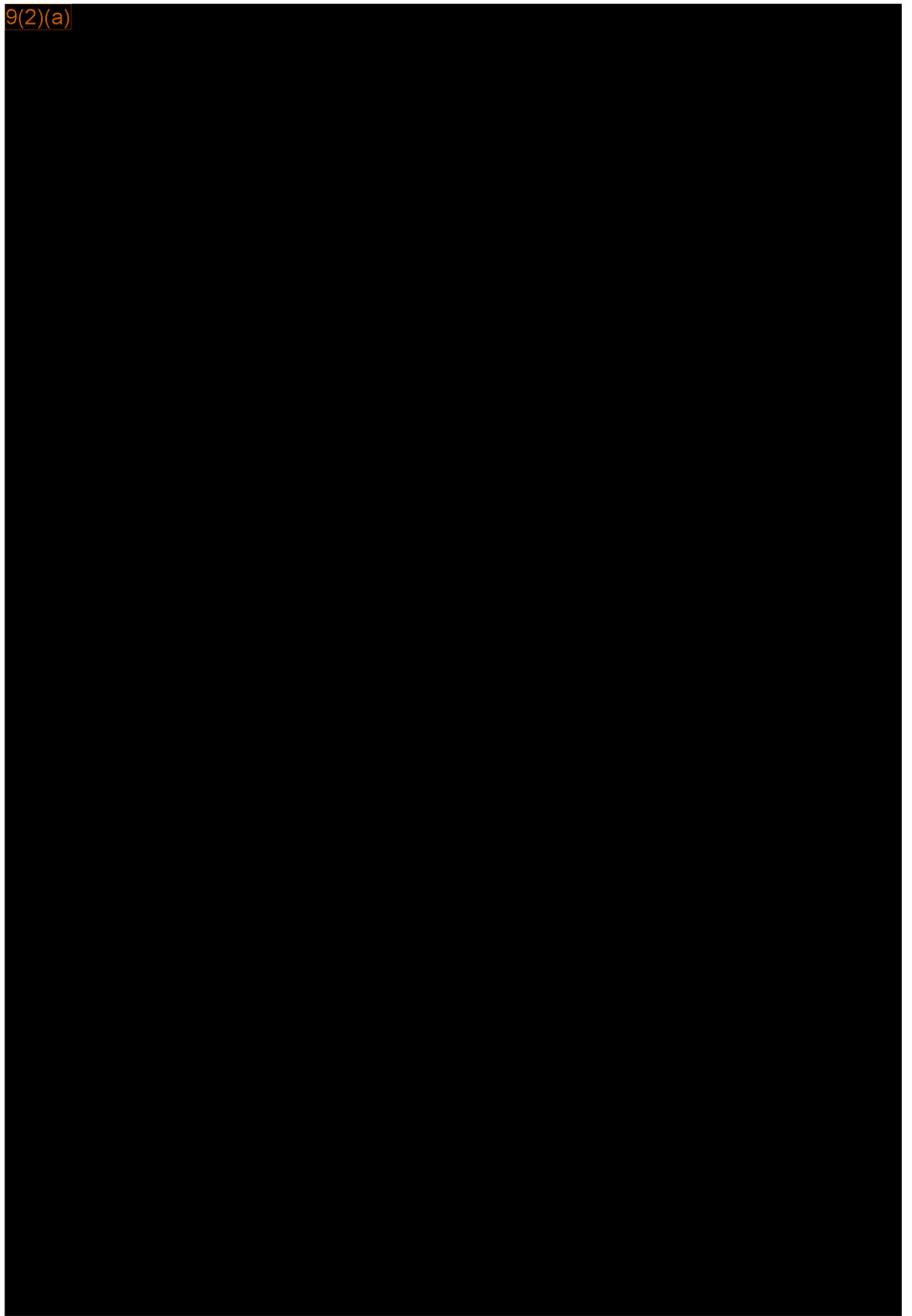




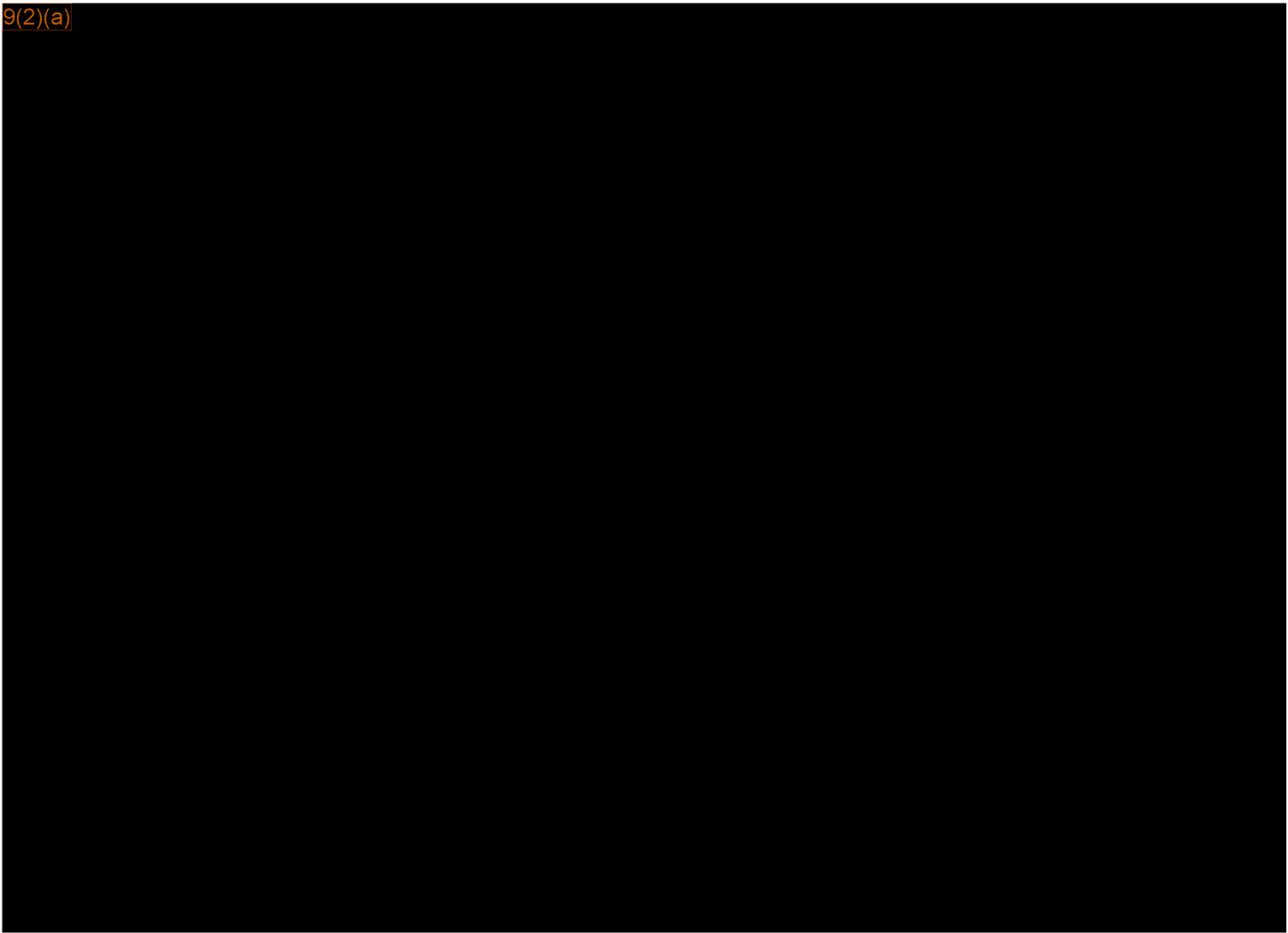


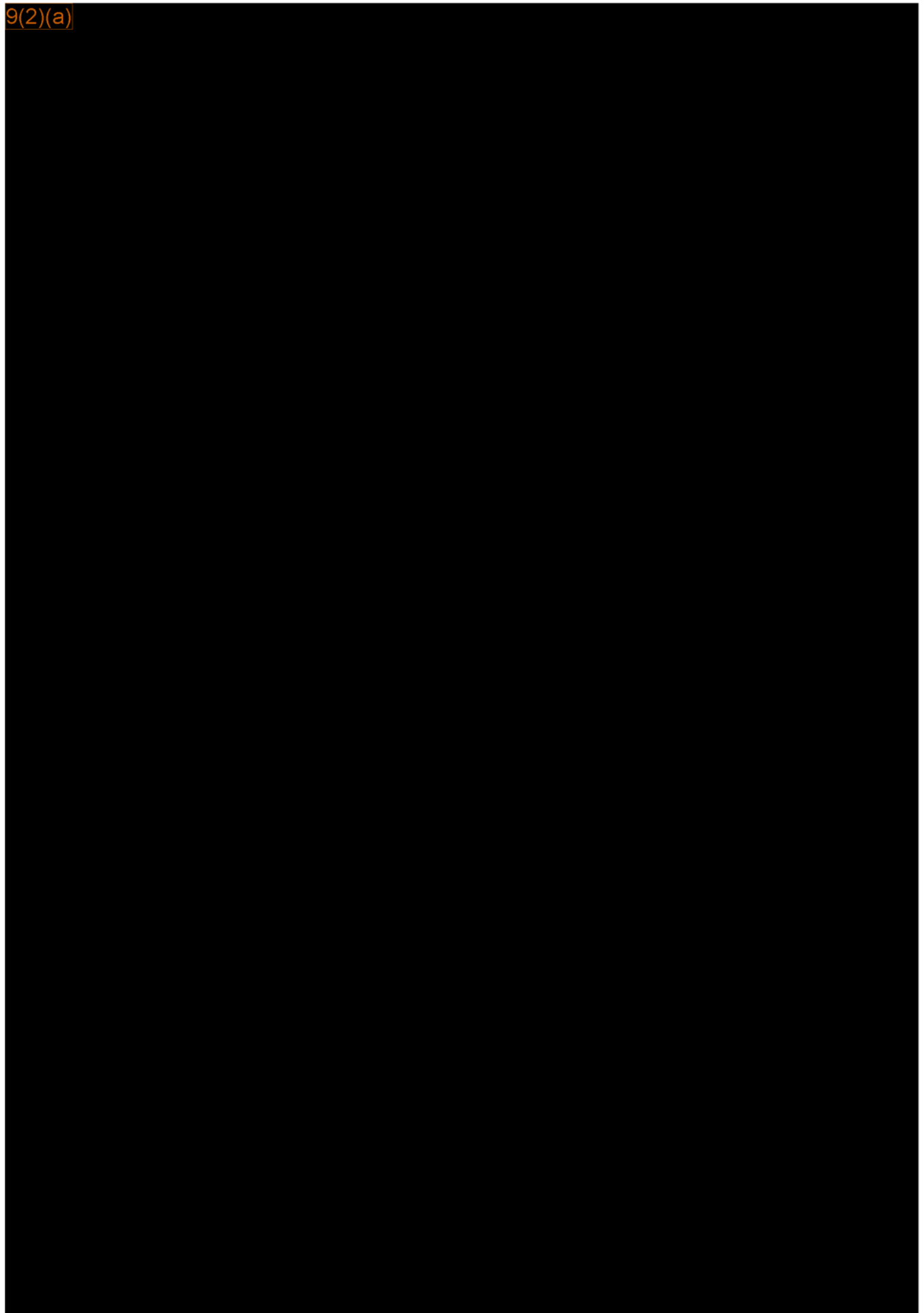


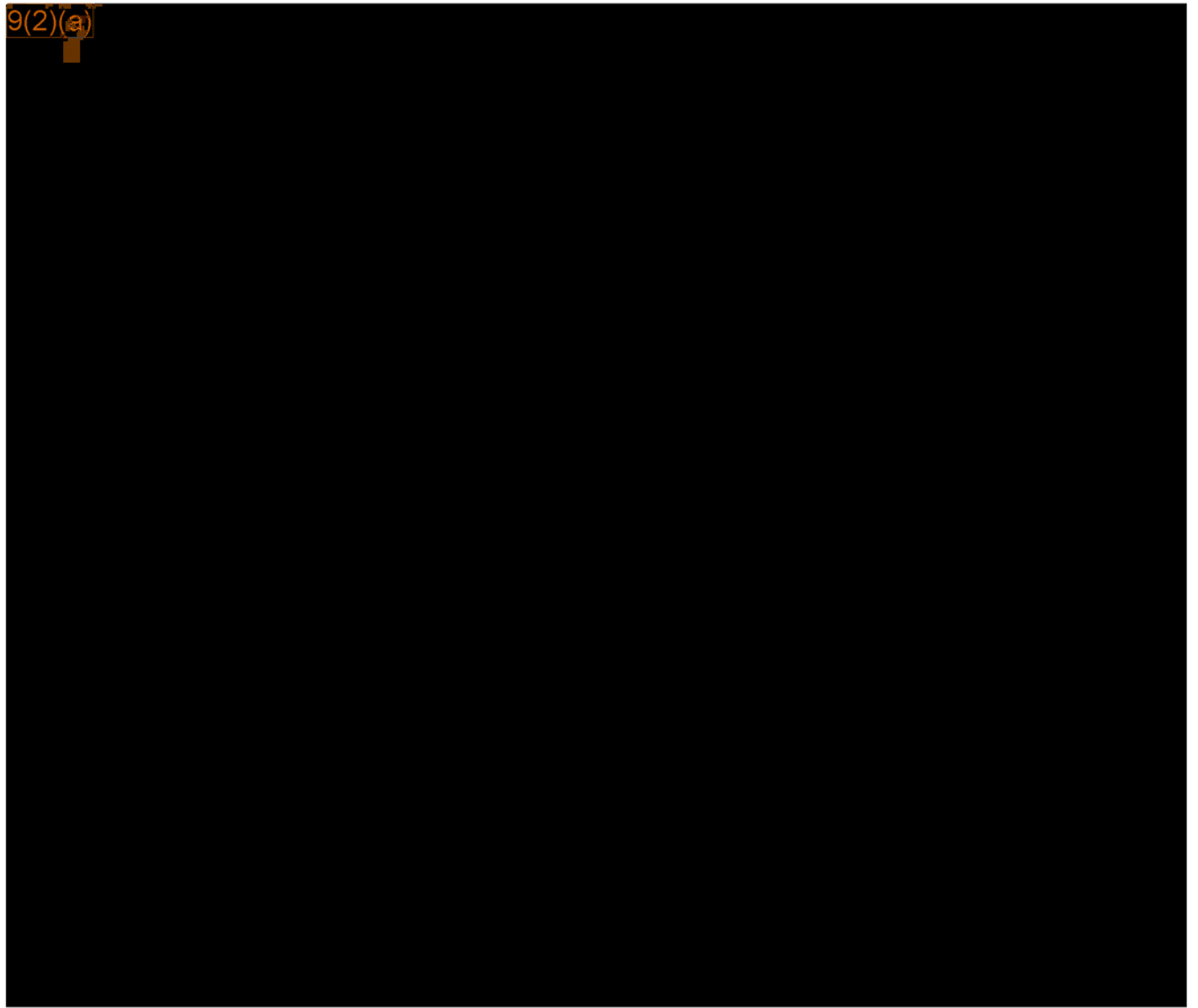


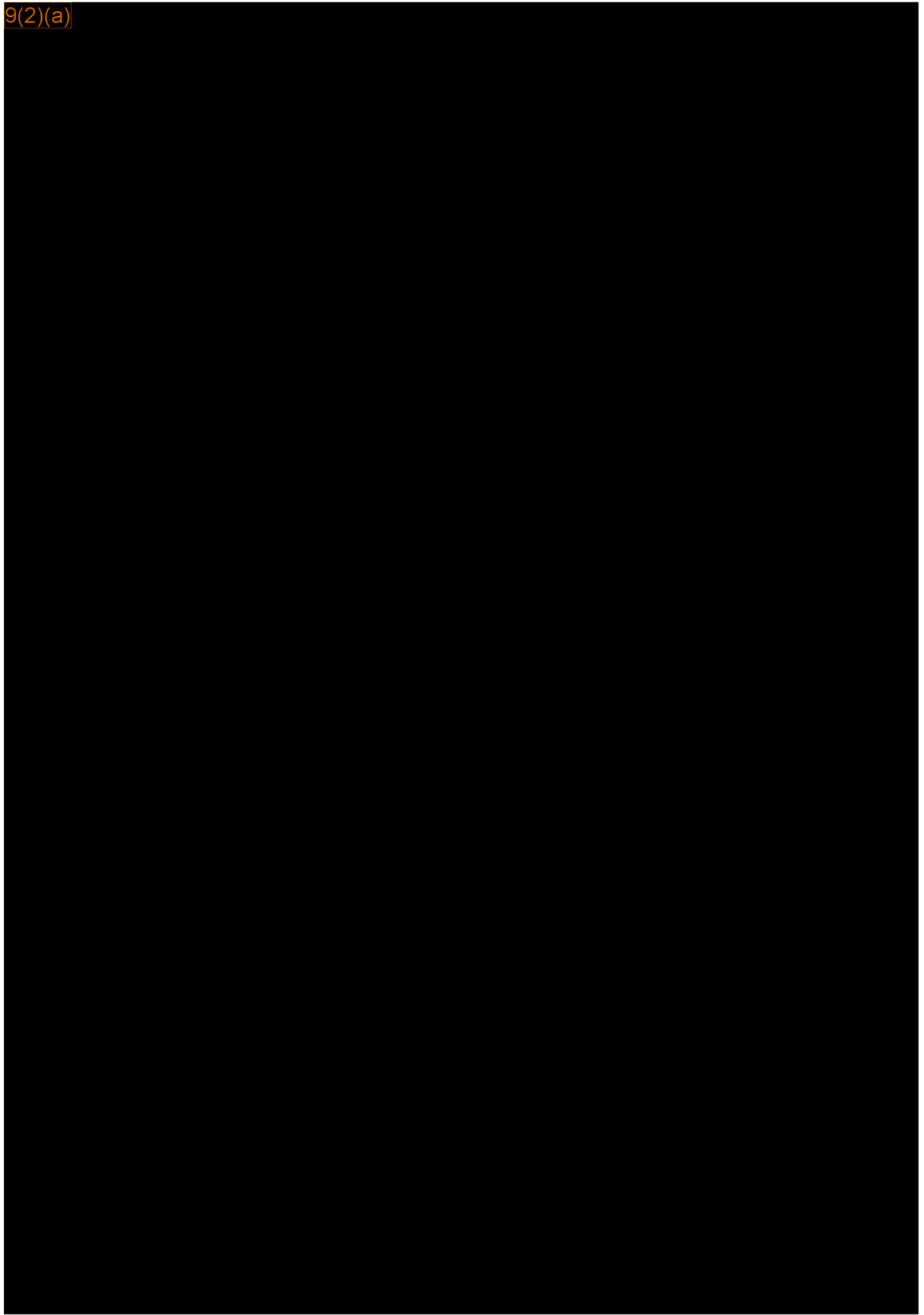


