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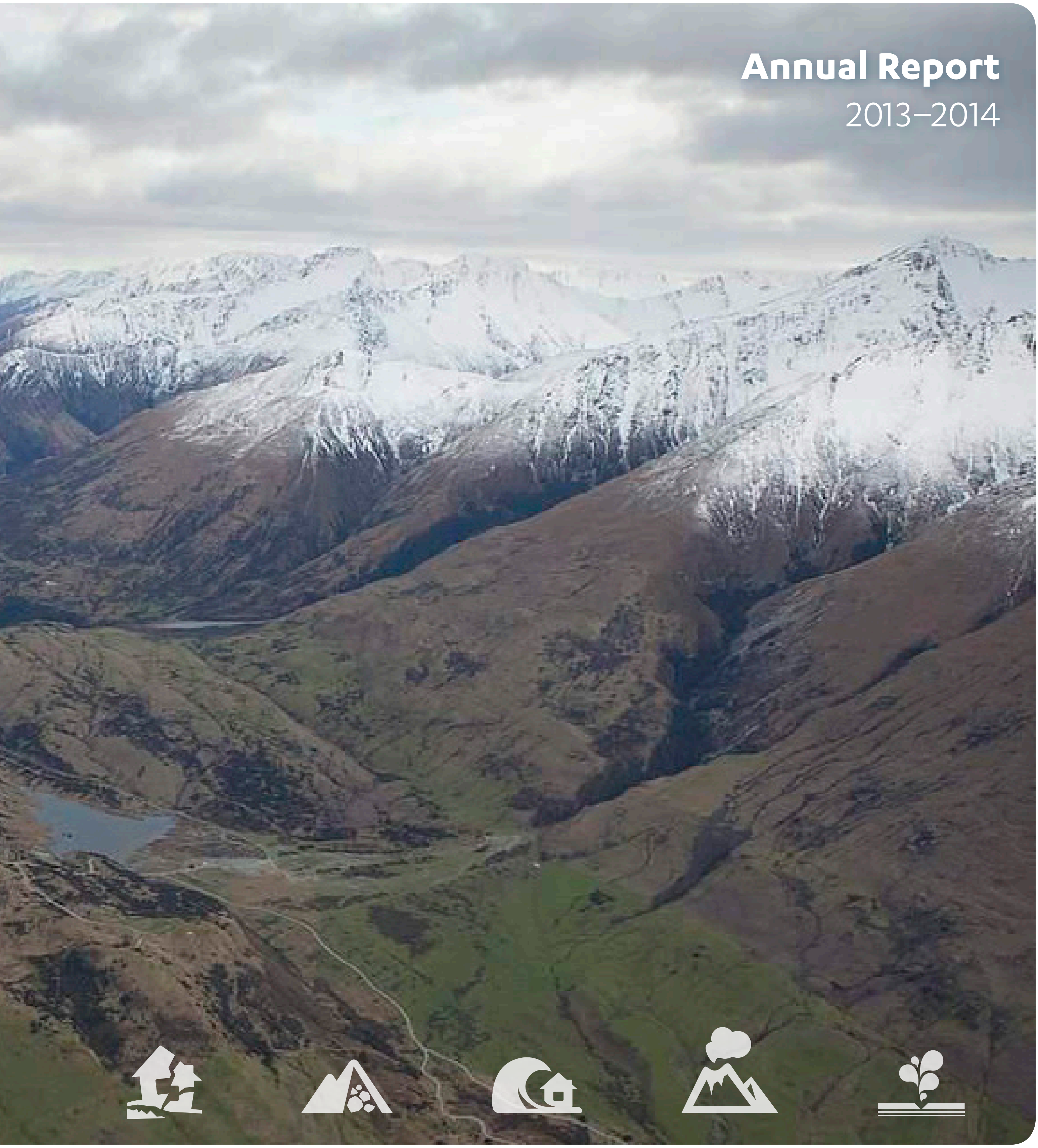
EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

Annual Report
2013–2014



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This Annual Report is submitted by the Board of the Earthquake Commission (EQC) in accordance with the Crown Entities Act 2004.

Presented to the House of Representatives pursuant to Section 150 of the Crown Entities Act 2004.

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CONTENTS

INTRODUCTION

With approximately 90 percent of dwellings insured,[1] New Zealand may be unique among developed countries. This high level of insurance, the associated premiums paid to the Earthquake Commission (EQC) which are credited to the Natural Disaster Fund, and international reinsurance, helped the country to weather the Canterbury earthquakes with a much lessened impact on the nation's economy.

The existence of EQC has helped ensure adequate capital is available in a timely manner to fund the repair or replacement of around 169,000 homes that were damaged in the earthquakes. This has also helped to limit the impact of the disaster on the taxpayer, the nation's credit rating and balance of payments.

The credit for this broad outcome lies with the response, 70 years ago, by the policy-makers and Parliamentarians of the day to concerns about the sluggish recovery following the damaging Wairarapa earthquake in 1942. The slow recovery then was due to the lack of insurance and reconstruction capital. The result was the establishment of the Earthquake and War Damage Commission.

Renamed the 'Earthquake Commission' in 1993, EQC, as insurer of first loss, has continued to underpin the residential insurance market by ensuring the availability of universal and affordable natural disaster cover that contrasts with the often prohibitive premium levels for natural disaster insurance that prevail in many countries.

Following the Canterbury earthquakes, the merit of the EQC scheme to New Zealand was again demonstrated in the aftermath of the Cook Strait and Eketahuna earthquakes that struck central New Zealand in 2013 and 2014 respectively.

1 Estimate derived from the total amount of EQC premiums received and relevant national housing statistics.

EQC AT A GLANCE

OUR INCOME IN 2013/14 (EXCLUDING GST).

Premiums – $274.1 million

EQC customers pay annually 15c (plus GST) per $100 of insured property value up to a maximum of $100,000 (plus GST) for buildings and $20,000 (plus GST) for contents. Premiums go into the Natural Disaster Fund. N.B. You don't need to own a residential building to get contents cover.

Interest and investment income $71.2 million

- Government stock and longer term deposits – $56.4 million
- Short-term deposit and cash interest – $14.8 million

Reinsurance claims $1.3 billion

We partially offset the risk from large events with top-up insurance from international reinsurers.

EQC'S FINANCIAL POSITION AT 30 JUNE 2014

Assets of $3.7 billion including:

- Outstanding reinsurance and other recoveries – $1.2 billion
- Cash $735 million
- Investments $1.6 billion
- Other assets –$158 million

Liabilities totalling $4.8 billion

Our unfunded liabilities, currently estimated to be around $1.1 billion, will be met through the Crown guarantee.

The estimated $11–12 billion cost of claims from Canterbury will have a relatively modest impact on the Crown accounts and the nation's international balance of payments. In September 2010 (before the first Canterbury earthquake), the Natural Disaster Fund held nearly $6 billion, a third of which was invested offshore. The total actuarial valuation of recoveries from international reinsurers at 30 June 2014 was approximately $4.3 billion.

OUR EXPENDITURE IN 2013/14 (EXCLUDING GST).

Claims settled
(excluding claim handling expenses) – almost $1.6 billion

- We made cash settlements and repaired damaged residential buildings – $1.4 billion

- We made cash settlements for contents that were damaged – $37 million

- We made cash settlements for damage to residential land – $136 million

Research and education $18 million

- We invested in GeoNet for improved monitoring of earthquakes – $9.5 million
- Research – $7.1 million
- Public education – $1.4 million

Outward reinsurance premium expenses $151.2 million

- We expanded our programme to reduce the impact on the Crown balance sheet in the event of another major natural disaster.

Crown guarantee $10 million

- We make this payment to the Crown in return for its guarantee to meet claim costs that EQC is not otherwise able to pay.

CHAIR'S **REPORT**

Over the past year, EQC has continued to devote every effort to settling the outstanding insurance claims, and completing the many house repairs, that arose from the tragic Canterbury earthquake sequence of 2010/2011. Over 750,000 insurance exposures (dwelling, contents and land claims) were generated by this extraordinary sequence of 13,000 tremors, making it one of the largest insurance events in global history.

> "Many recommendations from the four reviews about changes to EQC's processes and practices have been implemented..."

What has made the past year even more challenging, apart from the ongoing response to the Canterbury events, has been the further seismic activity in Cook Strait and Eketahuna. These events generated 13,623 and 6,120 exposures respectively for damage to buildings, contents and land. To put matters in some perspective, the Cook Strait events, which struck Seddon and Ward in Marlborough in July/August 2013, and had significant impact in Wellington and the lower North Island, produced the second highest number of insurance claims in EQC history, after Canterbury.

EQC's response to the Cook Strait and Eketahuna earthquakes drew on many lessons learned from Canterbury, both on the ground in affected communities, and in internal EQC assessment and settlement processes. In both cases, the claims are well on the way to being completely settled within the expected time frames. For example, by 30 June 2014 (less than a year after the event), 99 percent of Cook Strait claims had been assessed and 60 percent of all exposures from that event were closed.

Over the past year, EQC continued to face public scrutiny of its handling of claims and customer interactions. Four separate reviews were undertaken by external agencies (the Office of the Auditor-General, the Offices of the Ombudsman and the Privacy Commissioner, the State Services Commission and the Human Rights Commission) into aspects of EQC's response to Canterbury. In each case, EQC staff collaborated fully and constructively with reviewers, as we sought to address any matters of concern and improve our responses in various ways. Many recommendations from the four reviews about changes to EQC's processes and practices have been implemented, or are being taken into account in future organisational changes.

The unprecedented nature of the Canterbury events, and the huge workload that emerged, created large challenges for the Commission and its staff in meeting public expectations. Growth in staff numbers from just 22 in 2010 to a peak of more than 1,800 in 2013 was necessary to meet the many urgent demands placed on EQC. Staff numbers are now declining, and at 30 June 2014, stood at 1,161. A major

> "... the Board is focused on improving customer communications and stakeholder relations."

challenge for the Board and management over the coming year will be to manage the transition to a much reduced staffing level, and a new organisational design, as the immense workload arising from Canterbury winds down.

The Board has started to direct its attention to how EQC should be configured in the future. We are seeking to balance the requirement to 'complete Canterbury' and sustain and enhance EQC for its ongoing national responsibilities in natural risk and hazard management. The outcome of the review of the Earthquake Commission Act 1993 (EQC Act), announced by the Government in September 2012, will be an important determinant of EQC's responsibilities and operations going forward. The Board has worked closely with the Treasury and the Ministers responsible for the review, over the past year, in contributing to preparations for the review.

In addition to considering the way forward for EQC post-Canterbury, options for revising and strengthening the current business model and improving customer services, the Board is focused on improving customer communications and stakeholder relations. A meeting with the newly-elected Mayor and Christchurch City Councillors in February 2014 is one example of the Commission and the Council working more closely together, where appropriate, to address issues of mutual concern.

The EQC Board has also lifted levels of engagement with Local Government New Zealand, the Institute of Geological and Nuclear Sciences (GNS), universities, and local authorities in cities with larger populations and significant risk profiles such as Wellington and Auckland. Efforts to lift the tempo and content of EQC's research and education work are essential to strengthening household, community and national resilience to natural disasters.

This Annual Report outlines in a detailed manner the progress that EQC has made over the past twelve months – particularly in relation to Canterbury and the roles EQC undertook such as the Canterbury Home Repair Programme (CHRP). CHRP, which is being project managed by Fletcher EQR (a division of Fletcher Construction Limited) on behalf of EQC, is nearing completion of repairs to about 70,000 residential dwellings that have suffered damage and have EQC insurance cover. The Board is very pleased to report that more than 80 percent of all the expected CHRP repairs had been completed by 30 June 2014 and the remainder is expected to be largely completed by the end of 2014.

We are on track to conclude all other remaining Canterbury claims in 2015, dependent in part on the outcome of a declaratory judgment we have sought from the High Court. The judgment relates to our intended approach to settling residential land claims arising from increased flooding vulnerability (IFV). IFV is a form of land damage EQC has not previously received claims for.

I wish to record the Board's ongoing gratitude for the untiring efforts of EQC staff and management over the past year, as they continue to do their very best to support the people of Canterbury and thousands of others who have been impacted by natural disasters, in particular, to restore normality to their lives. The Board understands the pressures that all EQC staff are under, and appreciates the professionalism and dedication they continue to show as they carry out their roles. The Board was particularly pleased that the EQC Health and Safety Manager won national recognition from her peers for her work in promoting workplace safety at EQC, and with Fletcher EQR at the many thousands of home repair sites across Canterbury. The Board is committed to leading a strong health and safety culture to maintain and improve EQC's good safety record. This remains one of the highest priorities for the Board.

I should also like to acknowledge the considerable contribution of Trevor Burt, who retired from the Board in December 2013, and Bruce Emson, General Manager of Customer Services, who led the EQC team in Christchurch over a long and critical period following the Canterbury quakes. Bruce's contribution was substantial and much appreciated.

Sir Maarten Wevers, KNZM
Chair

CHIEF EXECUTIVE'S **REPORT**

After three years of building and maintaining momentum in a highly dynamic environment, we now have to bring our work in Canterbury to a conclusion. We will still have the challenges of completing some more complex land settlements and the remainder of the Canterbury Home Repair Programme (CHRP)[2]. We have applied lessons learned in Canterbury to our work following the Cook Strait and Eketahuna earthquakes. We did this by engaging the community from the outset. Despite the two Cook Strait earthquakes generating the largest number of claims in EQC's history after the Canterbury earthquake series, settlement of claims has proceeded relatively smoothly.