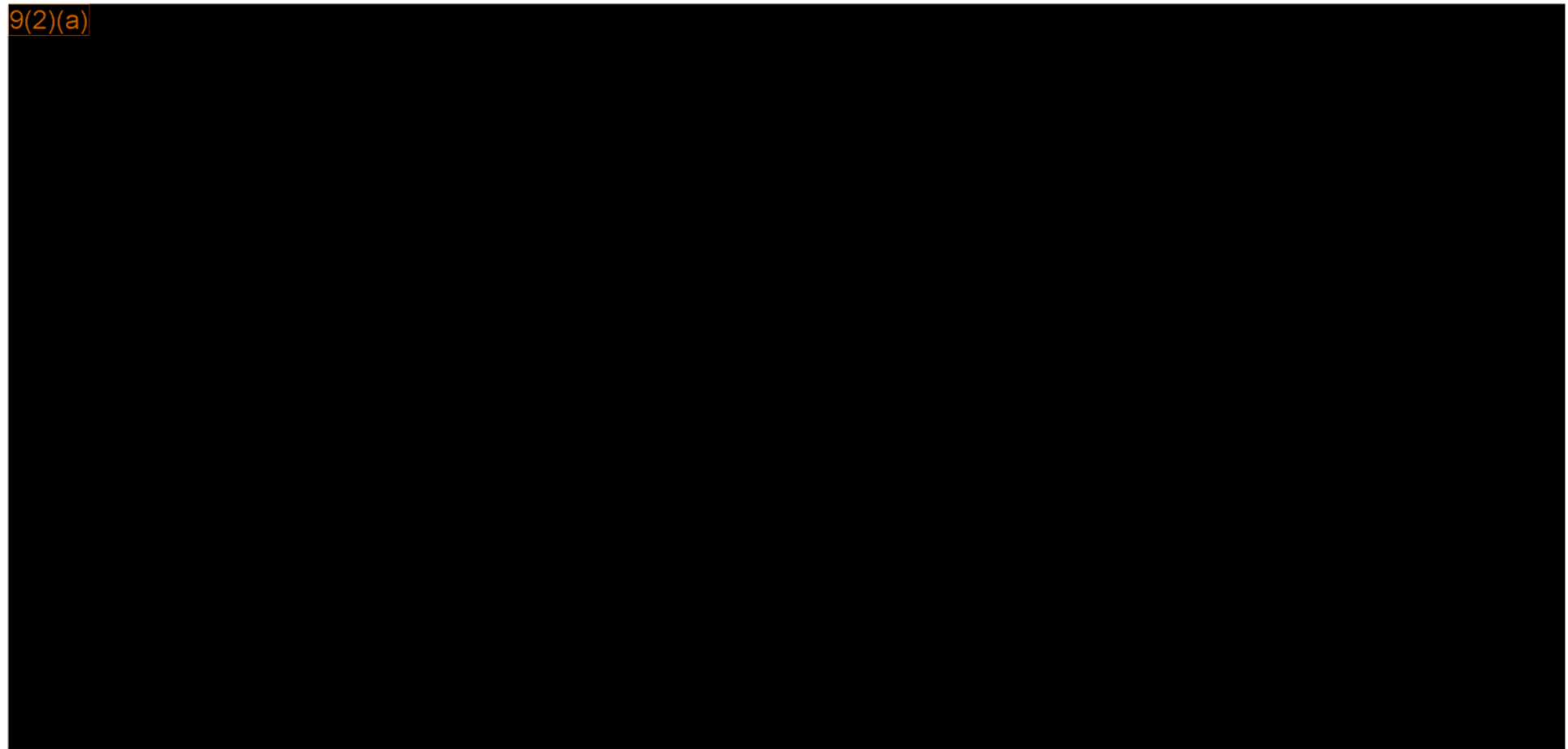


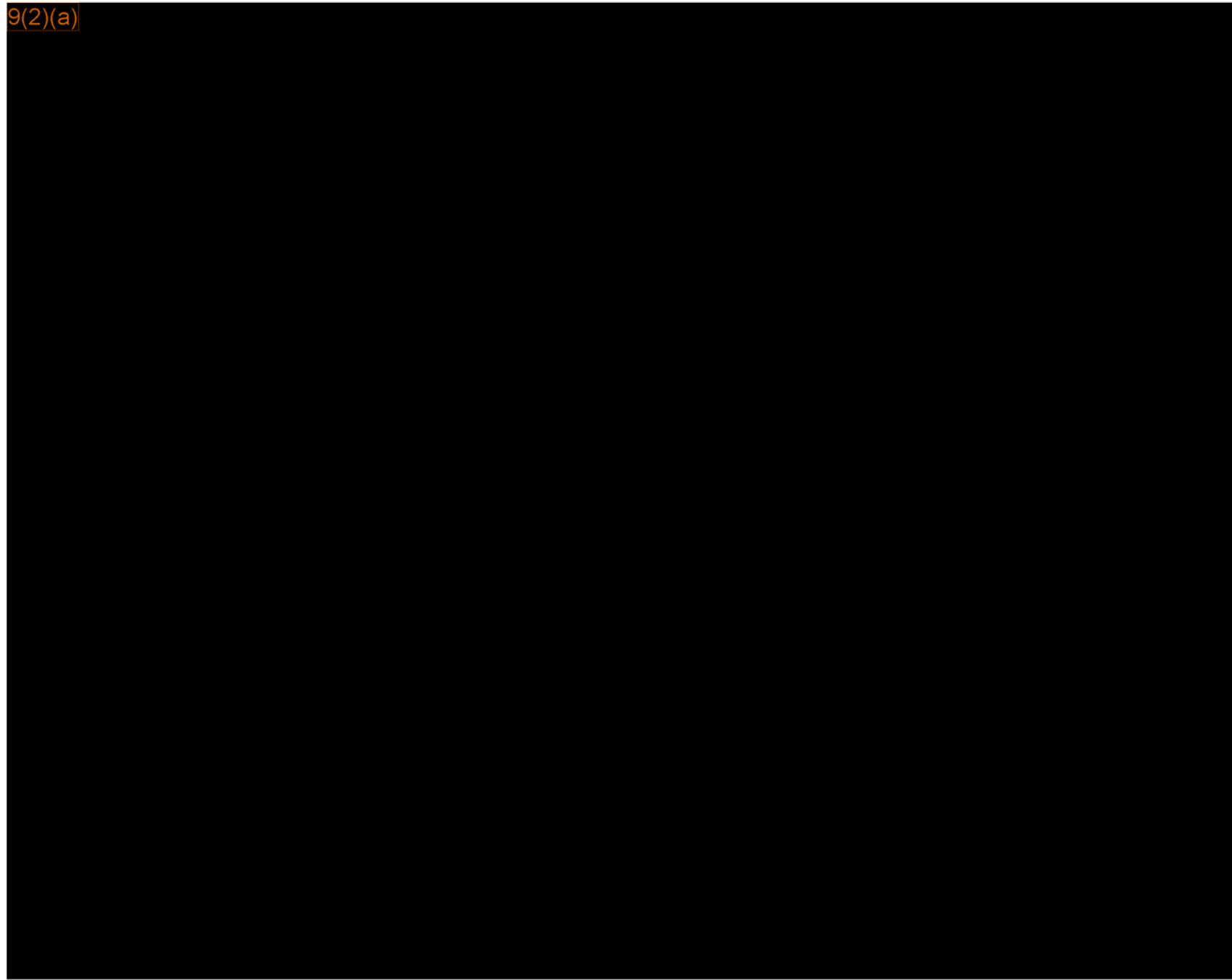


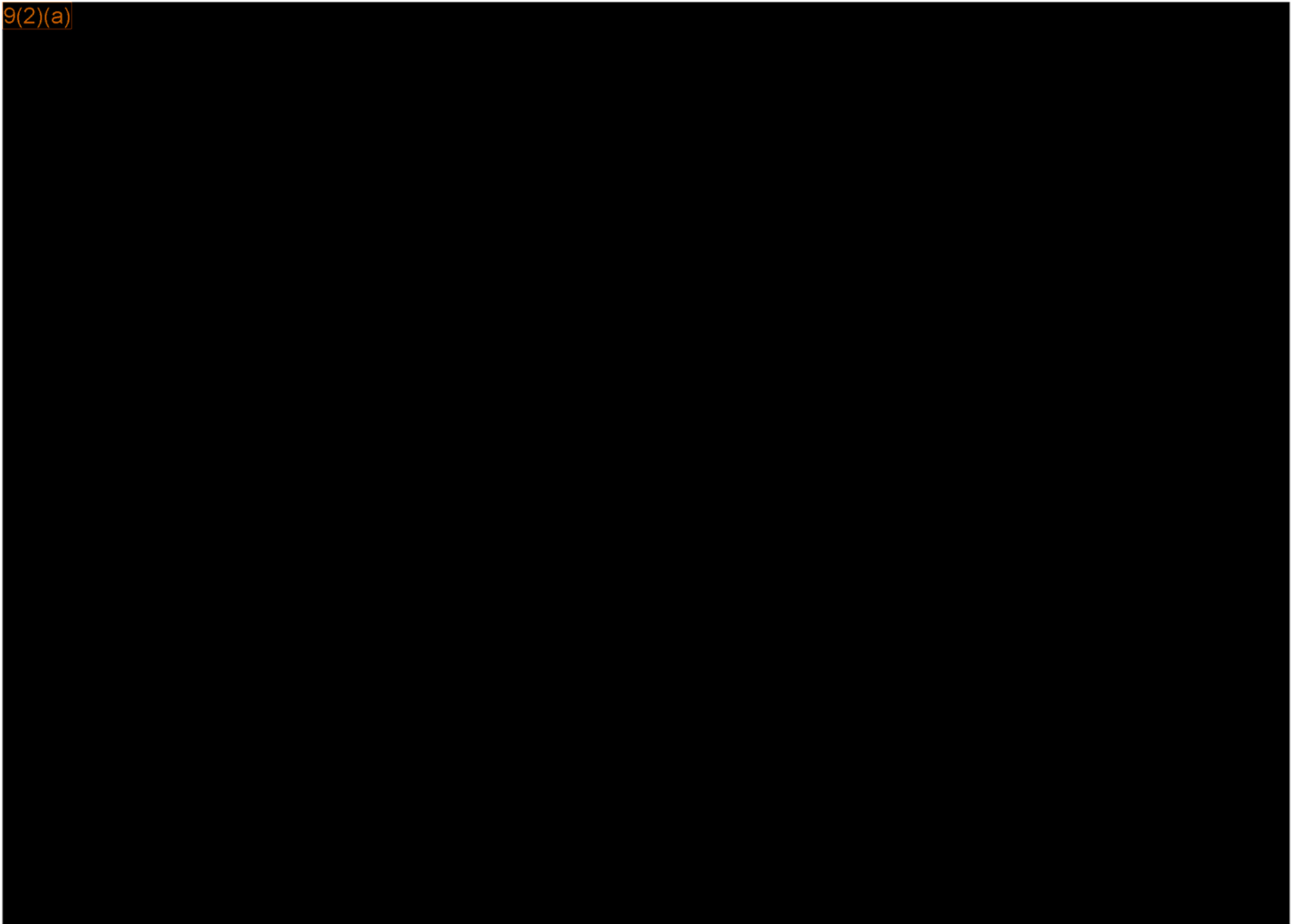






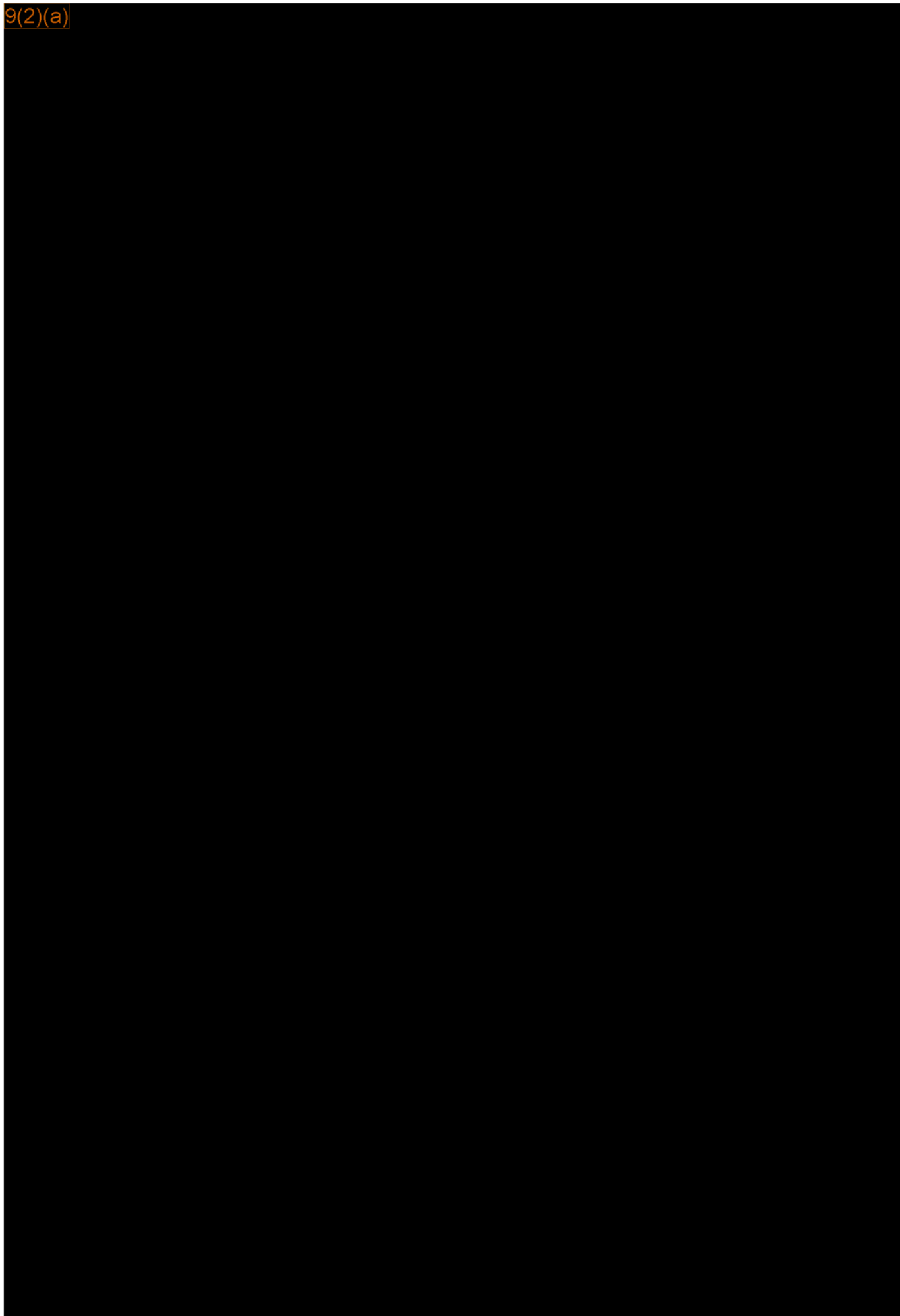