2 CHRP is EQC's managed repair programme for Canterbury homes with damage generally between $15,000 and $100,000 (+GST) per claim. Claims below this range where there is structural damage or where the building owner has opted to have non-structural repairs managed by the Programme are also managed through this Programme. Claims below this range that do not involve structural damage where the owner has not opted in are otherwise settled in cash. Fletcher EQR, a division of Fletcher Construction Limited, project manages the repair work as agent for EQC.

> "With the knowledge we have gained from Canterbury, we will be much better placed to respond to future natural disasters."

CANTERBURY

We have made further considerable progress in settling Canterbury earthquake claims. During 2013 – 2014 EQC's CHRP completed around 17,000 dwelling repairs, bringing the total number of completed dwelling repairs to around 57,000 (more than 80 percent of the expected final total of around 70,000 CHRP dwelling repairs).

We set ourselves a 'stretch target' to complete all CHRP repairs by December 2014. While we remain optimistic of largely achieving this target, we expect that some repairs will have to be completed in 2015. Many of these could relate to more complex situations such as those involved with multi-unit buildings or where the homeowners have requested a delay to wait for a preferred contractor or to meet their personal circumstances.

At 30 June 2014, we had settled most land claims in the Port Hills and 62 percent of the simple claims for flat land. We expect to resolve all the simple land claims by the end of the 2014 calendar year.

EQC land cover has proven to be complex from both legal and technical (engineering) perspectives. Consequently, EQC has asked the High Court to make a ruling on questions relating to EQC's coverage where properties are more at risk of flood damage due to the Canterbury earthquakes. This follows on from our 2012 announcement that we propose to recognise properties at increased vulnerability to flooding and liquefaction due to changes during the Canterbury earthquakes, as being damaged for the purpose of the EQC Act.

The declaratory judgment is being sought in order that complex legal questions, including whether EQC is able to settle claims on the basis of long-term loss of land value, are tested and EQC, insurers and their customers have reasonable certainty about cover. The time taken for the Court to hear submissions and to deliver the final judgment means it is likely that some land claims will also not be resolved until 2015.

OUR FINANCIAL FOOTING

Key considerations in establishing and operating CHRP in Canterbury included ensuring the quality of repairs to the Canterbury housing stock; and the containment of repair cost push inflation (e.g. construction-related costs of any post-event demand surge).

Our achievements have been recognised by international reinsurers who have agreed to increase our reinsurance cover at more favourable rates than the previous year. EQC understands that its 2014 reinsurance programme is one of the largest natural catastrophe reinsurance programmes in the world. Our relationship with reinsurers has been built over decades and it was tested for the first time in Canterbury. The reinsurance cover we have secured has great significance for EQC's ability to deal with any further large scale events, given that the Natural Disaster Fund will be depleted because of the Canterbury disaster. Rebuilding the Fund will be a key strategic priority for EQC in coming years.

While reduced reinsurance premium rates reflect a return of capital and confidence to international markets, they are also an international endorsement of the financial certainty provided by EQC's management of Canterbury earthquake claims.

Every six months EQC receives from its actuaries an insurance liability valuation report (ILVR). This ILVR is used to calculate the Central Estimate of the 'gross ultimate incurred claims costs' that is reflected in the financial statements.

The actual ultimate incurred claim costs arising from the Canterbury earthquake events will not be known until the last claim is settled. There is considerable uncertainty in the calculation of the Central Estimate, which is essentially the mean of a distribution of modelled outcomes. The ILVR includes a number of estimates, some of which have a greater degree of certainty than others. Within the ILVR these are split into 'hard' components (where settlement is under way and has a relatively higher degree of confidence) and 'soft' components (where, for example, settlement may be subject to the outcomes of a declaratory judgment, legal challenge or some other factor creating a relatively lower degree of confidence).

In the 30 June 2014 financial statements the Board has elected to record a liability that does not recognise the ILVR 'soft' components. The estimated cost of Canterbury earthquake claims reported has decreased from $12.016 billion at 30 June 2013 to $11.746 billion at 30 June 2014. The most significant changes year-on-year are a $383 million decrease for building claims and a $117 million increase for land claims. The overall decrease for building claims is due to a refinement of the liability modelling (including a correction to the way GST is treated in the model) and the integration of repair cost data for completed repairs from Fletcher EQR. The increase for land claims is primarily due to more properties meeting the criteria for increased flood vulnerability and increased liquefaction vulnerability. There remains considerable uncertainty in the calculation of the gross ultimate incurred claims costs and this is discussed fully in note 2 to the financial statements.

EXTERNAL REVIEWS

Over the past year, EQC's performance has been reviewed by a variety of external agencies including the Office of the Auditor-General, Offices of the Ombudsman and the Privacy Commissioner, the State Services Commission and the Human Rights Commission. EQC cooperated fully in all of these reviews, and has taken the resulting assessments and recommendations seriously. For example, in addressing the large backlog of overdue Official Information Act and Privacy Act information requests, we worked closely with the Ombudsman's Office and the Privacy Commissioner and cleared the backlog of 1,300 requests as at September 2013 by the target date of April 2014. This is discussed in more detail in the Statement of Service Performance.

LOOKING AHEAD

As our work in Canterbury enters its closing stages, we shall be giving particular attention to how to manage the phase-out of our Canterbury operations. There will be many aspects of our current, substantial, operation that require careful management as our work draws to a conclusion. In particular, we must meet our customers' needs, and those of the many workers and contractors who have delivered our services. There are thousands of people in Canterbury who have depended on us directly and indirectly for their livelihoods over the last four years. We will do all we can to enable a smooth transition for workers and contractors, particularly as the rebuild of central Christchurch and other recovery activities will continue.

The Canterbury experience has identified significant opportunities for improvement from a recovery perspective. As we enter the home straight in terms of claims resolution, we are also working to ensure lessons learned are incorporated in our future-focused planning.

There remain many areas for improving our operations, not least in understanding how to better meet our customers' expectations. This may require some fundamental shifts in the way we operate. We also look forward to the completion of the review of the EQC Act announced by the Government in September 2012 and refinement of the legislative settings in which we operate. With the knowledge we have gained from Canterbury, we will be much better placed to respond to future natural disasters.

Ian Simpson
Chief Executive

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE EARTHQUAKE COMMISSION'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2014

The Auditor-General is the auditor of the Earthquake Commission (the Commission). The Auditor-General has appointed me, Jacqueline Robertson, using the staff and resources of Deloitte, to carry out the audit of the financial statements and non-financial performance information of the Commission on her behalf.

We have audited:

» the financial statements of the Commission on pages 15 to 51, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and

» the non-financial performance information of the Commission on pages 52 to 69 that comprises the statement of service performance, and which includes outcomes.

OPINION

In our opinion:

» the financial statements of the Commission on pages 15 to 51:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Commission's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date.

» the non-financial performance information of the Commission on pages 52 to 69:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Commission's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
    - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
    - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

EMPHASIS OF MATTERS – UNCERTAINTIES ASSOCIATED WITH THE OUTSTANDING CLAIMS LIABILITY AND THE APPROPRIATENESS OF THE GOING CONCERN ASSUMPTION

Without modifying our opinion, we draw your attention to note 2 to the financial statements about insurance liabilities, which explains how the Canterbury earthquakes have affected the outstanding claims liability and consequently the related reinsurance receivables of the Commission. It also describes the significance of the amounts of the earthquake-related outstanding claims liability and related reinsurance receivables, and the inherent uncertainties involved in estimating those amounts using actuarial assumptions.

Also, without modifying our opinion, we draw your attention to note 1 to the financial statements about the going concern assumption, which notes that total liabilities exceed assets, and that the Crown, under Section 16 of the Earthquake Commission Act 1993, is obliged to grant or advance sufficient sums to meet any deficiencies.

We consider the disclosures about both of the above matters to be adequate.

Our audit was completed on 20 October 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Commissioners and our responsibilities, and we explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Deloitte.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Commission's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

An audit also involves evaluating:

» the appropriateness of accounting policies used and whether they have been consistently applied;

» the reasonableness of the significant accounting estimates and judgements made by the Board of Commissioners;

» the appropriateness of the reported non-financial performance information within the Commission's framework for reporting performance;

» the adequacy of all disclosures in the financial statements and non-financial performance information; and

» the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF COMMISSIONERS

The Board of Commissioners is responsible for preparing financial statements and non-financial performance information that:

» comply with generally accepted accounting practice in New Zealand;

» fairly reflect the Commission's financial position, financial performance and cash flows; and

» fairly reflect its service performance and outcomes.

The Board of Commissioners is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board of Commissioners is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board of Commissioners' responsibilities arise from the Crown Entities Act 2004 and the Earthquake Commission Act 1993.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Partners and employees of our firm may also deal with the Commission on normal terms within the ordinary course of trading activities of the business of the Commission. Other than the audit, we have no relationship with or interests in the Commission.

Jacqueline Robertson
Deloitte
On behalf of the Auditor-General
Wellington, New Zealand

STATEMENT OF **RESPONSIBILITY**

The Board of Commissioners (the Board) is responsible for the preparation of the Earthquake Commission's financial statements and statement of service performance, and for the judgements made in them.

The Board, through management, has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial reporting.

In the opinion of the Board and management, the annual financial statements and the statement of service performance for the financial year ended 30 June 2014 fairly reflect the financial position, operations and service performance of the Commission.

Signed on behalf of the Board:

Sir Maarten Wevers KNZM
Chair
20 October 2014

Keith Taylor
Commissioner
20 October 2014

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
EARNED PREMIUMS				
Gross earned premiums	3	274,115	268,641	241,674
Outward reinsurance premium expense		(151,200)	(157,800)	(132,144)
NET EARNED PREMIUM REVENUE		**122,915**	**110,841**	**109,530**
UNDERWRITING MOVEMENTS				
Reinsurance and other (reductions)/recoveries	5	(123,183)	29,017	(127,495)
Claims reduction	6	271,521	174,999	167,407
Catastrophe response programme	7	(15,850)	(14,838)	(14,209)
Unexpired risk liability (increase)/reduction	18	(8,894)	1,409	67,812
TOTAL UNDERWRITING MOVEMENTS		**123,594**	**190,587**	**93,515**
SURPLUS FROM INSURANCE ACTIVITIES		**246,509**	**301,428**	**203,045**
OTHER OPERATING INCOME				
Other income	4	243	–	291
OTHER OPERATING COSTS				
Public education	7	(1,356)	(1,359)	(1,571)
Research (excluding GeoNet)	7	(7,092)	(7,250)	(5,156)
GeoNet programme	7	(9,494)	(8,656)	(9,734)
TOTAL OPERATING INCOME AND COSTS		**(17,699)**	**(17,265)**	**(16,170)**
INVESTMENT ACTIVITIES				
Investment income/(expense)	8	56,366	(314)	21,236
Investment costs	7	(1,087)	(710)	(1,191)
Interest on cash balances		14,764	17,956	24,723
SURPLUS FROM INVESTMENT ACTIVITIES		**70,043**	**16,932**	**44,768**
Crown underwriting fee	19	(10,000)	(10,000)	(10,000)
NET SURPLUS AND TOTAL COMPREHENSIVE INCOME		**288,853**	**291,095**	**221,643**

The accompanying notes form part of these financial statements.

STATEMENT OF **CHANGES IN EQUITY**

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	10	1,500,000	1,500,000	1,500,000
Retained earnings				
Opening balance at 1 July		(2,870,431)	(2,861,456)	(3,092,074)
Net surplus and total comprehensive income		288,853	291,095	221,643
CLOSING BALANCE AT 30 JUNE		**(2,581,578)**	**(2,570,361)**	**(2,870,431)**
CLOSING BALANCE AS AT 30 JUNE		**(1,081,578)**	**(1,070,361)**	**(1,370,431)**

The accompanying notes form part of these financial statements.

STATEMENT OF **FINANCIAL POSITION**

AS AT 30 JUNE 2014

	NOTE	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	10	1,500,000	1,500,000	1,500,000
Retained earnings	10	(2,581,578)	(2,570,361)	(2,870,431)
TOTAL EQUITY	10	**(1,081,578)**	**(1,070,361)**	**(1,370,431)**
ASSETS				
Cash at bank		734,695	460,357	427,518
Premiums receivable		55,522	53,976	54,761
Outstanding reinsurance and other recoveries	5	1,225,498	1,377,930	2,627,343
Other receivables	11	47,650	47,525	49,198
Prepayments		27,200	39,954	26,884
Investments	12	1,589,543	704,523	2,337,579
Property, plant and equipment	13	19,598	18,045	20,776
Intangible assets	14	7,625	6,678	5,746
TOTAL ASSETS		**3,707,331**	**2,708,988**	**5,549,805**
LIABILITIES				
Trade and other payables	15	(39,719)	(35,994)	(51,394)
Provisions	16	(1,897)	(28)	(19)
Outstanding claims liability	2	(4,531,720)	(3,504,327)	(6,665,830)
Unearned premium liability	17	(145,917)	(143,046)	(142,231)
Unexpired risk liability	18	(69,656)	(95,954)	(60,762)
TOTAL LIABILITIES		**(4,788,909)**	**(3,779,349)**	**(6,920,236)**
NET LIABILITIES*		**(1,081,578)**	**(1,070,361)**	**(1,370,431)**

* The Crown has confirmed, in writing to the Commission, its intention to meet its obligation under Section 16 of the Act, to ensure that the Commission can meet all its liabilities as they fall due. For further information refer to the *Going Concern* explanation under Note 1 – *Basis of Preparation* and Note 10 – *Commission Solvency*.

The accompanying notes form part of these financial statements.