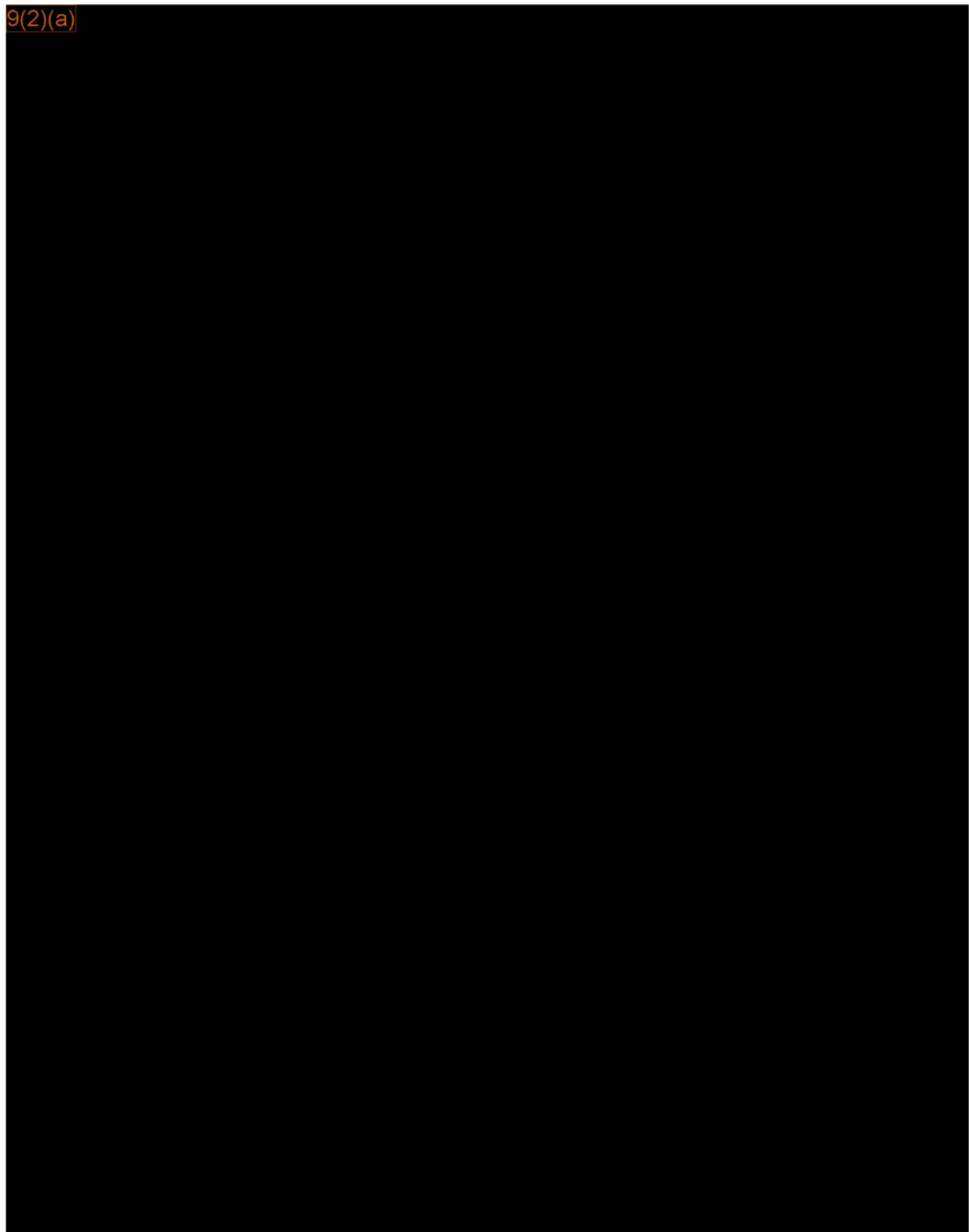


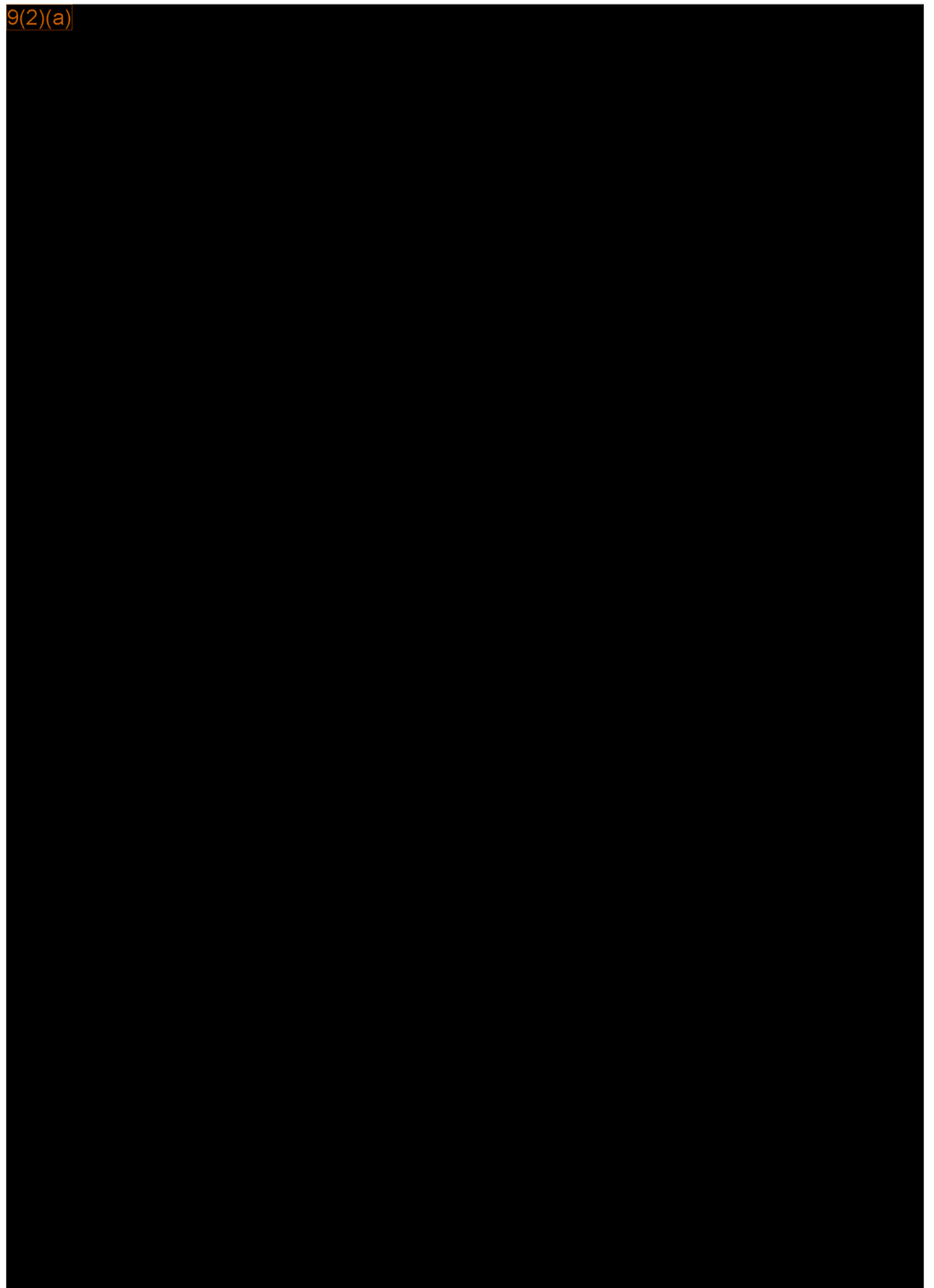


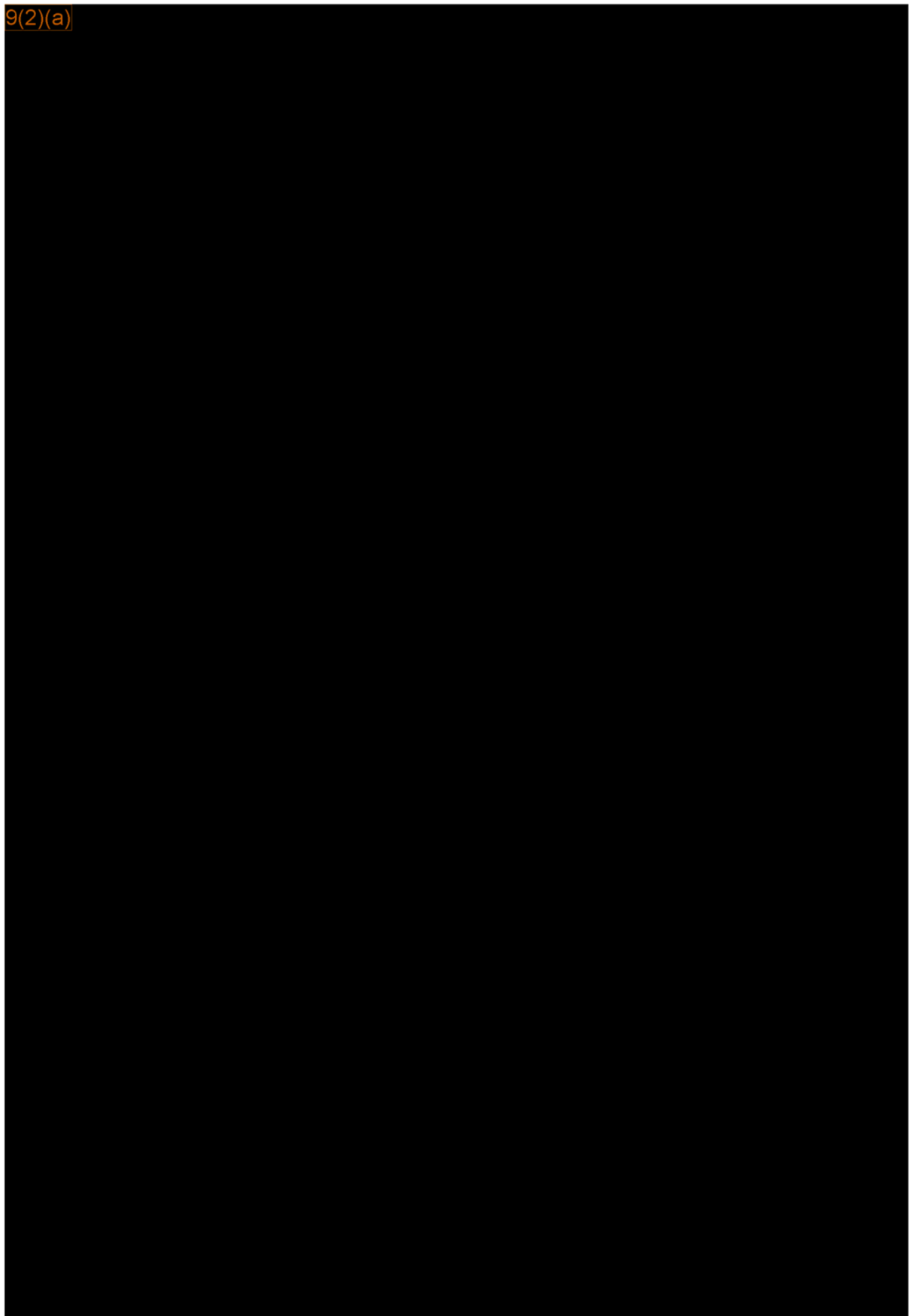
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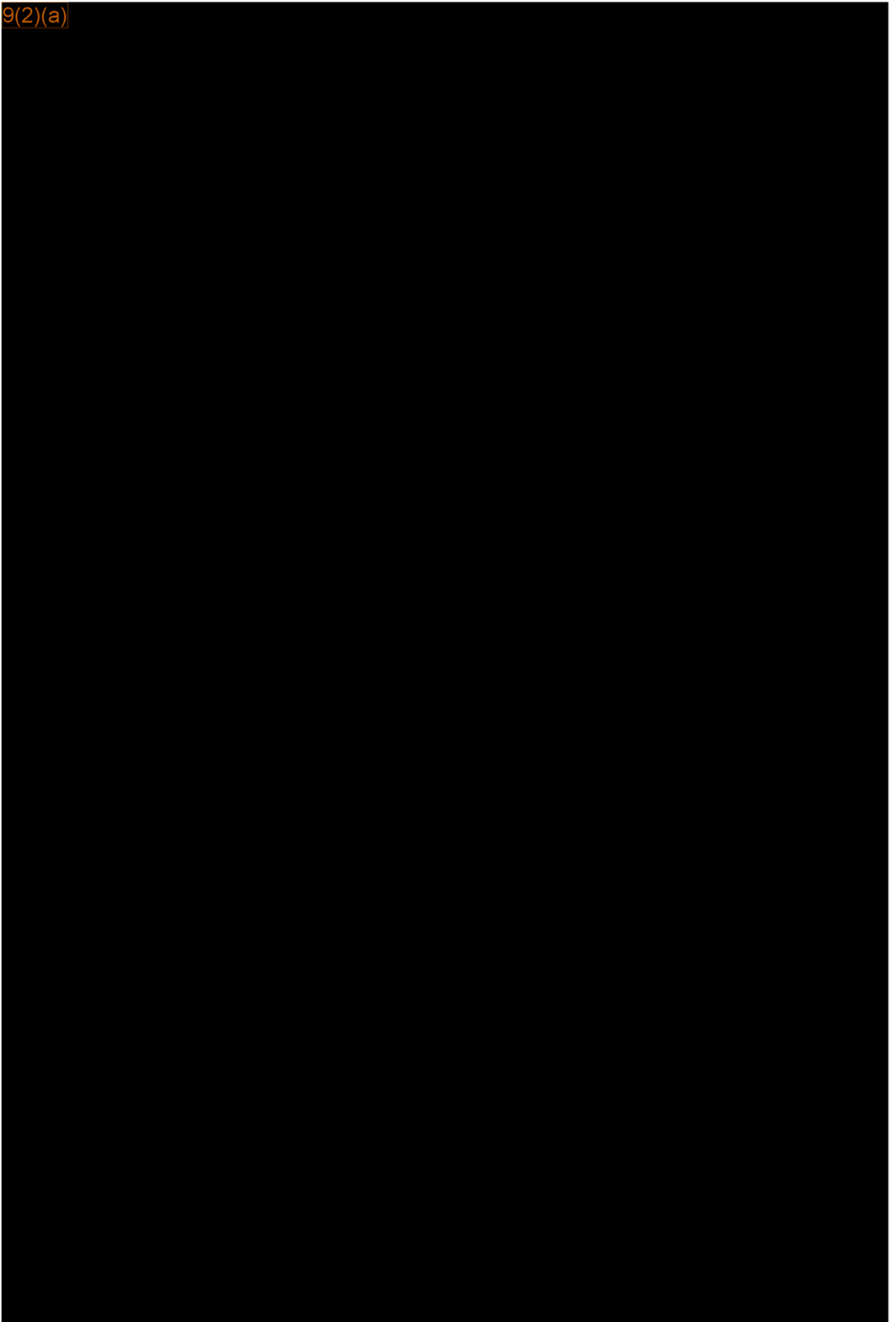


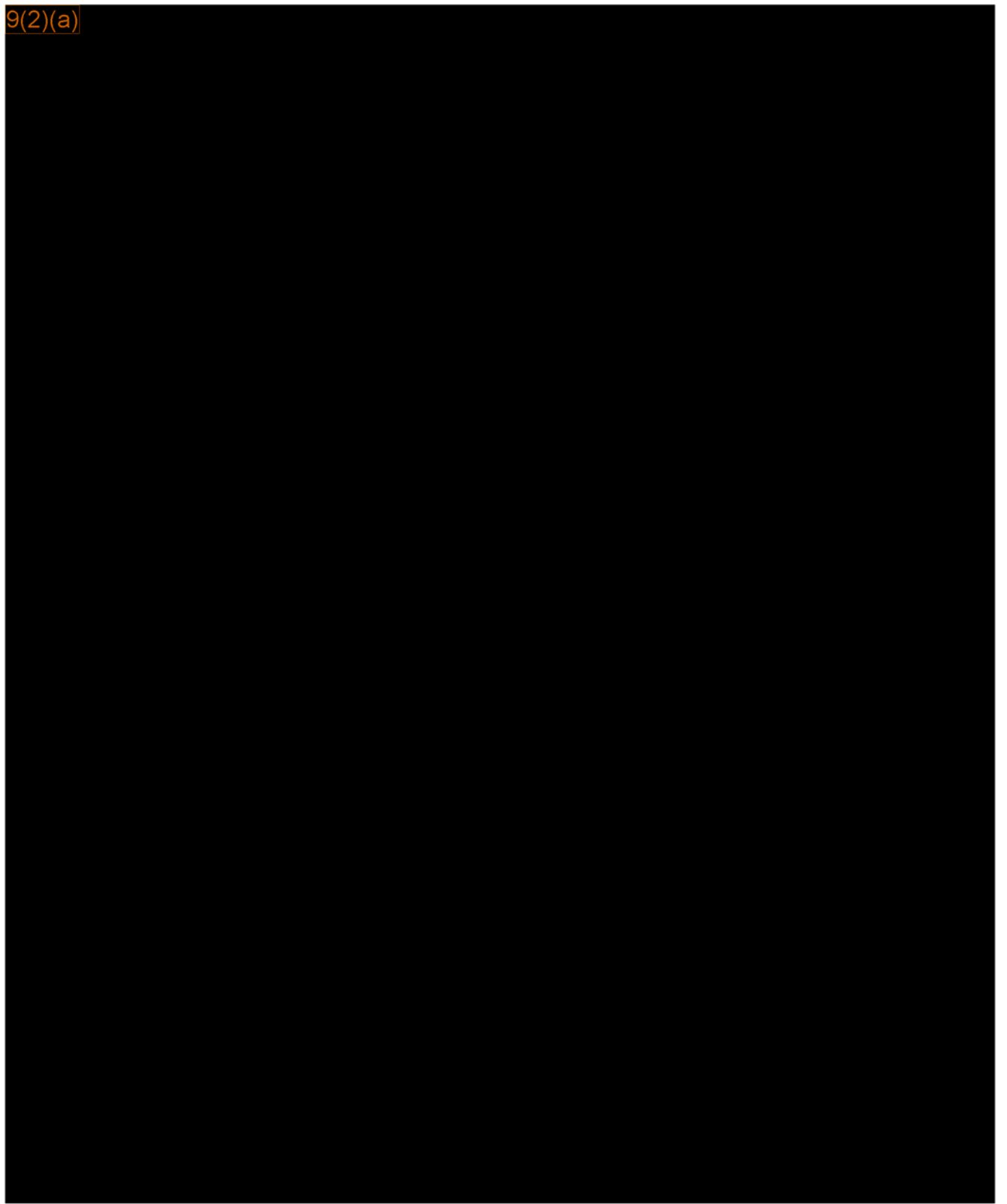


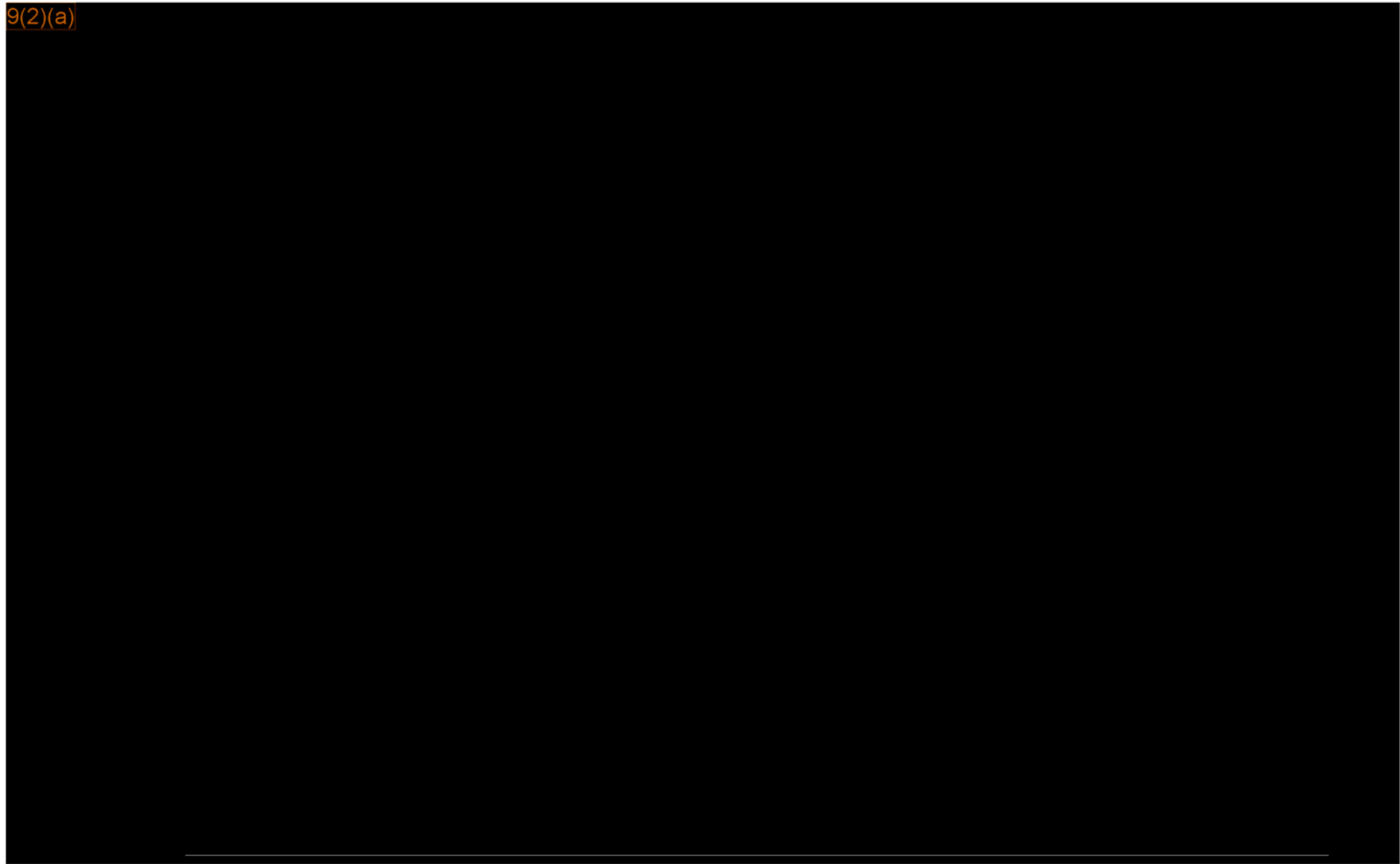


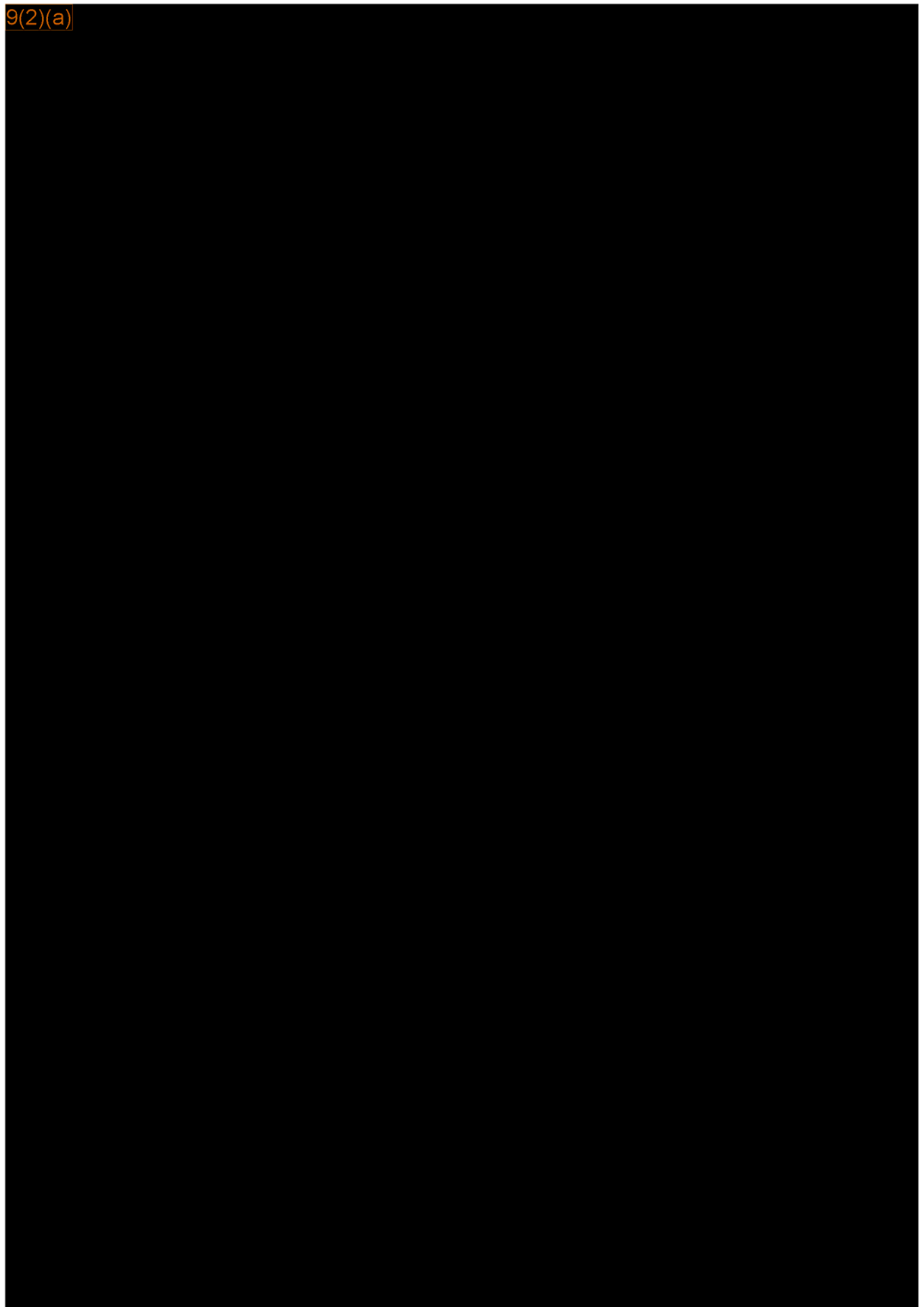


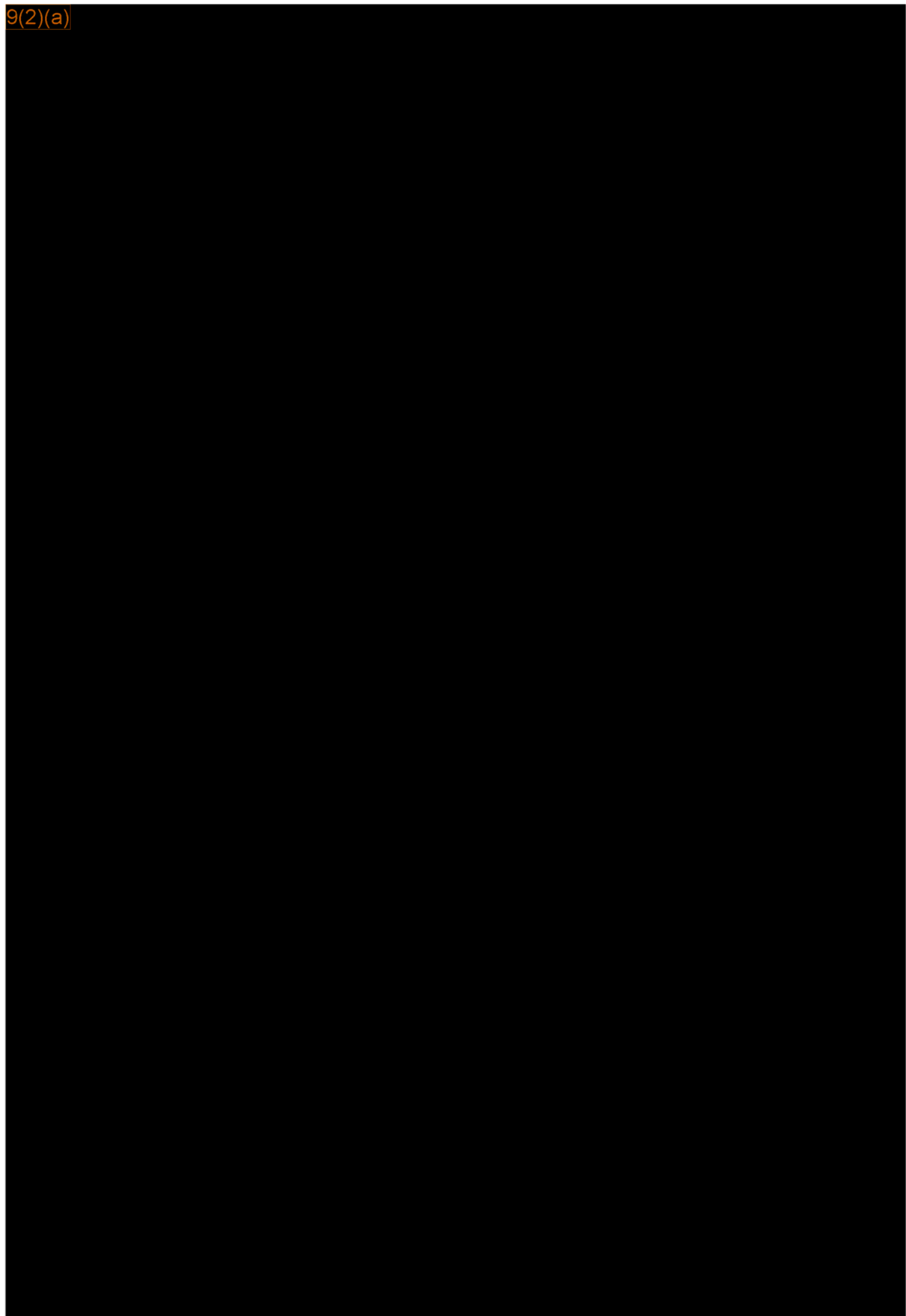


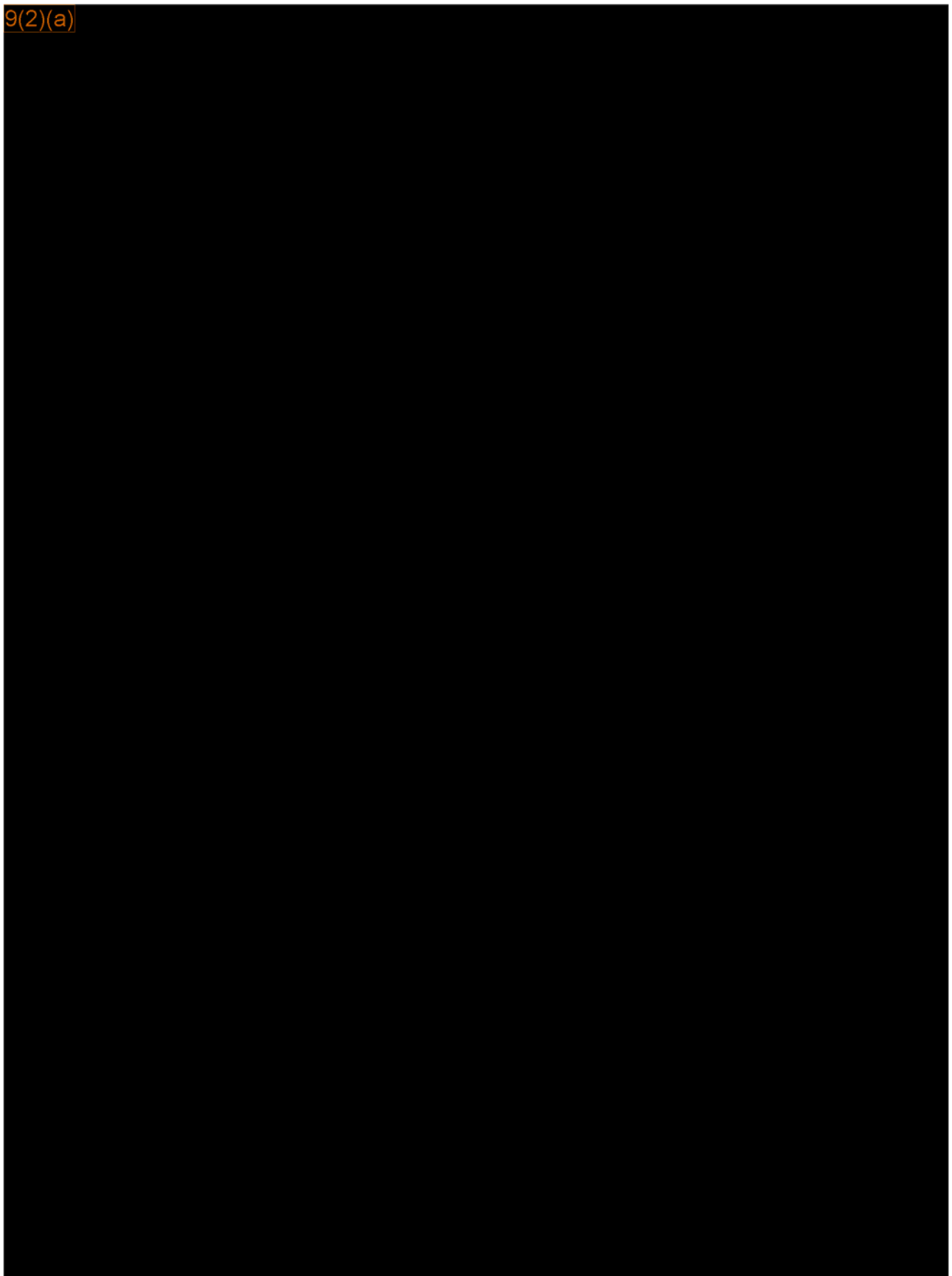


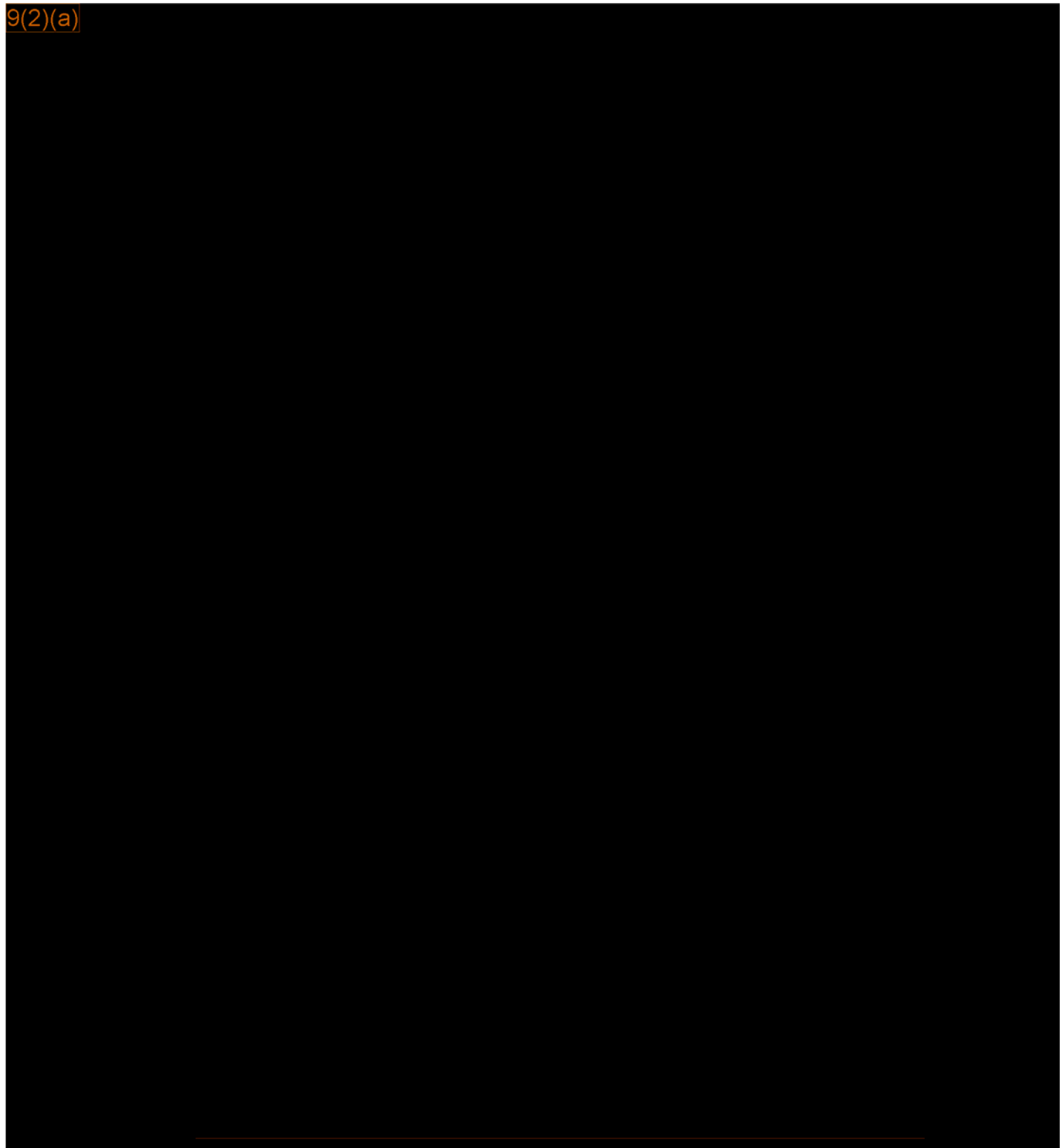












Appendix 4

Briefing Paper

To	Sid Miller, Chief Executive
From	Chris Chainey, Chief Financial Officer
Copied	Jeremy Ford, General Counsel
Memo date	3 July 2018
Title	Claims Settlement Specialist Procurement

Background

1. As part of the migration of outstanding Canterbury claims from CMS v4 to CMS v8 it was found that approximately 1,000 claims had not been reported due to various issues. These claims were not known about during the resource planning activities for the Canterbury Business Unit.
2. In addition to the identified claims, EQC has continued to receive higher levels of claims inflow than anticipated in its resource planning for the creation of the Canterbury Business Unit. These factors combined have resulted in higher caseloads than planned for existing claims settlement specialists and has hampered the overall resolution of the outstanding claims.
3. The nature of the resources required is relatively specialist and scarce in the current environment. As EQC has previously struggled to recruit settlement specialists and given the urgent need to increase staffing levels to deal with the current level of Canterbury outstanding claims (which is of high priority for the Minister Responsible for the Earthquake Commission) EQC approached three known organisations which hold claim settlement resources. These three organisations were Gallagher Bassett, Crawfords and Cunningham Lindsay.

Application of Government Rules of Sourcing

4. EQC acknowledges that due to the urgency involved it has not been able to fully comply with the Government Rules of Sourcing. The table below identifies the key rules where EQC has not been able to comply in this instance:

Government Rules of Sourcing	Rule	Rule Summarised	EQC
Rule 13 – Opt-out Procurements	13.1 – 13.5	Communicates circumstances where EQC might opt-out of Rules of Sourcing	In this instance, EQC is unable to opt out under this Rule.



Rule 14 – Requirement to Openly Advertise		<ul style="list-style-type: none"> • EQC should use an open competitive process • EQC must openly advertise on the Government Electronic Tendering Service (GETS) 	EQC has not complied with the stated requirements in this instance.
Rule 15 – Exemption from Open Advertising	15.1	EQC does not need to openly advertise if it can apply an exemption.	A review of the requirements as communicated to Strategic Sourcing revealed that EQC was unable to apply a valid exemption under section 15.9.
	15.9	Valid Exemptions are detailed in 15.9 a-j	
	15.9 a	Emergency procurement	Cannot be applied in this instance
	15.9 b	Following an open tender	Cannot be applied in this instance
	15.9 c	Only one supplier	Cannot be applied in this instance
	15.9 d	Additional goods, services or works to an existing contract that was openly advertised	Cannot be applied in this instance
	15.9 e - j	<ul style="list-style-type: none"> • Prototype • Commodity market • Exceptionally advantageous conditions • Design contest • Secondary procurement • Unsolicited unique proposal 	Cannot be applied in this instance

- It should be noted that as a result of the above, in this instance EQC is also not compliant with its own procurement policy.
- EQC's intention is to be compliant to both the Government Rules of Sourcing and its own procurement policy in all instances, however, this has not been practicable in this case, given the urgent need to increase staffing levels.

Risks and mitigations

- Based on the above there are several risks that EQC has needed to consider and balance against the need to obtain these services quickly:

Risk	Comment
Suppliers competing with directly sourced suppliers may come to understand that a significant value opportunity has been awarded to competitors without having an opportunity to compete for that opportunity. This may create the risk of reputational risk to EQC and or NZ Government.	This risk has needed to be balanced against the need for urgency in this procurement and the need to demonstrate progress towards responding to reducing Canterbury outstanding claims.