STATEMENT OF **CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Interest		14,764	23,131	24,825
Premiums		273,354	267,036	274,482
Reinsurance and other recoveries		1,278,662	1,266,702	1,319,506
Other income		243	–	32
Net GST		1,548	–	–
Tax on reinsurance		603	–	2,026
Cash was applied to:				
Outward reinsurance		(151,186)	(157,800)	(136,281)
Crown underwriting fee		(10,000)	(10,000)	(10,000)
Claims settlements and handling costs		(1,868,399)	(3,188,975)	(1,787,122)
Employees and other operating expenses		(17,579)	(15,806)	(17,054)
GeoNet operating expense		(5,855)	(5,891)	(6,505)
Research grants		(3,977)	(4,011)	(1,143)
Net GST		–	(12,313)	(32,872)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24	**(487,822)**	**(1,837,927)**	**(370,106)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of investments		2,651,199	749,113	499,257
Interest on investments		103,203	61,506	107,392
Sale of property, plant and equipment		63	–	1,958
Cash was applied to:				
Purchase of investments		(1,950,000)	–	(840,000)
Purchase of property, plant and equipment		(5,837)	(8,752)	(6,779)
Purchase of intangibles		(3,629)	(2,742)	(2,600)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		**794,999**	**799,125**	**(240,772)**
NET INCREASE/(DECREASE) IN CASH		**307,177**	**(1,038,802)**	**(610,878)**
Add opening cash brought forward		427,518	1,499,159	1,038,396
ENDING CASH CARRIED FORWARD		**734,695**	**460,357**	**427,518**

"Net GST" represents the net GST paid to or received from the Inland Revenue Department.

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

REPORTING ENTITY

The Earthquake Commission (the Commission) is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. The Commission's ultimate parent is the New Zealand Crown.

The Commission's primary objectives are to administer the insurance against natural disaster damage as provided for under the Earthquake Commission Act 1993 (the Act), facilitate research and education about matters relevant to natural disaster damage, and to manage the Natural Disaster Fund (the Fund) including the arrangement of reinsurance. Accordingly, for purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), it qualifies as a public benefit entity.

The reporting period covered by these financial statements is the year ended 30 June 2014. These accounts were approved by the Board on 20 October 2014.

BASIS OF PREPARATION

Measurement Base

The financial statements have been prepared on an historical cost basis modified by the measurement of financial instruments at fair value through profit or loss, and the measurement of insurance liabilities and reinsurance recoveries at present value as set out below.

Functional and Presentational Currency

These financial statements are presented in New Zealand dollars, which is the functional currency of the Commission, and are rounded to the nearest thousand dollars.

Going Concern

Actuarial estimates of the Commission's claims liabilities indicate that total liabilities exceed its assets after accounting for reinsurance. The Crown has confirmed in writing to the Commission, its intention to meet its obligation under Section 16 of the Act, to ensure that the Commission can meet all its liabilities as they fall due. Section 16 states: "If the assets of the Commission (including the money for the time being in the Fund) are not sufficient to meet the liabilities of the Commission, the Minister shall, without further appropriation than this section, provide to the Commission out of public money such sums by way of grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister determines".

The Board has therefore adopted the going concern assumption in preparing these financial statements.

Statement of Compliance

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with NZ IFRS and other applicable financial reporting standards, as appropriate for public benefit entities. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Accounting Judgements and Major Sources of Estimation

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised (if the revision affects only that period) or in the period of the revision and future periods (if the revision affects both current and future periods).

1. Accounting Policies (continued)

Accounting Judgements and Major Sources of Estimation (continued)

The actuarial judgements and estimations involved in measuring insurance liabilities and reinsurance recoveries are key areas of estimation where the assumptions made may have a significant effect on the financial statements, with a significant risk of material adjustment in future periods. The magnitude and number of Canterbury earthquakes have resulted in a higher than usual level of uncertainty associated with this measurement. These are discussed in note 2.

SIGNIFICANT ACCOUNTING POLICIES

Insurance

GROSS EARNED PREMIUMS

Premium income is recognised using the 24ths method to approximate the contract period over which the premiums are earned. The underlying assumption of the 24ths method is that all premiums booked during a particular month can be approximated by an annual policy that incepts during the middle of the month. Premiums not earned at balance date are disclosed in the Statement of Financial Position as an unearned premium liability. Premiums receivable are reported net of discounts paid to collecting agencies.

OUTWARD REINSURANCE PREMIUM EXPENSE

Premiums paid to reinsurers are recognised by the Commission as outward reinsurance premium expense in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the Statement of Financial Position.

REINSURANCE AND OTHER (REDUCTIONS)/RECOVERIES

Reinsurance recoveries are the expected reimbursement of claims settlements and claims handling costs that the Commission can recover under its reinsurance contracts. Other recoveries are comprised of reimbursement of expenditure incurred on behalf of other parties (predominantly the Crown or Crown Entities).

Reinsurance and other recoveries received or receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), and claims incurred but not enough reported (IBNER) are recognised as revenue in the Statement of Comprehensive Income. They are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

CLAIMS REDUCTION

Claims reduction represents payments for claims, claims handling costs, the movement in the liability for outstanding claims and the associated risk margin.

The outstanding claims liability is recognised at balance date as the central estimate of the present value of the expected future payments for claims incurred to balance date, with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid, IBNR, IBNER and claims handling costs.

The outstanding claims liability, comprising all unpaid claims and claims handling expenses related to claims incurred prior to the end of the reporting period, is valued in accordance with the Professional Standard No 4 (General Insurance Business) of the New Zealand Society of Actuaries and NZ IFRS 4 – Insurance Contracts.

The risk margin associated with an event is amortised over the financial year to reflect a reduction in uncertainty within the central estimate as increased numbers of claims are settled.

UNEXPIRED RISK LIABILITY (INCREASE)/REDUCTION

At balance date, the Commission assesses the adequacy of the unearned premium liability by applying the liability adequacy test as specified by NZ IFRS 4 – Insurance Contracts. The liability adequacy test determines whether the Commission's unearned premiums at balance date are sufficient to cover future claims arising from existing contracts.

The liability adequacy test compares the current estimate of the present value of the expected future cash flows relating to claims arising from the rights and obligations under current insurance contracts, (with an additional risk margin included to allow for the inherent uncertainty) to the value of the unearned premium liability. If the value of the unearned premium liability is exceeded the movement is recognised in the Statement of Comprehensive Income and recorded in the Statement of Financial Position as an unexpired risk liability.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

Insurance (continued)

ASSETS BACKING INSURANCE LIABILITIES

All assets of the Commission back its insurance liabilities in accordance with Section 13(3) of the Act, which states: "All money in bank accounts established by the Commission, and all investments and other assets of the Commission, shall be deemed to form part of the Fund".

Grant Payments

The Commission provides discretionary grants for earthquake research and research dissemination. Discretionary grants are those where the Commission has no obligation to award on receipt of the grant application and are recognised as expenditure when the contract is executed to ensure the performance criteria, on which approval of the grant was based, are met.

Foreign Currency

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities, are recognised in the Statement of Comprehensive Income.

Taxation

The Commission is exempt from the payment of income tax in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided for.