EQC has not supported Government direction under s107 of the Crown Entities Act 2004, which makes the Government Rules of Sourcing mandatory for EQC. Should the commercial activity become known to the media it may expose EQC and or the Minister to unnecessary public attention.

If the OAG, ombudsman or external entities find reason to audit or otherwise review this activity it may be viewed as a significant deviation from established expectations for procurement practices and expose EQC to further scrutiny.

This briefing paper acknowledges the non-compliance and sets out the rationale why this is the case.

This briefing paper acknowledges the non-compliance and sets out the rationale why this is the case. Additionally the inability to respond quickly to the resolution of the outstanding Canterbury claims would likely attract considerable scrutiny.

8. EQC has sought external expert advice on the matter from Chapman Tripp and a copy of their response is included with this briefing paper.
9. EQC acknowledges in this instance the non-compliance and this briefing paper serves to document the rationale behind the approach taken. Whilst appreciating that no exemption is applicable in this case, the content of the briefing paper is based on that required under rule 15.5 – 15.7 (Government Rules of Sourcing) where appropriate.

Value of the Contracts and Next Steps

10. At present it is uncertain how long EQC will require the additional service, but initial contracts are being targeted at six months (potentially with a further six months' renewal rights). The total estimated value for the initial six months is likely to be between 9(2)(b)(ii) [REDACTED]
11. On an individual basis these are below the \$2.0m contract delegated authority held by the CE (for the first six months spend), however, given the similarity of services they could be viewed as a collective. It is recommended that the CE fully briefs the Board in regards to these contracts to avoid any misunderstanding.
12. EQC is looking to put agreed contracts in place with each of the suppliers to mitigate any contractual risks. This is being done by the Procurement and Legal teams alongside the respective suppliers. Any significant concerns will be raised with the CE.

Appendix 5

Board Paper

To	Board of the Commission
From	Sid Miller, Chief Executive
Decision date	9 July 2018
Paper date	3 July 2018
Title	Realigning our Strategy

Proposal

1. This paper provides an overview of how EQC is tracking against the current strategy presented to the Board in November 2017, and requests that the Board approves a realignment to address the changes in EQC's operating environment.

Strategic alignment

2. The paper addresses the current Board approved strategy, and details why Management believe a change to one of the major planning assumptions is now appropriate.

Recommendations

3. I recommend that the Board:
 - a. **note** that the Board was presented with a revised organisational strategy at the November 2017 Board strategy day and this was formally endorsed at the February 2018 Board meeting;
 - b. **note** that subsequent to the endorsement, EQC's operating environment has significantly changed with the Independent Ministerial Advisor (IMA), Cross-Agency Insurance Team and the impending Inquiry, and this has led Management to reconsider elements of the strategy;
 - c. **note** that a number of changes to the operating environment have been driven by the Canterbury event response and a paper ('Accelerating Canterbury Claims Resolution: Update Paper') discussing EQC's progress in this regards will also be presented at the 9 July 2018 meeting;
 - d. **note** that EQC continues to work collaboratively with private insurers to develop a Future Agency Agreement under which future event responses could operate;
 - e. **note** that EQC is aiming to completed the work to agree a draft Future Agency Agreement by the end of August;
 - f. **note** that the original strategy assumed that as part of the Readiness Strategy the future EQC could either manage 15,000 claims internally or utilise an insurer agency model;
 - g. **approve** a revision to the strategy to reflect an assumption that future events should be managed through an agency model and as a consequence the number of claims managed internally drops to an average of 3,000 per annum;



- h. **note** that there is organisational design, capability and financial implications from the change in planning assumptions;
- i. **note** the update on the Resilience, Recovery and Corporate elements of the strategy; and
- j. **note** the proposed Governance structure and responsibilities in regards to the continuing change as the strategy is implemented.

EQC's Current Strategy

- 4. In 2017, work was undertaken by Management at the CE's request to determine the ongoing strategy for the organisation. This strategy was presented to the Board at the November 2017 Board strategy day and endorsed at the February 2018 Board meeting.
- 5. The strategy is based on the Vision, Mission and Strategic Intentions that had been previously agreed by the Board (Appendix 1) and is positioned around a customer centric operating model (Appendix 2) that delivers:

Resilience	Growing our influence in developing NZ's resilience to natural disaster hazards.
Readiness	Becoming better prepared to manage future natural disaster events.
Response	Being able to scale quickly and effectively in the event of a natural disaster and enhancing our service to customers.
Recovery	Ensuring that customers had what they required to close-out the event (to the extent that EQC can do this) and ensuring the organisation documented lessons learnt to enhance future event responses.

- 6. The revised strategy was supported by a transformation plan that indicated the activities EQC needed to take over a four-year horizon to deliver the strategy (Appendix 3).
- 7. One of the major planning assumptions within this strategy was that the future EQC would be able to manage internally an average of 15,000 claims per year (based upon the average of all events over the last five years i.e. including Kaikoura/Valentine's Day etc.). At the same time, EQC would progress with private insurers the ability to run agency MoU agreements for future events. This effectively meant that investment was required for both avenues of possible response.

Changes to EQC's Operating Environment

- 8. Since the Board's endorsement of the strategy in February 2018, EQC has come under intense public and Government scrutiny, in particular in relation to our activities in Canterbury. The main drivers of this and some of their potential implications include:

Increased Media Scrutiny	There has been continued and intense media coverage of our activities within Canterbury and the challenges that some of our customers face. Whilst this coverage is not always representative of the full picture, it continues to
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	challenge EQC's public perception and contributes to driving other Government responses.
EQC Board	The Board considered a paper titled 'Resolution of Outstanding Canterbury Claims' at its meeting on 26 February. This paper presented a number of options for consideration, and an update on progress is provided in the 'Accelerating Canterbury Claims Resolution: Update Paper'.
Independent Ministerial Advisor (IMA)	In February 2018, EQC's Minister announced the appointment of the IMA to look into how the resolution of remaining Canterbury claims could be accelerated. In June 2018, the IMA's report was published outlining a number of areas in which actions needed to occur and that EQC is already progressing.
Cross-Agency Insurance Team	Subsequent to the IMA report, a working group focused on the Canterbury Insurance Response has been established and is being chaired by the CE of DPMC. Whilst EQC is not the sole focus of the group, it is the most significant with a number of aspects involving EQC. These include ongoing discussions regarding a solution for 'on-solds' and the potential for a consolidated claims vehicle for Canterbury claims. Following decisions resulting from this group, there may be implications for EQC's operating model/structure.
Ongoing discussions with private insurers	EQC continues to work with private insurers in a number of regards on a regular basis, including the Canterbury and Kaikoura event responses. Whilst there continues to be some areas of difference, both sides are gaining an increased understanding of the other's position, including the feasibility of responding to future events under an agency agreement and recognising the need for capital investment to address lessons learnt from the Kaikoura event and, in particular, address issues around improve information and data flows.
Continuing inflow of Canterbury remedial claims	EQC has continued to receive a higher level of remedial inflow claims than had previously been anticipated, meaning there is a significant possibility that the scale of operations required for Canterbury will be greater and longer than previously assumed.
Confirmation of an Inquiry	Funding for an Inquiry into EQC's response was approved in Budget 2018, and whilst it may not begin until later in the 2018 calendar year it will likely result in continuing high levels of focus on the organisation. Potential

	recommendations are also likely to shape the direction of EQC's long-term future.
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9. Included in the above are several items generated by the broader Government environment which form part of the Government's 'Pathway for Delivery of Christchurch Priorities' which can be viewed in Appendix 4. This document also includes the current review of the EQC Act, and a further legislative review once the Inquiry has concluded.

How EQC has responded to date

10. The main impact of the changes in EQC's operating environment has been an increased level of leadership and senior management oversight and involvement in Canterbury-related activities as priorities have needed to be re-evaluated. This has consequently had the inevitable adverse impact of slowing down further planning and implementation of the transformation plan.
11. Our latest operational dashboards have highlighted rising turnover rates and sickness coupled with rising numbers of OIAs, media enquiries and low level privacy breaches, which indicate that the organisation is under significant pressure.
12. Whilst we cannot control the external environment, we can control the internal environment. The only way to influence our external environment is by improving our claims settlement and customer experience performance.
13. The Executive Leadership Team has been working together to revisit our broader business strategies and work programme as previously communicated and produced a four-point plan that includes a number of short term measures to address the issues outlined and drive up performance.
14. The plan is based on four key priority areas for the immediate future:
 - a. **Response - Improve CBU Performance** – This will include short term actions to address underlying issues preventing the CBU from operating optimally and closer monitoring of day-to-day settlement performance along with supporting longer term activities from the IMAT Report and Ministerial Task Force and the Inquiry.
 - b. **Readiness - Accelerate the implementation of the Future Agency Model to be ready for the next event** – Plans will include focus on finalising the tail of Kaikoura claims and completing the Evaluation by end August. We will ensure that we collaboratively develop a Future Agency Model with the private insurers to initially deal with Earthquakes and develop a joint Roadmap for addressing future improvements and other perils covered under the EQC Act. In parallel, we will target our investment and organisational redesign into developing the systems, processes and skills and capabilities (Assurance and Performance Monitoring) to the delivery of this model as our core event readiness response.
 - c. **Corporate - Keeping the Business Running** – There are business as usual functions that must be performed, such as the Section 16; Sol/SPE/Annual

Report; Financial year end. All of these activities must be resourced and supported to ensure we deliver on our obligations.

- d. **Resilience – Design and delivery of our future Loss Modelling Capability and Resilience Strategy**– Accelerate the delivery of our Loss Modelling Capability and mitigate risks around the ageing Minerva platform. We will also finalise our Resilience Strategy and commence the implementation through strategic partnerships across the broad and diverse audience of decision makers that can drive the required change to increase New Zealand’s resilience to natural hazard risk.
15. Aligned to these priorities, and to aid the response to the changes in the external environment EQC has already initiated a number of actions. Actions related to Canterbury are covered in the ‘Accelerating Canterbury Claims Resolution: Update Paper’, and other actions include:
- a. A more proactive and transparent external engagement approach. This new approach has involved a range of initiatives including more public engagement and transparency around Board minutes etc. There are further plans in place to provide greater transparency via EQC’s website e.g. publication of Board dashboards.
 - b. Initiatives established regarding ongoing data integrity challenges, which have hampered decision making, actuarial provisioning and caused damage to the organisation’s reputation.
16. During the course of the last few months, the changes in the operating environment and the actions required to address them has meant that it has been necessary for the CE and Executive to continually review the ongoing strategy, particularly in regards to what should be delivered and the pace of this delivery. It is not believed that it is feasible or sustainable to continue to try to deliver everything, and at present the uncertainties created have generated an organisation that lacks clear guidance in some areas and as a result is spending money, but delivering little long-term value.

Reassessing our Readiness Capability

17. As indicated earlier in the paper, the original strategy included a greater focus on ensuring that EQC was better prepared for future natural disaster events. This meant considering ahead of an event: what customers could be impacted, who EQC would need to work with in the event’s response, what the most effective communications strategy may be, how assessments would be carried out, and how the success of the response would be measured from both a financial and non-financial perspective.
18. As part of the future event Readiness (and consequently Response) strategy, consideration was given to what operating structure would need to be established to support the internal management of claims. The planning assumption agreed was that the organisation should be able to internally manage an average of 15,000 claims per year. This number was broadly based on the average number of claims received by EQC over the last five years which included the 2013 Cook Strait earthquake (approximately 12,000 claims), the 2016 Valentine’s Day Christchurch earthquake

(approximately 14,000 claims) and the 2016 Kaikoura earthquake (approximately 39,000 claims).

19. At the same time, the strategy also supported the continued progression of relationships with private insurers and the formation of ongoing relationships that would allow event responses to be managed under MoU agreements i.e. the 2016 Kaikoura earthquake. This effectively meant that EQC would need to invest time and money into both response options, with uncertainty over when the next significant event may be.
20. Since November 2017, EQC has seen increased focus on continuing to develop the agency response model, with private insurers continuing to show an appetite for such an agreement, as well as broader Government support for an agency response model. It is expected through the recent changes to the EQC Act that in the near future all claims will be lodged directly with insurers which again supports the development of an agency response model, with EQC acting as a 'quasi reinsurer' for significant events.
21. Management sees a number of advantages for pursuing this approach and working with private insurers to develop a roadmap of how earthquake and then potentially other perils could be managed under future agency agreements. These advantages include:
 - a. Removal of potential duplication of costs (by creating an organisation that could manage the claims internally) at a time when the Natural Disaster Fund is already depleted;
 - b. It simplifies the future operating model, potentially reducing the complexity involved in delivering the operating model; and
 - c. It aligns with the anticipated direction from the broader Government through mechanisms such as the Inquiry and Act reviews.
22. In light of the above, Management has reconsidered the planning assumption and is recommending that it is revised to an agency model being the favoured method of resolving event claims, and as a consequence, the number of claims internally managed is reduced to 3,000 per year. We have approached the private insurers to test their appetite for running a collaborative approach to development of the future agency model and received a positive response.
23. We have already captured a number of lessons learnt from the three joint reviews undertaken to date on the Kaikoura Event Model and the intention is that these, along with recommendations from the Kaikoura Strategic Review which will be undertaken in parallel, will be incorporated into either the initial Future Agency Model or the roadmap for future improvements and other perils. The Kaikoura Strategic Review Interim Report is scheduled to be presented to Board on 22 August 2018.
24. The assumption of 3,000 claims is based on the average number of landslip/storm/flood claims that EQC has received per year over the last five years. This reduction in internally managed claims assumes that any significant events would be managed by the private insurers through an agency model (with oversight from EQC). It should be noted that there is also a significantly lower level of volatility in the 3,000 claims per year than the 15,000 claims per year.

25. It is intended that EQC would continue to enhance its customer-centric approach, both for claims remaining with EQC, and for those managed under an agency model through working with private insurers and establishing customer-focused KPIs.
26. The change in planning assumption will have significant implications from an organisational design and structure perspective, as well as financial implications. EQC can use its knowledge from the Kaikoura event to begin this work and develop it as more information becomes available. Some of the key considerations are discussed below.

Reconfirming EQC's Key Capabilities and Competencies

27. With the change in planning assumption, EQC would effectively be overseeing the response to a significant natural disaster event as it is currently doing with the 2016 Kaikoura earthquake response. This approach would increase the emphasis on the following key capabilities/competencies and investment could be better targeted to ensure effective maturity of these functions as required:

Relationship Management	A key component of the long term success of the agency model will be how we continue to manage the relationships with the private insurers, both as a collective and on a bilateral basis. There will likely be challenges as the model is further established, and it will be critical that these can be managed through appropriately.
Assurance	It is critical that EQC is able to deliver an effective assurance programme across an agency response model. This is to ensure that claims are being settled in accordance with the EQC Act and that public funds are being spent appropriately.
Performance Monitoring and Reporting	EQC should still have the ability to determine the speed, efficiency and customer approach for any response under an agency model. This will need to be supported by the establishment of robust KPIs and their subsequent reporting/analysis.
IT integration	One of the key learnings from the Kaikoura event response is the challenges that data integration (or the lack of) can bring. Future successful agency models will be reliant on systems integration, with agreed investment from all parties.

28. A focus on such competencies combined with a likely reduction in the staff required to directly resolve claims, would change any traditional front office to support ratios, and would potentially require a different operating structure. A more detailed plan to support this would need to be developed through the 'EQC by design' principle.

Financial Impact on the 2018/19 Financial Year

29. The current 2018/19 financial year budget was approved by the Board in March 2018. This budget includes significant investment spend in a number of initiatives that were planned to deliver on the strategy. These initiatives are shown in Appendix 5.
30. The resetting of the planning assumption combined with consideration as to the appropriate pace of change in light of the increased Canterbury demands, will likely mean that a number of these initiatives may not be progressed as initially planned (or progressed to the extent that was originally planned).
31. If the Board was to approve the revised planning assumption, Management would need to revisit the investment list to consider which initiatives should still progress and whether any new initiative were required. An example of one initiative that would not continue in its current form would be the Digital Assessment Tool.
32. In addition to reviewing the investment spend, consideration would also need to be given to headcount requirements in the short-term to implement the revised strategy (and the initiatives contained within it). As an organisation managing an assumed reduced claims number, a potential consequence would be a lower headcount requirement going forward. The true impact of any cost reduction in this space would depend on the speed at which the future agency model could be implemented and the timing of any headcount changes.
33. Taking all the potential impacts into consideration and the range of options available there could be “BAU” savings of 9(2)(b)(ii) available in the 2018/19 financial year.

Longer Term Impact on the Rebuild of the Natural Disaster Fund (NDF)

34. One of EQC’s long term goals is to rebuild the NDF to the level of the reinsurance deductible (\$1.75bn) by 2030. The change in planning assumption would have an impact on this goal as annual operating costs would be reduced, but may be offset by response costs depending on the frequency and severity of future natural disasters.
35. To fully model the change in planning assumption, a fuller financial reforecast following a review of the business model and the levels of capability that the organisation wanted to have across various functions would be required. As an initial guide, high-level modelling indicates that operating costs could be reduced by 9(2)(b)(ii) although the actual amount could be significantly greater depending on decisions made. The number does not include any costs saved in assessment fees as they are variable in nature depending on whether events actually occur.
36. Over a 10 year period, this would amount to approximately a saving of at least 9(2)(b)(ii) compared to current operating expenses modelling within the NDF rebuild model.
37. Through the Kaikoura response, we have learnt that it costs EQC an average of approximately \$3,000 in claims handling expenses and assessment fees to resolve a claim. This figure is based on the actuarial valuation of claims handling expenses and

assessment fees incurred divided by the number of claims. Given that Kaikoura is a pilot, there should be the opportunity to reduce this average cost in the future.

38. Whilst future events would be likely to differ in nature and characteristics to Kaikoura, this event provides the most useful “cost to serve” metric available to EQC at this time. It should be noted, however, that from recent experience, the higher the number of claims, the higher the average value of claim settlement. As a comparison, the average claim settlement cost for Cook Strait was approximately \$2,200 compared to an actuarial assumed \$13,000 for Kaikoura (all exposures combined for both events). As such, the utilisation of specialist expertise i.e. loss adjustors/engineers will be higher in the Kaikoura event driving up the average cost per claim.
39. Based on the Kaikoura average per claim, it would cost approximately \$36m to respond to a 12,000 claim earthquake event (effectively the size of the Cook Strait series of earthquakes in 2013 in claim numbers). Whilst the frequency and severity of earthquakes is impossible to predict accurately, there would be an extremely low probability of these occurring on an annual basis. Over a 10-year period, the lowest amount of money saved in operating costs would effectively fund the responses to three earthquakes of this scale in that period. This is before any consideration of the costs EQC would incur in third party assessment fees if we were to directly manage a significant earthquake event (these are included within the \$3,000 Kaikoura figure).
40. An alternate scenario would be a number of smaller earthquakes of approximately 5,000 claims (so equivalent to the 2014 Eketahuna earthquake in claim numbers). Using the Kaikoura average of \$3,000, it would cost approximately \$15 million to respond to these earthquakes, hence the operating cost savings would fund approximately seven of these earthquakes over a period of 10 years.
41. In summary, if EQC is to utilise an agency agreement for all significant earthquake events, then a change in the planning assumption for the number of claims would result in material financial reductions. This money can either contribute to the regrowth of the NDF or be utilised to fund significant events managed through the agency agreement.

Update on Resilience, Recovery and Business as Usual (BAU) Activities

42. The majority of this paper has focused on developments to the Readiness (development of agency model) component of EQC’s strategy, and the ‘Accelerating Canterbury Claims Resolution: Update Paper’ focuses on the Response (Canterbury) component. However, the Resilience and Recovery components remain important areas of activity.
43. In regards to Resilience, the key initiative is the investment in loss modelling. It is planned that this piece of work is to be accelerated with an earlier delivery than previously indicated to the Board. Other elements include the continuing development and integration of key stakeholders within the natural hazard Resilience environment and the continuing development of the Risk Financing Strategy, supported by the establishment of governance committees at both the Executive and Board level.
44. The key activity within the Recovery space is the progression of the Kaikoura Strategic Review. This activity will inform EQC, private insurers and the wider environment of the

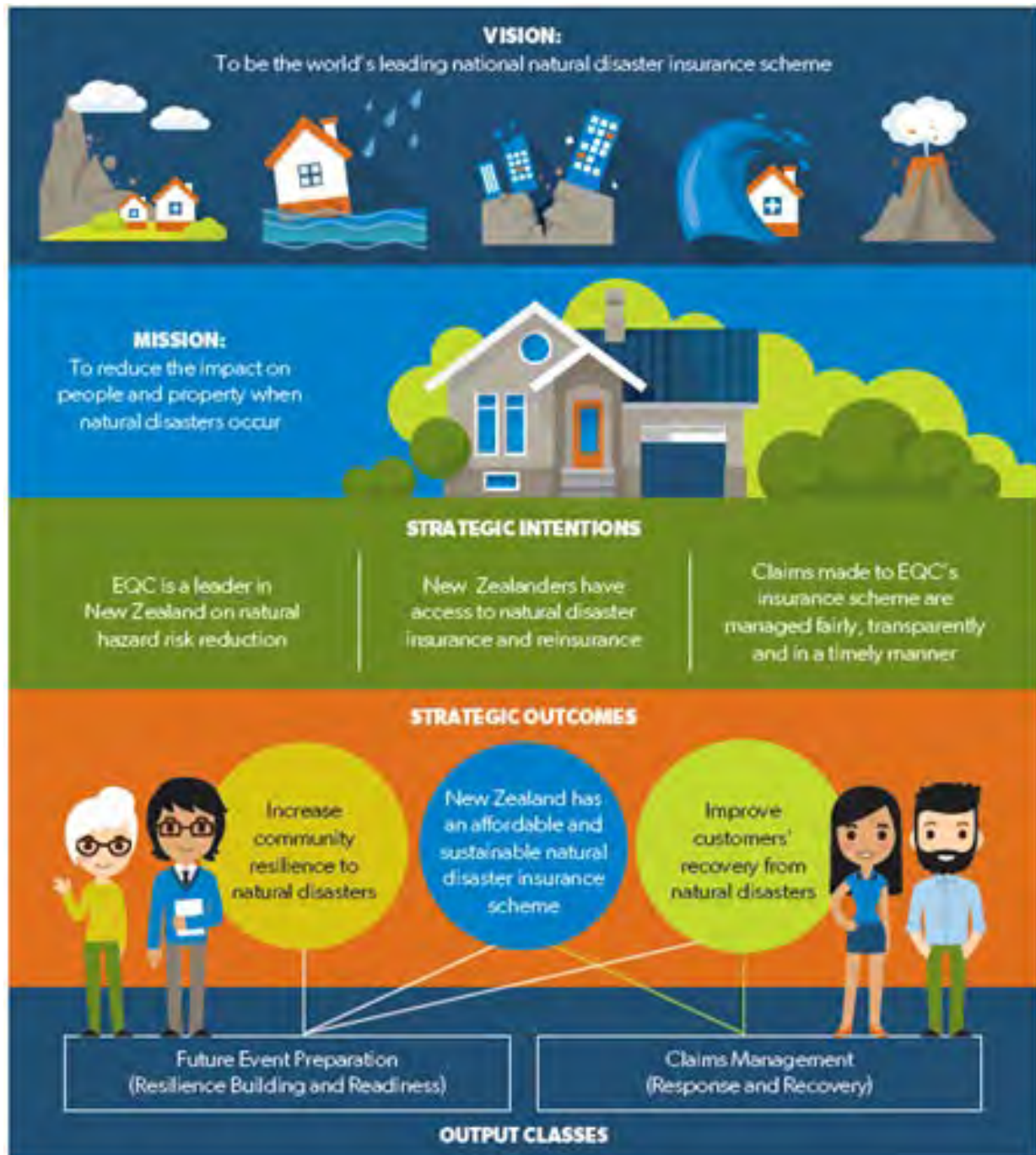
successes of the agency model and highlight the challenges faced, which require addressing for future event responses.

45. In addition to these initiatives, there is also a level of BAU work being undertaken in the organisation, which in some places is looking at maturing our capabilities to achieve better long-term audit gradings. Examples of this work include the agreement of a Section 16 Deed, the Wellington Building move, financial and IT audits, Annual Report and the development of a revised IT roadmap.

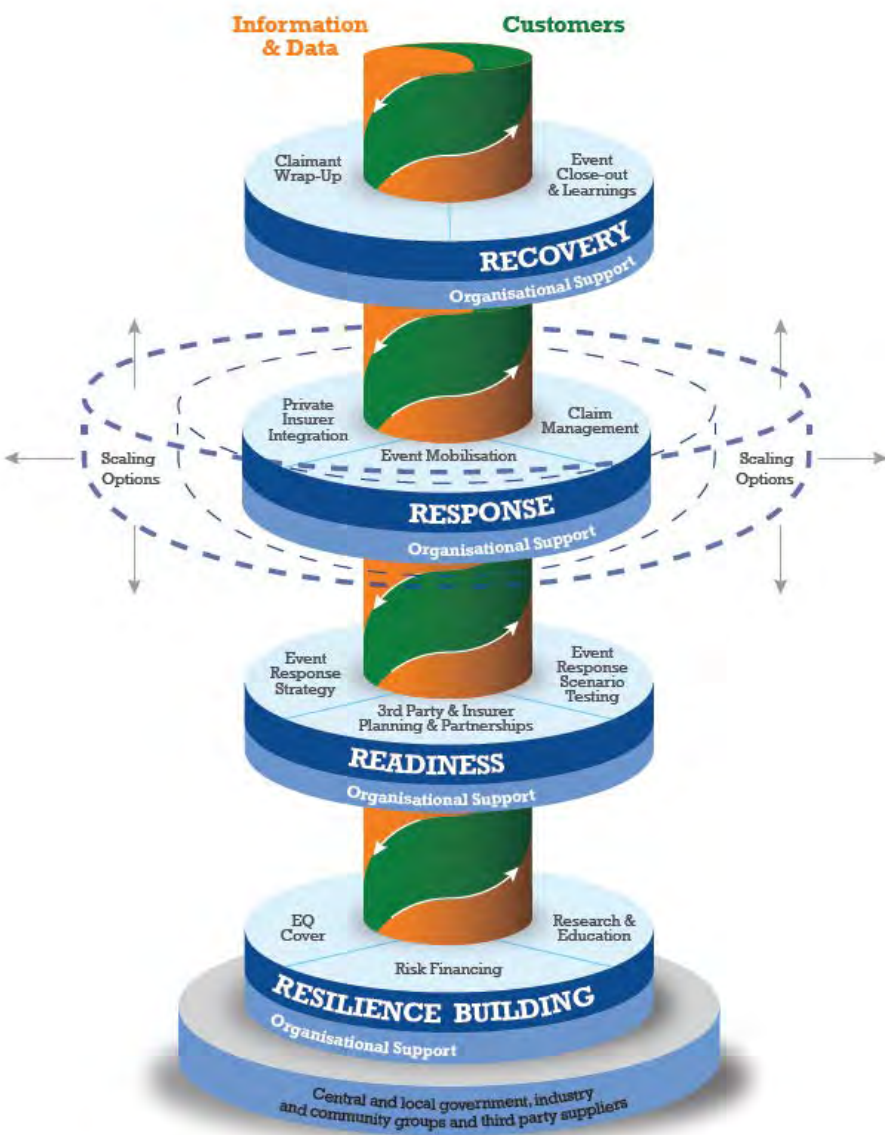
Governing the Ongoing Change

46. As previously indicated to the Board, an Enterprise Change Management Model is being established to oversee, prioritise and co-ordinate all the change that is happening across the organisation.
47. This will include the creation of Governance Groups below the ELT level that will become the areas of decision making in their respective areas. The Governance Groups would consist of a selection of ELT members and other relevant lower tiered managers/SMEs. The Governance Groups would be responsible for overseeing all major initiatives/procurement/strategies/activity within their area of scope. Other governance groups currently operating would be streamlined or replaced as appropriate.
48. The Governance Groups are being established so that they align directly to the newly formed Board sub-committees. This should aid the flow of information and quality of discussions in regards to these relationships.
49. The Governance Groups would be supported by an Enterprise Change Management Office that would be responsible for overall co-ordination across EQC.
50. It is intended that this model is implemented by the end of July, following confirmation of the Board sub-committee Terms of Reference.

Appendix 1: EQC's Vision, Mission, Strategy Intentions and Outcomes



Appendix 2: EQC’s Operating Model Structure

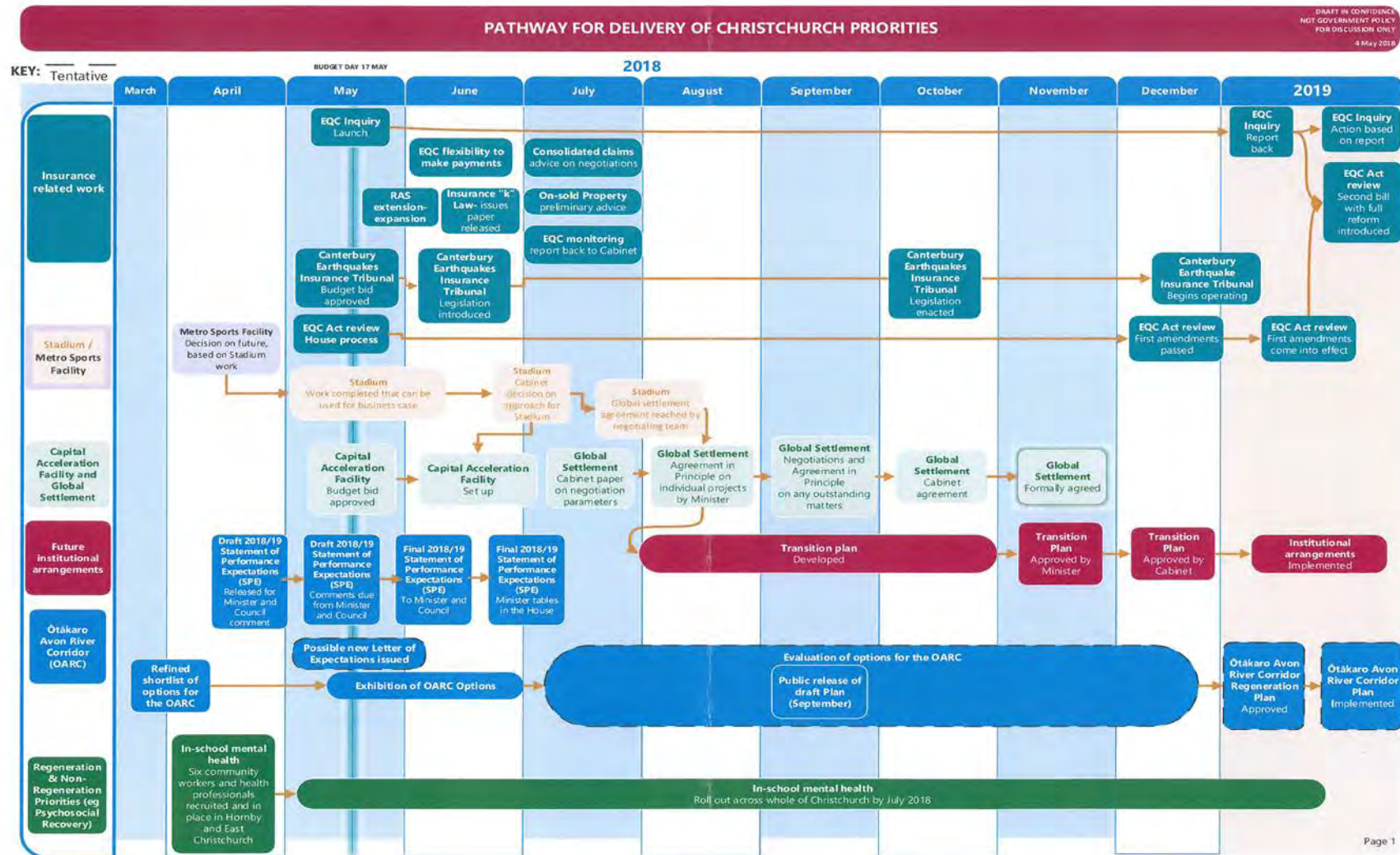


Appendix 3: Transformation Plan to Achieve EQC's Strategy

TRANSITION OUTCOMES PER YEAR

	2017/2018 Building Organisational Capability	2018/2019 Event Readiness Operating	2019/2020 Embedding Scenario Testing	2020/2021 Driving Change with Partners through Loss Modelling	2021/2022 Future EQC
People	<ul style="list-style-type: none"> Structure change under each GM largely complete New GM's all in place and ELT operating GM Leadership teams in place Horizontal teams identified and being formed around first scenario, and core processes 	<ul style="list-style-type: none"> New structure operating New horizontal team around scenarios and processes in place Clarity on EQC culture emerging Leaders are role modelling collaboration New engagement survey established culture baseline 	<ul style="list-style-type: none"> Horizontal scenario and process teams operating effectively Second engagement survey shows improvement in culture Leadership programme up and running Growing agility and adaptability within business groups 	<ul style="list-style-type: none"> Scenario testing matured to involve broader stakeholders Agile and flexible is the new norm – working outside core team is normal Horizontal ways of working well established Leadership programme producing strong succession 	<ul style="list-style-type: none"> Scenario testing a key event in risk reduction sector EQC leaders sought by other organisations Agile and flexible culture of EQC researched by other organisations Collaboration within EQC and into the wider sector happens organically
Process	<ul style="list-style-type: none"> Customer Centred Operating Model high level design complete Event framework design well underway Experience model developed and planning for further changes underway Design lab up and running and being used for some change work Solid business plan and budget, transition plan and measures in place New Statement of Intent agreed 	<ul style="list-style-type: none"> Financial processes stable Reporting and risk processes stable Core business process improvements identified Information, Third Party, and insurer current state analysis and future model agreed Event readiness framework in place and first scenarios tested 	<ul style="list-style-type: none"> Multiple scenarios tested Business process improvements happening regularly Third Party, Insurer and information projects underway Significant event handled effectively 	<ul style="list-style-type: none"> Resilience and Response hubs in place Multiple assessment and claims channels available All processes aligned to the customer Data integration in place with insurers Event mobilisation process complete in 10 days Significant event handled effectively 	<ul style="list-style-type: none"> Resilience and Response Hubs in place and a key source of risk reduction information Event mobilisation 5 days Local and international channels in place reducing key man risk Significant event causes no impact on EQC BAU EQC is influencing relevant agencies and councils in land planning
Systems	<ul style="list-style-type: none"> CMS v8 and v4 implemented effectively Future FMIS requirements scoped 	<ul style="list-style-type: none"> Understanding of system/technology requirements of operating model complete CMS completely bedded down Basic system infrastructure stable and operating smoothly FMIS Upgrade complete 	<ul style="list-style-type: none"> Loss modelling models in place Digital assessment capability pilot successful CMS upgrades aligned to Experience Model 	<ul style="list-style-type: none"> Loss modelling capability influence the system Digital assessment established Major claims management processes complete and minor changes easily carried out EQC employees can work from anywhere at anytime 	<ul style="list-style-type: none"> Technology are fully integrated in claims management and EQC staff way of working System changes are quick and with minimal impact

Appendix 4: Government's Pathway for Delivery of Christchurch Priorities



Appendix 5: 2018/19 Budgeted Investment Initiatives

£k	2018/19		
	Opex	Capex	Total
Maintenance			
CRI	158		158
V4 Decommissioning	124		124
System currency (upgrades)	1,000	1,000	2,000
Server Mgmt Transition	94		94
PABX upgrade		187	187
Data Warehouse	112		112
	1,488	1,187	2,675
Grow Capability			
CMS pipeline	300	900	1,200
Loss modelling	624	1,094	1,718
Event Readiness	2,000	2,500	4,500
Experience model	1,000		1,000
Digital Assessment tool	750	750	1,500
	4,674	5,244	9,918
Organisational Maturity			
Leadership model	500		500
Info Mgmt & Strategy	250		250
Organisational Design	500		500
Financial Capability	750		750
Property move	375	375	750
	2,375	375	2,750
Investment pool	1,000	1,000	2,000
BAU Investment	9,537	7,806	17,343

Further details on the initiatives can be found in the March BEFU Approval Board paper.

Appendix 6

Board Paper

To	Board of the Commission
From	Sid Miller – Chief Executive
Decision date	9 July 2018
Paper date	3 July 2018
Title	Accelerating Canterbury Claims Resolution: Update Paper

Purpose

1. The purpose of this paper is to provide the EQC Board of Commissioners with an update on the current Canterbury claims position, and plan for, the settlement of outstanding claims. The paper supports the 'Realigning our Strategy' paper which is also being considered by the Board at the 9 July 2018 meeting.
2. The paper provides a consolidated view of the priority areas of focus in relation to the resolution of outstanding Canterbury claims, and outlines how the action plan will not only deliver the Board's priorities, but will also align with other Government priorities, including addressing the recommendations resulting from the report by the Independent Ministerial Advisor (IMA).

Strategic alignment

3. The Board's highest priority for 2018 is for EQC to settle the remaining Canterbury claims. This paper outlines the actions required and underway to deliver this objective.

Recommendations

4. I recommend that the Board;
 - a) **note** there are multiple priority areas of focus underway in relation to the resolution of Canterbury claims;
 - b) **note** that this paper outlines the work programmes currently underway and notes the linkages between the priority areas of focus; and
 - c) **note** that the Board will receive a monthly update on progress with projects to resolve Canterbury claims, including those raised by the Board/management of EQC and implementation of the Independent Ministerial Advisor recommendations.