The Commission pays transactional taxes such as Goods and Services Tax, Fringe Benefit Tax and Non Resident Withholding Tax.

Goods and Services Tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable it is recognised as part of the related asset or expense.

Net GST receivable or payable at balance date is included in receivables or payables in the Statement of Financial Position as appropriate. Commitments and contingencies are disclosed exclusive of GST.

The net GST paid or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Investments

INTEREST

Interest income is accrued using the effective interest method.

REALISED GAINS AND LOSSES

Income from investments includes realised gains and losses on all investments, including currency gains and losses, and gains and losses on the sale of assets.

UNREALISED GAINS AND LOSSES

Income from investments includes unrealised gains and losses on all investments, including currency gains and losses.

Financial Instruments

A financial instrument is recognised if the Commission becomes a party to the contractual provisions of the instrument. A financial asset is derecognised if the Commission's contractual rights to the cash flows from the financial asset expire or if the Commission transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at the date that the Commission commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Commission's obligations specified in the contract expire or are discharged or cancelled.

CASH AT BANK

Cash comprises cash balances, cash in transit, bank call deposits and term deposits of less than three months. The carrying amount of cash approximates its fair value.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

Financial Instruments (continued)

INVESTMENTS

All investment assets held by the Commission are to meet insurance liabilities and are therefore designated at fair value through profit or loss.

Fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement is established by using valuation techniques.

RECEIVABLES

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables with a maturity date within 12 months of the reporting date are recognised in current assets in the notes to the Statement of Financial Position while those with maturities greater than 12 months are recognised as non-current. Receivables are carried at amortised cost using the effective interest method less any impairment.

OTHER FINANCIAL ASSETS

Other financial assets are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

TRADE AND OTHER PAYABLES

Trade and other payables are recognised when the Commission becomes obliged to make future payments resulting from the purchase of goods and services. These are measured at amortised cost.

Property, Plant and Equipment

OVERVIEW

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses.

ADDITIONS

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

DISPOSALS

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are recognised in the Statement of Comprehensive Income, in the period in which the transaction occurs.

SUBSEQUENT COSTS

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

GEONET ASSETS

GNS Science administers the design, engineering, operation and maintenance of New Zealand's geological hazard monitoring system (GeoNet) under a ten-year agreement with the Commission. The services performed by GNS Science include the purchase, testing, installation and commissioning of capital equipment on behalf of the Commission.

The GeoNet assets, comprising buildings, computer equipment and other equipment, remain the property of the Commission and are included in the Commission's property, plant and equipment in the Statement of Financial Position.

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

DEPRECIATION

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. The estimated useful lives of different classes of property, plant and equipment are reviewed annually and are as follows:

Furniture and equipment	2–10 years
Leasehold improvements	0–9 years
Motor vehicles	5 years
Computer hardware	3 years
Canterbury event furniture and equipment	1.5–11.8 years
Canterbury event motor vehicles	3 years
Canterbury event computer hardware	1.5–2.5 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	8 years

Intangible Assets

Intangible assets are recorded at cost less accumulated amortisation and impairment losses.

RESEARCH AND DEVELOPMENT

Expenditure on research activities, undertaken with the prospect of gaining new scientific knowledge or understanding, is recognised in the Statement of Comprehensive Income when incurred. The Commission does not undertake development of new products or processes other than software referred to below.

SOFTWARE ACQUISITION AND DEVELOPMENT

Software development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Commission intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the Statement of Comprehensive Income when incurred.

Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

SUBSEQUENT COSTS

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably.

The costs of day-to-day servicing of intangible assets are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

Intangible assets are amortised on a straight-line basis at rates calculated to allocate the cost or valuation of an item of intangible assets, less any estimated residual value, over its estimated useful life. The estimated useful lives of different classes of intangible assets are reviewed annually and are as follows:

Computer software	3 years
Canterbury event software	1.5–3 years

In 2007, the claims management system was implemented with a useful life of 9 years. Any additions which have been added have been given shorter useful lives so the claims management system will be fully amortised by February 2017.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

Impairment of Non-Financial Assets

The carrying amounts of the Commission's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in the Statement of Comprehensive Income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset:

» are not primarily dependent on the asset's ability to generate net cash inflows; or

» the Commission would, if deprived of the asset, replace its remaining future economic benefits or service potential.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Lease incentives received are recognised evenly over the term of the lease as a reduction in lease expense.

Liabilities (Other than Insurance)

The Commission recognises a liability when there is a present obligation (legal or constructive) as the result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the obligation. Where the timing or amount of the obligation is uncertain the obligation is recognised as a provision.

EMPLOYEE ENTITLEMENTS

Employee entitlements include salaries and wages, annual leave, long service leave and other similar benefits which are recognised in the Statement of Comprehensive Income when they accrue to employees. Employee entitlements to be settled within 12 months are reported at their undiscounted nominal value. The liability for long service leave is calculated based on the present value of likely future entitlements accruing to employees, based on years of service, years to entitlement, the likelihood that employees will reach entitlement and contractual entitlements information.

OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions are recorded at the estimated fair value of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their discounted value. The increase in a discounted provision due to the passage of time is recognised as a finance cost.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

Contingent Liabilities

A contingent liability is disclosed when a possible obligation arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission. A contingent liability is also disclosed when a present obligation arising from past events is not recognised because it is not probable that settlement of the obligation will result in a cost to the Commission, or the amount of the obligation cannot be measured with sufficient reliability.

Comparatives

When the presentation or classification of items in the financial statements are amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impractical to do so.

The 2013 weighted average term to settlement for a movement of +0.5 years has been restated to include the impact of additional claims handling expenses.

Accrued annual leave has been reclassified from provisions to trade and other payables for the 30 June 2013 comparative.

Budgets

The budget figures are derived from the 2013 to 2016 Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by the Commission for the preparation of the financial statements.

When presentation or classification of items in the financial statements are amended or accounting policies are changed voluntarily, budget figures are restated to ensure consistency with the current period unless it is impractical to do so.

Superannuation Schemes

DEFINED CONTRIBUTION SCHEMES

Obligations for contributions to the KiwiSaver and the State Sector Retirement Savings Scheme (SSRSS) are accounted for as defined contribution superannuation schemes and are recognised as an expense in the Statement of Comprehensive Income on an accruals basis.

Cost Allocation

Expenditure of the Commission is allocated across its four main functions: catastrophe response programme, public education, research (excluding GeoNet) and investment costs. Expenditure is allocated to these functions by directly attributing costs as far as possible and by the apportioning of indirect costs based on the average number of full time equivalents employed in each function during the financial year.

Changes in Accounting Policies

Accounting policies are changed only if the change is required by a standard or interpretation, or otherwise provides more reliable and more relevant information. There have been no accounting policy changes in the 2014 financial statements.