Executive Summary

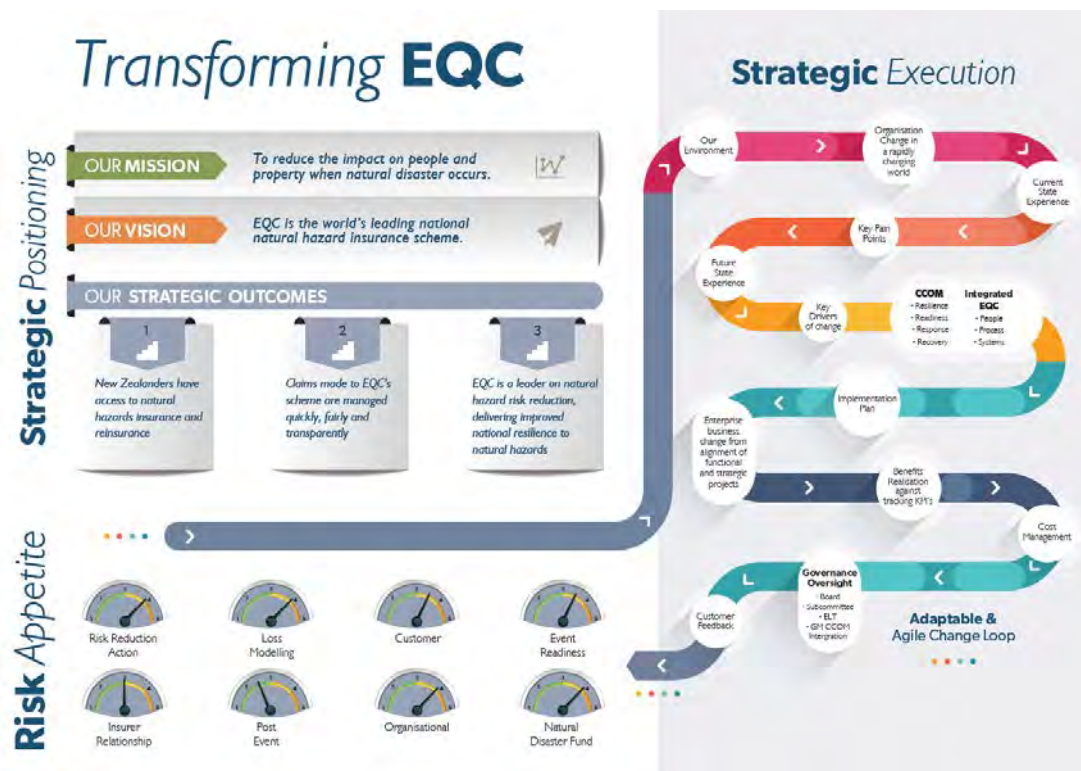
5. In late 2017, the Board agreed EQC's organisational objectives for 2018, the highest priority of which was Canterbury claim resolution.
6. Since the Board strategy day in November 2017, the external environment has changed significantly. Recent dialogue with the Interim Chair and Minister Responsible for EQC has confirmed that the highest priority for EQC remains the settlement of Canterbury claims.



7. Closely aligned to this priority, there are a number of internal and external priority areas of focus (priorities) which relate to Canterbury activity. Internal priorities are the successful delivery of performance measures and targets in the 2018/19 Statement of Performance Expectations (SPE) and CBU by Design work, while external priorities include implementing the recommendations of the Independent Ministerial Advisor (IMA) report, participating in the Cross-Agency Insurance Team, and contributing to the upcoming Inquiry into EQC.
8. EQC is re-evaluating its organisational strategy as outlined in the 'Realigning our Strategy' paper to ensure that the resolution of Canterbury claims can be delivered in the context of significant internal and external interest in the outcomes of this programme of work.

Background and Context

9. The Board Strategy Day held in November 2017 resulted in a vision and strategy being agreed for EQC, along with an associated set of priorities and strategic execution plan.



10. The Board Strategy Day also confirmed that the resolution of Canterbury claims was the Board's top priority, with a focus on claims being resolved quickly, and the durability of the settlement.
11. Since the Board Strategy Day, there have been a number of events which have affected delivery of this plan, including completion of the IMA report and subsequent establishment of the Cross-Agency Insurance Team, both of which have a significant impact on the work underway in Canterbury.
12. These events have put the organisation under pressure, and led to an increased internal and external focus on the resolution of Canterbury claims. The 'Realigning our Strategy' paper provides details about the planned wider organisational strategic

realignment to ensure that appropriate focus and resources are applied to resolving Canterbury claims and will not be covered in more detail in this paper.

13. There has been ongoing work within the organisation focused on driving delivery against this priority. The Board considered a paper titled 'Resolution of Outstanding Canterbury Claims' at its meeting on 26 February. This paper presented a number of options, and a brief update on each is presented below.

Option	Update
Option 1 – Increased use of mediation to resolve claims	Internal Panel implemented and a small number of claims considered and resolved. The Panel will evolve over time to consider claims pre-litigation
Option 2 – Negotiated settlements involving insurers on a case-by-case (or portfolio) basis	Not progressed
Option 3 – Remove the current internal requirement of getting the insurer to accept the claim before paying cap	Implemented several months ago. Ongoing dialogue with insurers to improve process and ensure homeowner feels supported through process.
Option 4 – Move to a case management approach	Implemented. As at 30 June, 60% of all claims have been allocated, with the remaining 40% to be allocated by mid-July.
Option 5 – Actively educate potential purchasers on how EQC and insurers deal with assigned claims that require remedial repair settlement	Picked up by DPMC as part of the Cross-Agency Insurance Team work. EQC to provide information through LINZ for property database.
Option 6 – Arbitration process (Tribunal)	Picked up by DPMC as part of the Cross-Agency Insurance Team work. Likely to hear first cases in first quarter of 2019.
Option 7 – Ministerial Directions	Picked up by Treasury as a recommendation from the IMA report. Paper prepared for, and discussed with the Minister.
Option 8 – Test cases and/or Declaratory Judgments that clarify EQC's liability	Picked up by DPMC as part of the Cross-Agency Insurance Team work. Paper prepared for, and discussed with the Minister. The next EQC test case has now been scheduled by the High Court for the 1 st quarter of 2019, although we are looking at options for how this might be fast-tracked.
Option 9 – Pay the ILV and IFV components (or at least the IFV component) on hold as a result of the IAG/Tower litigation	IFV and visible land damage payments have been made in some cases to those customers who have requested them. Additional payments contingent on outcome of litigation.

14. Additionally, EQC has been contributing to wider work in this area, including participation in the DPMC-led Cross-Agency Insurance Team, and providing comment and input into relevant Treasury advice to Ministers as appropriate.

Canterbury - Priority Areas of Focus

15. EQC has a number of strategic priorities related to the 'fast and fair' resolution of outstanding Canterbury claims:
- a. Delivery of Canterbury-related targets contained within EQC's 2018/19 Statement of Performance Expectations (SPE);
 - b. Implementing the recommendations contained within the IMA report;
 - c. Contributing to the Cross-Agency Insurance Team on wider Canterbury insurance issues;
 - d. 'CBU by Design' – an internal EQC team looking at ways of working within CBU and how systems and processes could be improved to speed up the resolution of claims; and
 - e. Contributing to the upcoming Inquiry into EQC.
16. The sections below outline how each of these priorities are being addressed, their alignment with the overall EQC priority in relation to Canterbury, and how progress will be monitored and reported to the Board.

EQC's 2018/19 Statement of Performance Expectations

17. EQC has a number of Canterbury-related performance measures in its 2018/19 Statement of Performance Expectations (SPE) which was recently finalised by the Board and has been accepted by the Minister Responsible for EQC. Appendix 1 contains a full list of all Canterbury-related performance measures and targets.
18. CBU is implementing plans to ensure operational delivery against the SPE targets. For reporting from July 2018 onwards, progress against these targets will be reported to the Board on a monthly basis as part of the dashboard.

Independent Ministerial Advisor's Report

19. The IMA was appointed by the Minister Responsible for EQC in March 2018 to work with the EQC Board and Management to provide advice to the Minister to speed up the resolution of outstanding insurance claims to EQC arising from the earthquakes that struck in Canterbury on or after 4 September 2010, including any aftershocks.
20. The purpose was for the IMA to report to the Minister on operational changes needed for resolving any residual Canterbury claims in a manner which ensures timeliness, cost effectiveness and high professional standards.
21. The IMA report was released on 6 June 2018 and contained 28 recommendations, which were included in the 28 May 2018 paper to the Board titled 'Greater Christchurch Cross-Agency Insurance Team Update'. As outlined in this paper, some IMA recommendations require EQC to lead and implement them, some require EQC support, and some are led externally and EQC is observing progress. The Board and management of EQC have endorsed and accepted all recommendations in the IMA report.
22. As the IMA report was designed to be completed in a short timeframe, it was necessarily high level, and as a result, the recommendations are generally broad and do not contain detailed implementation plans. In some cases, such as increasing the size

of the settlements teams, the recommendations refer to areas of work that EQC had already identified and was progressing prior to the release of the report.

23. EQC has an action plan to address the EQC-led recommendations in the IMA report which will be updated and reported to the Board on a monthly basis as part of overall reporting on progress in Canterbury, which will be discussed in paragraph 33.
24. Due to the high level nature of the recommendations in the IMA report, more detailed work was required to develop and implement the recommendations. This work has resulted in the establishment of two significant project streams:
 - a. CBU by Design, an internal EQC programme of work to ensure the success of the CBU; and
 - b. Cross-Agency Insurance Team, a DPMC-led group involving representatives from DPMC, Treasury, MBIE, Crown Law and EQC to deliver priority projects which require input from multiple agencies.
25. These initiatives are covered in more detail below.

CBU by Design

26. Feedback previously provided by customers and third parties regarding the roadblocks preventing EQC from settling Canterbury claims in a fair and fast way was confirmed by the IMA report. CBU by Design was established to review the operating model and processes related to these roadblocks.
27. The CBU by Design team, led by the GM People, Culture and Change and GM Technology supported by staff across the business, has been working with the GM CBU and CBU teams to identify opportunities to improve the way people work and ultimately to accelerate the settlement of Canterbury claims. The project team comprised of subject matter experts from customer experience and design, process management, technology, and Learning and Development functions.
28. CBU by Design used a range of workshops with CBU management and staff to identify current pain points for customers, staff and other organisations. Around 800 individual insights and suggestions were shared, and the team used those insights to focus in on the specific areas where EQC has the power to design and implement practical solutions and improvements to its claims management model. These insights were aggregated into the following themes: Data and Information, People, Process flow, and Customer.
29. The Data and Information community of practice has prioritised initiatives to deliver the data, tools and reporting capability required to support the CBU changes to accelerate settlement performance. In the past four weeks, an operational data store to support business intelligence activity across EQC has been delivered, along with new tools. Priority operational reporting is also being delivered in two weekly sprints, the first of which will be complete by 6 July.
30. The project has identified seven short-term, high-impact initiatives that will design and deliver improvements to the claims management model used for EQC's Canterbury customers. Business owners, project leads and subject matter experts have been

identified for each of the initiatives, and are all now up and running. Details of the seven initiatives are enclosed as Appendix 2.

31. Progress on CBU by Design initiatives will be reported to the Board on a monthly basis as part of overall reporting on progress in Canterbury, which is discussed in paragraph 34.

Cross-Agency Insurance Team

32. As outlined in the 'Greater Christchurch Cross-Agency Insurance Team Update' paper to the Board in May 2018, this team was convened following the finalisation of the IMA report to progress and monitor projects that require input from multiple agencies to ensure there is no duplication of effort across the Crown, and the commitments that were made by the Minister in the Cabinet paper regarding the IMA report can be met.
33. EQC continues to be actively involved with the team, and is providing information and other support and input as required. Progress with Cross-Agency Insurance Team initiatives where EQC has a lead role will be updated and reported to the Board on a monthly basis as part of overall reporting on progress in Canterbury, which is discussed in paragraph 34.

Reporting

34. EQC plans to report to the Board on progress with Board priorities, IMA report, CBU by Design and Cross-Agency Insurance Team actions in one document on a monthly basis. This report will identify the source of the initiative, along with action taken, the next steps and the project status.
35. This report as at 30 June 2018 is attached as Appendix 3.

Inquiry

36. EQC has formed a small internal team to prepare EQC for responding to the Inquiry. An update on the Inquiry is provided in the reports from the Chief Executive and the General Counsel.

Appendix 1 – Canterbury-related measures in EQC’s 2018/19 Statement of Performance Expectations

Output 2.1: Settlement of Canterbury 2010-11 Earthquake Sequence Remedial Claims





This output is focussed on providing service to EQC’s customers with claims from the 2010-11 Canterbury earthquakes. The measures address both the timeliness and the quality of EQC’s claims resolution. This output also includes communication with EQC’s customers and surveying their overall level of satisfaction as well as how well they have been kept informed regarding progress of their claims. This output contributes to EQC’s Strategic Intention “Claims made to EQC’s insurance scheme are managed fairly, transparently and in a timely manner”.

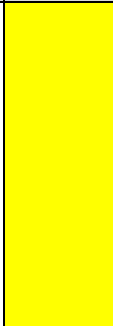
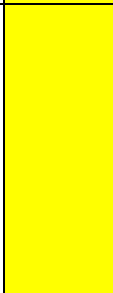



PERFORMANCE MEASURES	FORECAST OUTTURN 2017/18	PERFORMANCE STANDARD 2018/19	OUTTURN 2018/19
Timeliness			
Outstanding claims ⁵ on hand at 30 June 2018, are settled or in the process of being physically repaired by 30 June 2019.	New Measure	98%	
New inflow of accepted reopened claims ⁶ lodged post 30 June 2018 will be settled, or in the process of being physically repaired, within six months of reopened ⁷ date.	New Measure	80%	
The frequency of our communications to provide customer certainty in the progress of their claims settlements.	New Measure	All customers with an outstanding claim ⁸ are provided a personalised monthly communication from EQC.	
Quality			
EQC settlements should be enduring. Less than 10% of claims settled between 1 May 2018 ⁹ and 1 January 2019 are reopened by 30 June 2019.	New Measure	<10%	
The proportion of surveyed ¹⁰ customers who indicate satisfaction about their overall claim settlement process increases by 5% per annum.	37% ¹¹	≥42%	
The proportion of surveyed customers who indicate that they were well informed during the claims settlement process increases by 15% per annum.	23% ¹²	≥38%	

Appendix 2 – CBU by Design initiatives and problem statements

Initiative	Problem statement
Inbound	Multiple handovers of customers and points of entry causing customer frustration and simple requests taking a long time
Fast Track	Long wait times for simple requests that do not require case management causing high backlog volume and inability to allocate a case manager within 48 hours. Applying a desktop approach to all inflow when it is not always the best first step, causing long delays and taking case managers away from 'qualified' caseload
Escalations	Lots of 'noise' that distracts staff from case managing current caseload
Case management/Construction	Implementation of case management is causing confusion, anxiety and frustration
Customer Experience	Lack of consistent design of messaging and touch points that deliver our experience
People and culture	Current organisational design and people aspects are not aligned to meet CBU objectives
Common capability	A lack of process, business architecture, data, information, and solutions that meet CBU objectives

Appendix 3 – Update on progress with Canterbury Business Unit initiatives

On-Track/Progressing as expected  Off track with management plan to address/Potential problems  Off-Track/No progress  Complete 

Theme	Source	Task	Who is Responsible	Action Taken	Next	Priority	Status
1. Operational Structure	EQC Board	1.1 Case Managed claim model Each customer will have a dedicated case manager to guide their claim through the process. Appropriate numbers of experienced personnel will be required to implement this case managed model Overall objective is to reach equilibrium on open and closed claims with no backlog by December 2018	Heidi Barlow	As at 22 June – 60% of claims are allocated to a Settlement Specialist, with the remaining 40% to be allocated by the end of July. All KRA 1 settled or in progress as at 30 June. An additional Settlement Team has been added and the introduction of a Claim manager position will allow full assignment of all residual Canterbury claims.	Target end-July 100% of claims allocated	High	
	IMAT	1.2 EQC hires another settlement team so the case load for each team is approximately 100, which supports good familiarisation with each claim, and faster handling	Heidi Barlow	As above. A further settlements team has been recruited. Trained and operational In addition to this under CBU by design, a new claim handling operating model has been developed which provides an increased number of settlement specialists and claim managers to work with a case load of 50.	A further 11 Settlement specialists will be recruited in July sourced through Gallagher Bassett, Crawfords and Cunningham Lindsay. In addition, internal recruitment has commenced for nine Claims managers. By the end of July, every customer will have a case manager		
	IMAT	1.3 EQC considers how they will manage drainage issues within the new case management approach	Heidi Barlow	CBU has employed two people with technical drainage skills Current drainage claims manually identified	Further work is underway to determine how we can electronically identify drainage claims under CMSv8. Proposed methodology is via claim lodgement triage form and managed through fast track process aiming to have the bulk settled in July	High	
	CBU by Design	1.4 Full review of structure and processes which has identified a new claim handling operating model and an alignment of the CBU structure and resourcing	Heidi Barlow	CBU by design has identified seven streams of work to realign structure and introduce new process. These are: 1. Inbound lodgement process 2. Fast track team for transactional settlements 3. Escalations team for one point of contact 4. Case management claims handling model 5. Customer experience – messaging and outcomes 6. People and culture – resourcing, training and culture 7. Common Capability – data integrity and reporting 8. Project Plans in place and sponsors assigned.	Delivery of Inbound Lodgement Process and the Fast Track team due for delivery in July with Escalation team and extended settlement teams to follow	High	
2. Operational Practice	EQC Board	2.1 Panel Mediation Set up of an internal mediation panel and the option for increased use of external mediation services.	Heidi Barlow	Monthly EQC mediation panel in place. The majority of claims and decisions are able to be resolved within the current DFA at GM level Approximately 30 cases presented to the panel to date. With the reduced number the panel meet on an ad hoc basis now as there is a reducing trend of claims coming before this panel.	Continue to monitor with a watching brief on this activity	Medium	