Standards, Amendments and Interpretations Issued that are not yet effective and have not been adopted early

The Commission is a public benefit entity subject to the new four tier, multi-standards framework. The Commission will adopt the framework for the 30 June 2015 financial statements. At that time, the opening balance sheet as at 1 July 2013 may require restatement for comparative purposes. This is not expected to have a material effect on the financial statements of the Commission. The new standards have been issued, but are not yet effective and have not been applied.

2. INSURANCE LIABILITIES

The Commission covers the following types of hazard: earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami, as well as fire caused by any of the forementioned disasters. At balance date, the Commission recognises a liability in respect of outstanding claims, including amounts in relation to claims reported but not yet paid, claims incurred but not reported, claims incurred but not enough reported and costs including claims handling expenses. The Commission also assesses the adequacy of the unearned premium liability and the unexpired risk liability.

ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial valuation report for 2014 was prepared by Craig Lough of Melville Jessup Weaver. Craig Lough is a Fellow of the New Zealand Society of Actuaries. The report was commissioned to provide estimates of the outstanding claims liability, reinsurance and other recoveries, and premium liabilities, including the unexpired risk liability to be used in the liability adequacy test.

The effective date of the valuation is 30 June 2014. Craig Lough considered that overall the information and data supplied to Melville Jessup Weaver was adequate and appropriate for the purpose of his valuation.

Melville Jessup Weaver also performed actuarial calculations with respect to the outstanding claims liability at 30 June 2013, 30 June 2012 and 30 June 2011.

To determine the outstanding claims liability, the actuarial approach adopted was to estimate the projected ultimate claims costs then deduct the payments made in relation to those claims on or before the year ended 30 June 2014. An aggregate Bayesian stochastic frequency/severity model was used to calculate the estimated ultimate claims costs. Each component of the claims liability was split into separate groups depending upon the Canterbury earthquake event grouping or other "business as usual" claims, including Cook Strait and Eketahuna. These event groups were further split into sub-claim valuation groups being land claims, building claims or contents claims.

UNCERTAINTIES ARISING FROM THE CANTERBURY EARTHQUAKES

The Canterbury earthquakes have resulted in a higher than usual level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. Some of the key sources of uncertainty are: severe land damage and a complex land claims environment from both an engineering and legal perspective and the potential for construction cost inflation to exceed expectations. As a result the amounts recorded in the financial statements for claims liabilities and reinsurance recoveries may prove to be different from the liabilities and associated receivables that have been estimated.

The Act requires all claims to be reported within three months of an event, and therefore the key area of estimation risk is future development in the cost of existing claims (IBNER) rather than the future notification of claims from past events. The volatility of IBNER is partially mitigated by the maximum settlement amounts of $20,000 for personal property and $100,000 for dwellings excluding GST. Claims in relation to residential land are not subject to a single monetary limit and are therefore subject to greater uncertainty.

LAND OUTSTANDING CLAIMS LIABILITY

As at 30 June 2014 the outstanding claims liability in relation to land has a higher degree of uncertainty than other elements of the liability as it involves many complex engineering and legal issues. The major components of the land outstanding claims liability relate to claims for Increased Liquefaction Vulnerability ('ILV') and Increased Flooding Vulnerability ('IFV').

Changes in the assumptions in regards to eligibility for both ILV and IFV remediation during the 2014 financial year have resulted in significantly more properties being eligible compared to 30 June 2013. This is based on new criteria and modelling that has been approved by the Commission's Board. The combined impact on the outstanding claims liability of these changes in eligibility was an increase of approximately $370 million.

The unique nature of the ILV land damage has created the need for a range of remediation techniques to be trialled. As at 30 June 2014, due to complexity, these trials have been limited in number. Notwithstanding this, the trials have been valuable in informing cost estimates for repairing 'house-free' land and also for 'house-in situ' land. However, a degree of uncertainty remains due to the trial sample size. This uncertainty will remain until such time as the valuation assumptions can be tested against actual settlements.

The Commission has requested the High Court make a ruling (declaratory judgment) on questions relating to the Commission's coverage where properties are more at risk of flood damage (IFV) due to the Canterbury earthquakes. As at 30 June 2014 this was scheduled to be heard in October 2014. The positions put forward by respondents to the proceedings, if found persuasive by the Court, have the potential to have a material effect on the outstanding claims liability.

2. Insurance Liabilities (continued)

OUTSTANDING CLAIMS LIABILITY ASSUMPTIONS

The following assumptions have been used in determining the outstanding claims liability:

	2014	2013
Weighted average term to settlement	0.45 years	0.72 years
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	3.7% to 4.4%	2.7% to 3.6%
Claims handling expense ratio	7.3%	7.2%
Demand surge	16.0%	3.6%–7.0%

The risk margin for 2014 is 9.2%, down from 11.3% in 2013. The risk margin in 2014 is determined based on an 85% probability of adequacy (2013: 85%).

The Commission has adopted an 85% probability of adequacy in calculating the risk margin on the outstanding claims liability balance. This differs from the 75% probability of adequacy for the premium liability balance as the Board has decided, given the uncertainty, scale and financial impact of the Canterbury earthquakes, that a higher risk margin is appropriate.

PROCESSES USED TO DETERMINE ASSUMPTIONS

Weighted average term to settlement: the weighted average term to settlement varies by valuation groupings having regard to the estimated future patterns of gross claim payments for these groupings.

Claims inflation rate: the claims inflation rates were set having regard to Treasury's published CPI assumptions as at 30 June 2014, with some allowance for higher levels of claims inflation for the building claims. In addition, the risk margin implicitly allows for somewhat higher levels of claims inflation.

Discount rate: projected cash flows are discounted for the time value of money using Treasury's published discount rates as at 30 June 2014 and 30 June 2013.

Risk margin: the risk margins are derived directly from the claims distributions produced by the net incurred claims cost models. In order to determine the degree of variance and hence risk margins at higher aggregated levels, the variances of each component distribution are combined. Correlation is assumed at the event level but not at the sub-claim level. The risk margin is expressed as a percentage of the net discounted outstanding claims liability, including claims handling expenses, and is intended to achieve an 85% probability of adequacy.

Claims handling expense ratio: claims handling expenses are subdivided into event groups and estimated on a per-claim basis using per-claim assumptions derived from an analysis of expenses. Risk margins are also applied to claims handling expenses. The claims handling expense ratio is expressed as a percentage of the gross undiscounted outstanding claims liability.

Demand surge: demand surge percentage is based upon information from material and labour cost indices, discussions with EQC executive and industry expectations.