Appendix 3 – Update on progress with Canterbury Business Unit initiatives

Theme	Source	Task	Who is Responsible	Action Taken	Next	Priority	Status
2. Operational Practice (cont.)	IMAT	2.2 A consistent operational practice model is urgently developed to ensure claims are dealt with to high standards across the Canterbury Business Unit	Heidi Barlow	CBU by Design is underway and has identified a new claims handling operating model. In addition to this resource planning has been completed and further recruitment underway to support the continued resolution of claims. Covered under 1.4	Next steps are outlined in 1.1 to 1.4	High	
3. Data Quality	IMAT	3.1 EQC immediately establish an expert data quality group led by the General Manager Technology	Paul Jepson	GM Technology has reappraised Tenzing recommendations and confirmed outstanding actions required to uplift Data and Information management maturity at EQC. A leadership group has been established to oversee the priority activity required to address current gaps. A common language framework is being finalised and priority reports to support CBU are under development.	Deliver priority reporting for CBU; establish common language for data; information and reporting. Deliver remaining components of the Business Analytics Architecture	High	
	IMAT	3.2 EQC take a small team of experienced EQC staff, pull out all of the physical claim files, and have the team sort, review, confirm and capture the key data. The results should then be aligned with the Claims Management System	Heidi Barlow	60% of claims have been allocated and a triage of cases commenced to identify claims complexities	All claims will be allocated to a Settlement Specialist/Case Manager by the end of July who will triage claims and record all settlement related information to enable categorisation of claims	High	
	IMAT	3.3 EQC publishes its ILVR semi-annually in a prominent place on its website, which include context and explanations for any large movements in the ILVR since the previous set of numbers	Renée Walker	June 2017 ILVR now available on the website	December 2017 ILVR to be released publicly once June 2018 report received	Medium	
	CBU by Design	3.4 A lack of informed process, business architecture & solutions, aligned to EQC that meets CBU objectives.	Paul Jepson	Revised business operating model, based upon a fit for purpose claims management workflow model has been developed. High level processes have been developed. Initial systems evaluation complete and activity based configuration update in progress.	Deliver detailed business process enhancements as per the CBU by design plan; Provide system solutions to support CBU by design requirements	High	
4. Claimant Reference Panel	IMAT	4.1 EQC establish a Claimant Reference Group, comprised of claimants and community representative advocates who are paid for their time and expertise, and with whom EQC senior management meets regularly	Renée Walker	EQC has met with external provider responsible for ACC customer reference panel. TOR and external governance in draft form	Members to be identified and approached. First session to be held this month	Medium	
5. Communication with Claimants	EQC Board	5.1 Actively publicise/educate prospective purchasers (and legal/other advisors) on how EQC and Insurers deal with assigned claims that require remedials	Renée Walker	Transferred to DPMC Taskforce	EQC working with LINZ to develop database of property related information	High	
	IMAT	5.2 All information on their file be available to claimants on request	Renée Walker	New communications approach defined. More proactive approach to customer communication adopted. Design Thinking workshop to be held in Wellington on 12 July	All customers to be proactively contacted on a monthly basis	Medium	
	IMAT	5.3 The case management approach must include the development of communication standards for EQC with claimants, which set out that communications are respectful, empathetic, honest, timely and that EQC staff do what they say they will do.	Renée Walker	Outbound calling initiative commenced. All customers have been contacted by either their assigned Settlement Specialist/Case Manager or Pulse	Ongoing customer communications training to be rolled out across teams Phase 2 of the Outbound Calling campaign will be completed in July	Medium	
	IMAT	5.4 EQC's Canterbury specific webpage be renewed to ensure it is easy to read and is updated on a regular basis	Renée Walker	Content has been reviewed and updated	Website to be reviewed and overhauled		

Appendix 3 – Update on progress with Canterbury Business Unit initiatives

Theme	Source	Task	Who is Responsible	Action Taken	Next	Priority	Status
6. Temporary Accommodation and Other Costs	IMAT	6.1 EQC and Treasury work together on a proposal that could be put to the Minister for her to determine whether she supports a Ministerial Direction that would allow EQC to reimburse certain legitimate claim-related costs in certain circumstances	Jeremy Ford	EQC has provided advice to Treasury in support of this policy work. Treasury is expected to complete the policy work and provide its advice to the ministers on the merits, practicalities and financial implications by 30 June 2018. It is likely that this could be an iterative process following Ministerial feedback	EQC to complete a review of its internal temporary accommodation and relocation policies, together with providing training to staff to ensure consistency of application for these policies. Treasury will then carry out a review of these policies. Treasury to be provided with data in respect of the nature of disputes following the completion of the IMAT recommendation to carry out a physical audit of all unresolved claim files. Treasury to then engage on further policy work with EQC about the merits or otherwise of implementing a Ministerial Direction	Medium	
7. Residential Advisory Service and Psycho-Social Support	IMAT	7.1 The RAS is extended for two more years to 30 June 2020 and its role is expanded to provide a “one stop-shop” for claimants, incorporating psychosocial support for claimants	Heidi Barlow	Dedicated point of contact for RAS communications. Weekly operational meetings set up. Monthly RAS and Insurer meetings attended by GM	Continuing to work closely with RAS to identify opportunities and issues relating to claims , with a coordinated view to reaching early resolution and building on this relationship	Medium	
8. Relationships with Private Insurers	EQC Board	8.1 Negotiated settlements involving insurers on a case by case or portfolio basis	Jeremy Ford	A programme of work has been developed, with resource planning based upon individual insurer schedules as part of the insurer finalisation/wash-up	Continue to progress work programs with various insurers	Medium	
	EQC Board	8.2 Removing the current requirement to have insurer “accept” the claim before paying to cap	Heidi Barlow	All cover cap claims are discussed with insurers. Agreed processes in place for acceptance although in many cases insurers are declining stating claims will be resolved in wash up	Continue to meet weekly identifying ways of early collaboration with insurers on potential over caps	High	
	IMAT	8.3 EQC Senior Management schedule regular, formal meetings with each private insurer to remove any barriers to resolving claims	Renée Walker	Regular meeting schedule now in place at GM level and weekly meetings at an operational level	Issues currently under discussion: Future Agency Agreement; Direct Cover; Consolidated Claims Management	High	
	IMAT	8.4 EQC share information about all claims with the relevant private insurer with the aim of settling claims more quickly	Renée Walker Paul Jepson	Insurers have limited access to CMSv8 to verify insurance details Currently investigation On Base access for insurers Responding to requests from insurers within 24 hours. Insurers are happy with this arrangement in the meantime	Deliver long term solution for insurers representatives to access relevant claims information in EQC	Medium	
9. Greater Flexibility to Make Payments	IMAT	9.1 EQC works with private insurers to extend the existing Protocol 1 to allow EQC to make cash settlements above the EQC cap, which would then be recovered from the private insurers	Renée Walker	EQC and Treasury have met to discuss the extension of P1 to include the joint resolution of cash settlements. The existing P1 documents are being reviewed by treasury and EQC is finalising bilateral discussions with insurers who have all indicated they wish to proceed. Expected to finalise discussion end of June 2018. Approach supported by Treasury and the Minister	MOUs/ Agreements with insurers to be put in place by end of July.	High	
10. Claims Management Consolidation	IMAT	10.1 The Treasury continues to work with the insurance industry and EQC to test the viability of a new model which could see the management of all new Canterbury earthquake-related claims from insurance entities (EQC, Southern Response, other private insurers) consolidated into one vehicle from a future date.	Renée Walker	Work continuing through DPMC Taskforce. Concept endorsed by Minister Woods	Design Thinking Workshop to be held on 4 July	High	
11. Limitations	IMAT	11.1 The Treasury and MBIE undertake policy work on whether the limitation period in respect of the Canterbury earthquakes could be clarified and made consistent across EQC and the various insurers	Jeremy Ford	Awaiting engagement from Treasury and MBIE to proactively engage on this matter	Await engagement from Treasury and MBIE	Low	

Appendix 3 – Update on progress with Canterbury Business Unit initiatives

Theme	Source	Task	Who is Responsible	Action Taken	Next	Priority	Status
12. EQC Ability to Discharge Cases	IMAT	12.1 The Treasury includes the discharge of claims as part of its policy work on the EQC Act	Jeremy Ford	Consultation with Treasury as part of EQC Act review process	Continue to engage with Treasury on this recommendation to ensure EQC's comments are incorporated as part of the ongoing Act review (likely to occur after the EQC Inquiry)	Low	
13. On-Sold Properties	IMAT	13.1 EQC management engage with Treasury to seek clarity on the Government's policy position and any potential response with regard to the fair and transparent resolution of on-sold damaged property claims;	Jeremy Ford Renée Walker	EQC Management is actively engaging with Treasury to provide insight and data on the onsold property issue. Treasury is due to provide advice to the Minister by the end of July. EQC continues to articulate our position, e.g. we continue to settle assigned claims in line with entitlements under the Act.	Continue to engage with Treasury; Work on All of Government Education Programme	Medium	
	IMAT	13.2 Treasury work with EQC so that there is an agreed policy and legislative position for large scale insurance events in the future.	Jeremy Ford	Treasury and EQC have been appointed as advisors to the Finance and Expenditure Select Committee (FEC). An initial briefing for the Committee was prepared by Treasury (with EQC input) and was provided to FEC on 15 June Initial hearings for FEC were held on 27 June Legal/Policy preparing a short paper for the 9 July Board meeting on submissions received Clerk of FEC has provided draft timetable for Bill	Moving forward, substantive changes to the EQC Act will likely occur after the Inquiry concludes and is reported on in 2019. As the Customer Experience team begin to develop scenarios for testing, there may be some utility including Treasury policy and monitoring teams as part of the process.	Low	
14. Test Cases and Litigation Processes	EQC Board	14.1 Arbitration Process	Jeremy Ford	EQC will continue to engage and consult with Crown agencies on proposed innovations to litigation processes	Waiting to be consulted on the proposed Earthquake Insurance Tribunal by the Ministry of Justice; and/or the public release of the proposed Bill to implement the Tribunal	Low	
	EQC Board	14.4 Test cases and/or Declaratory judgements that clarify EQC liability	Jeremy Ford	EQC is currently engaging with the law firm acting on the largest number of negligence claims (Shine Lawyers, who represent 16 plaintiffs) to identify a specific case (or cases) to consider the legal issue of whether EQC could be liable in negligence to owners of houses purchased after EQC repairs were carried out.	Legal to continue to provide updates which touch on this topic in the Ministerial Report (fortnightly) and Legal & Litigation Board report. This work will tie in with the work that will be carried out by the new "Claimant Reference Group".	Medium	
	EQC Board	14.5 Pay the ILV and IFV components (or at least the IFV component) of land claims on hold as a result of IAG/Tower litigation	Jeremy Ford	Business is in the process of making outstanding land payments for categories 1-7 and IFV.	T&T reviewing finalising its review of properties to locate genuine ground improvement claims so ILV payments can be made for these properties	Medium	
	IMAT	14.1 EQC continues to work with lawyers and claimants to identify appropriate test cases on issues of law where precedents work be helpful for resolving other claims and to fast track these where possible	Jeremy Ford	EQC is currently engaging with the law firm acting on the largest number of negligence claims (Shine Lawyers, who represent 16 plaintiffs) to identify a specific case (or cases) to consider the legal issue of whether EQC could be liable in negligence to owners of houses purchased after EQC repairs were carried out.	Legal to continue to provide updates which touch on this topic in the Ministerial Report (fortnightly) and Legal & Litigation Board report. This work will tie in with the work that will be carried out by the new "Claimant Reference Group".	Medium	
	IMAT	14.2 The Government give ongoing consideration to ensuring that further litigation process innovation is supported where appropriate	Jeremy Ford	EQC will continue to engage and consult with Crown agencies on proposed innovations to litigation processes	Waiting to be consulted on the proposed Earthquake Insurance Tribunal by the Ministry of Justice; and/or the public release of the proposed Bill to implement the Tribunal	Low	
	IMAT	15.1 EQC develop a more comprehensive set of layered measures, both quantitative and qualitative, for the main stages of the claims process	Chris Chainey	Once measures have been confirmed they will be published on EQC's website	Work with Finance and the Information leadership team to confirm measures to be published.	Low	

Appendix 3 – Update on progress with Canterbury Business Unit initiatives

Theme	Source	Task	Who is Responsible	Action Taken	Next	Priority	Status
15. Performance Metrics (cont.)	IMAT	15.2 EQC publishes these metrics on its website no less often than quarterly	Paul Jepson Renée Walker	Once measures have been confirmed they will be published on EQC's website	Work with Finance and the Information leadership team to confirm measures to be published.	Low	
16. Monitoring Arrangements over EQC	EQC Board	16.5 Ministerial direction(s)	Renée Walker	Treasury has provided a paper to the Minister. Update provided in CE's Report.		Medium	
	IMAT	16.1 that increased focus and resource should be directed to the monitoring function in Treasury related to service delivery; performance and future service risk, confidence by the public, institutional capability and its implementation of change;	Renée Walker	Treasury has increased capacity across programme of work, and is meeting with EQC weekly	EQC to increase focus and resource to provide regular information to Treasury/ manage relationship.	Medium	
	IMAT	16.2 MBIE and Treasury work on providing the Minister with advice on which government department is best placed to undertake such monitoring	Renée Walker	Work continues through DPMC taskforce		Medium	
	IMAT	16.3 Treasury and MBIE meet jointly with the Minister at least quarterly to update her on their progress on the work arising from the recommendations in this report	Renée Walker	Work continues through DPMC taskforce		Medium	
	IMAT	16.4 EQC reports to the Minister on their progress with the implementation of the recommendations from this report that relate to EQC, to ensure that they are implemented in a timely fashion	Sid Miller Renée Walker	Weekly meetings with the Minister now in place. Regular updates on initiatives provided		Medium	



IN CONFIDENCE

Appendix 7

Board Paper

To	BOARD OF THE COMMISSION
From	Renée Walker, Deputy Chief Executive Canterbury and External Affairs
Through	Josh Lindsay, Head of Readiness
Prepared By	Leila Dunphy, Tender Project Manager
Decision date	30/04/2019
Paper date	09/04/2019
Title	Engagement of Third Party Claims Services

Proposal

1. This paper provides board with an update on Third Party claims administration contracts, requests approval to extend current contracts, and outlines the procurement process proposed for future engagement.

Strategic Alignment

2. In July 2018 the EQC Board were provided with a briefing paper that detailed the contracting of three suppliers for the provision of claims administration services. The key driver for these contracts was the identification of additional claims during the transition of Claim Centre, and a sustained level of higher claims inflow, primarily from the Canterbury event.
3. Existing contracts will expire at various points over the next four months. At this point in time, to successfully complete the Canterbury programme we need to maintain the existing contracted claim capacity. We also recognise the benefits to further increasing contract capacity to support an enhanced state of readiness for future natural disaster events.

Recommendations

4. It is recommended that the Board:
 - a) **agree** to not openly advertise the procurement of administration services for natural disaster claims prior to the expiry of the existing contracts, and delay the competitive tender until later in 2019;
 - b) **agree** to engage directly with the following administration services suppliers in the interim, while EQC's future response capability is designed:

- i. 9(2)(b)(ii)
- ii.
- iii.



- c) **approve** the negotiation of new agreements with these suppliers for services for the period from 1 July 2019 until 31 December 2020, to cover the 2019 tender activities and transition to the tendered contract;
- d) **agree** to delegate execution of the contracts to the Chief Executive;
- e) **note** these three suppliers are currently contracted to provide a limited range of claim management services;
- f) **note** that the direct sourcing of services from these three suppliers for the period 1 July 2019 to 31 December 2020 does not comply fully with the Government Rules of Sourcing, and a compliant procurement process will be undertaken at a later date in [REDACTED] and [REDACTED];
- g) 9(2)(b)(ii) [REDACTED]

Background

- 5. EQC currently has contracts in place with three suppliers for the provision of administration services for natural disaster claims. In addition, EQC has individual contracts with 21 Estimators and Assessors. These contracts were put in place in 2018 to provide Claim Assessment services to both Canterbury and Business as Usual events.
- 6. Existing claim administration contracts will expire at various points over the next four months. The design of our future response capability (development of the agency response model with insurers and our future operating model) has not progressed far enough to allow the services to be tendered fully informed around future state, by the first contract expiry date in April 2019.
- 7. We would like to negotiate a new agreement for claim administration services with the existing providers for a period of 18 months (with a 30day termination clause), encompassing requirements that will support the continued resolution of Canterbury claims and contracted scalable capacity for future natural disaster events.
- 8. Contracting these services on an interim basis provides EQC with a suitable alternative response option while our future options continue to be developed.
- 9. It is anticipated that the open, competitive tender will go ahead later 9(2)(b)(iii) unless the market analysis determines this is not required). The procurement is listed in EQC's Annual Procurement Plan submitted to MBIE.

EQC's Requirements and the Government Rules of Sourcing

- 10. In order to meet the requirements of the Government Rules of Sourcing at this point in time, the services would need to be tendered on an open competitive basis before EQC's future response capability (particularly the development of the agency response model with insurers and our future operating model) can fully inform the tendering process in order to have contracts in place by 1 July 2019. There are **no valid exemptions** from the Government Rules of Sourcing that apply to direct source the services from the three suppliers on an interim basis. Rules 13 (Opt Out procurements) and 15 (Exemptions from open advertising) are inapplicable in this instance.
- 11. For the following reasons, running a rushed open procurement process now is not optimal and would run contrary to EQC's requirements, the interests of suppliers, and

not produce best value for money consistent with the principles in the Government Rules of Sourcing:

- a. the tendered contract(s) would not take into consideration all future requirements, particularly while the agency response model with insurers and our future operating model are still being developed. Any contract tendered now would therefore potentially not be fit for purpose;
 - b. suppliers may price uncertainty into their proposals, due to the uncertainty around EQC's future requirements, and therefore the proposals that EQC will likely get back from suppliers may not represent value for money; and
 - c. EQC requires continuity of services in the interim, while business requirements are defined. It would be imprudent to disrupt or to put the current services on hold.
12. It has been determined that our three key suppliers – who EQC considers are the main service providers in New Zealand and have provided excellent services to EQC in the past – have the capability and scalability required to provide these services. It is preferable that EQC continues to engage with suppliers that understand EQC as an interim measure while EQC's response capability is designed and the shape of the future operating model is confirmed.
13. It is premature, impractical and not cost-effective to switch to new suppliers for these services at present, especially where those suppliers may not have an appropriate level of capability to provide the level of service required.

Procurement process

14. On 21 December 2018 following early market engagement, EQC was able to confirm the ability of the three key suppliers to provide the services. It is proposed that EQC enter into interim agreements with all three companies.
15. The type of agreement that will be entered into will be a panel agreement based on the Conditions of Contract for Consultancy Services, which has been arranged by the EQC Legal Team. The term of the agreement will be for a period of 18 months.
16. Although the scope of the intended tender process is unknown, it should include / bundle as many services as possible, and it is likely that a panel of suppliers will be appointed. The proposed interim multi-supplier panel will allow us to get used to allocating services between multi-suppliers in the future.
17. An estimate of the total cost over the whole-of-life of the contracts, if utilised to fulfil approximately 50% of BAU claims, as well as current Canterbury volumes, exclusive of GST is :9(2)(b)(ii)

Risks and mitigations

18. Overall this procurement is deemed to be medium value with medium risk. Risks and mitigations have been identified in the Procurement Plan and will be actively managed by management.