2. Insurance Liabilities (continued)

OUTSTANDING CLAIMS LIABILITY	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Central estimate of outstanding claims liability	(4,059,573)	(5,879,244)
Claims handling expenses	(241,889)	(460,604)
Risk margin	(292,290)	(451,208)
GROSS OUTSTANDING CLAIMS LIABILITY	**(4,593,752)**	**(6,791,056)**
Discount	62,032	125,226
DISCOUNTED OUTSTANDING CLAIMS LIABILITY	**(4,531,720)**	**(6,665,830)**
OUTSTANDING CLAIMS LIABILITY	**(4,531,720)**	**(6,665,830)**
Current	(4,382,932)	(4,844,880)
Non-current	(148,788)	(1,820,950)
	(4,531,720)	**(6,665,830)**
RECONCILIATION OF MOVEMENT IN OUTSTANDING CLAIMS LIABILITY		
Outstanding claims liability at 1 July	(6,665,830)	(8,638,000)
Claims reduction	271,521	167,407
Non-cash items in claims expense	4,307	5,302
Claims payments during the year	1,868,399	1,787,122
Claims handling expense in trade and other payables	(10,117)	12,339
OUTSTANDING CLAIMS LIABILITY AT 30 JUNE	**(4,531,720)**	**(6,665,830)**

The change in the discount rates used within the valuation results in a $11,564,669 reduction in the outstanding claims liability. This is a component of the claims reduction.

Development of claims for events

The following table shows the accumulation of the outstanding claims liability relative to the current estimate of ultimate claims expense relating to Canterbury earthquakes occurring since 4 September 2010, in addition to the business as usual costs incurred in relevant financial years e.g. Cook Strait and Eketahuna in the 2014 financial year.

2. Insurance Liabilities (continued)

2014

CANTERBURY ULTIMATE CLAIMS EXPENSE ESTIMATE	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)	ACTUAL 2012 $(000)	ACTUAL 2011 $(000)	ACTUAL TOTAL $(000)
At end of incident year	–	–	(611,000)	(11,711,529)	n/a
One year later	–	–	(893,567)	(11,594,000)	n/a
Two years later	–	–	(781,034)	(11,121,971)	n/a
Three years later	–	–	n/a	(10,965,420)	n/a
CURRENT ESTIMATE OF ULTIMATE CLAIMS EXPENSE	**–**	**–**	**(781,034)**	**(10,965,420)**	**(11,746,454)**
Cumulative payments	–	–	402,484	7,127,159	7,529,643
OUTSTANDING CLAIMS LIABILITY (UNDISCOUNTED)	**–**	**–**	**(378,550)**	**(3,838,261)**	**(4,216,811)**
Discount to present value	–	–	5,497	54,586	60,083
OUTSTANDING CLAIMS LIABILITY (DISCOUNTED)	**–**	**–**	**(373,053)**	**(3,783,675)**	**(4,156,728)**
Canterbury event risk margin					(284,700)
NON-CANTERBURY					
Other claims (expected to be settled within a year)					(82,702)
Other risk margin					(7,590)
OUTSTANDING CLAIMS LIABILITY (85% PROBABILITY OF ADEQUACY, DISCOUNTED)					**(4,531,720)**

2013

CANTERBURY ULTIMATE CLAIMS EXPENSE ESTIMATE	ACTUAL 2013 $(000)	ACTUAL 2012 $(000)	ACTUAL 2011 $(000)	ACTUAL TOTAL $(000)
At end of incident year	–	(611,000)	(11,711,529)	n/a
One year later	–	(893,567)	(11,594,000)	n/a
Two years later		n/a	(11,121,971)	n/a
CURRENT ESTIMATE OF ULTIMATE CLAIMS EXPENSE	**–**	**(893,567)**	**(11,121,971)**	**(12,015,538)**
Cumulative payments	–	229,916	5,474,874	5,704,790
OUTSTANDING CLAIMS LIABILITY (UNDISCOUNTED)	**–**	**(663,651)**	**(5,647,097)**	**(6,310,748)**
Discount to present value	–	13,147	111,791	124,938
OUTSTANDING CLAIMS LIABILITY (DISCOUNTED)	**–**	**(650,504)**	**(5,535,306)**	**(6,185,810)**
Canterbury event risk margin				(448,116)
NON-CANTERBURY				
Other claims (expected to be settled within a year)				(28,812)
Other risk margin				(3,092)
OUTSTANDING CLAIMS LIABILITY (85% PROBABILITY OF ADEQUACY, DISCOUNTED)				**(6,665,830)**

2. Insurance Liabilities (continued)

SENSITIVITY OF ASSUMPTIONS

The sensitivity analysis below shows the potential impact of changes in the key assumptions on the value of the net outstanding claims liability. For example, increasing the weighted average term to settlement by 0.5 years, results in an increase to the claims liability of $62 million.

		IMPACT ON NET OUTSTANDING CLAIMS LIABILITY	
VARIABLE	MOVEMENTS IN VARIABLE	2014 $(000)	2013 $(000)
Weighted average term to settlement	+0.5 years	+62,000	+90,000
	-0.5 years	-8,000	-18,000
Claims inflation rate	+1.0%	+6,000	+19,000
	-1.0%	-9,000	-43,000
Discount rate	+1.0%	-13,000	-33,000
	-1.0%	+13,000	+33,000
Risk margin	+1.0%	+31,000	+40,000
	-1.0%	-32,000	-40,000
Claims handling expenses ratio	+1.0%	+24,000	+35,000
	-1.0%	-25,000	-34,000
Demand surge: probability of surge event	x1.5	+11,000	+40,000
Demand surge: surge severity	x1.5	+77,000	+44,000

The 2013 weighted average term to settlement for a movement of +0.5 years has been restated to include the impact of additional claims handling expenses. This makes it comparative to the 2014 figure.

SENSITIVITY ANALYSIS

The sensitivity analysis below shows the potential impact of changes in the key assumptions on the value of the premium liabilities balance, which is the sum of the unearned premium liability and unexpired risk liability.

		IMPACT ON PREMIUM LIABILITIES	
VARIABLE	MOVEMENTS IN VARIABLE	2014 $(000)	2013 $(000)
Discount rate	+1.0%	-1,400	-1,900
	-1.0%	+1,300	+1,900
Base inflation	+1.0%	+2,400	+1,900
	-1.0%	-2,400	-1,900
Future claims handling expense ratio	+1.0%	+1,400	+1,400
	-1.0%	-1,400	-1,400
Average term to settlement	+0.5 years	-1,500	-900
	-0.5 years	+1,200	+700

3. GROSS EARNED PREMIUMS

	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
Gross earned premiums	284,887	276,974	280,461
Less rebate to insurers	(7,086)	(6,924)	(6,982)
	277,801	**270,050**	**273,479**
Unearned premium opening	142,231	141,637	110,426
Unearned premium closing	(145,917)	(143,046)	(142,231)
	(3,686)	**(1,409)**	**(31,805)**
GROSS EARNED PREMIUMS	**274,115**	**268,641**	**241,674**

Premium income represents premiums collected and paid to the Commission by insurance companies and brokers. In accordance with Section 24 (2) of the Act, the Commission receives declarations provided by insurance companies and brokers that all premiums collected have been distributed to the Commission. Effective from 1 February 2012 the Earthquake Commission Amendment Regulations 2011 increased the premium collected from 5 cents for every $100 of sum insured to 15 cents for every $100 of sum insured.

4. OTHER INCOME

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Claims related income	243	2
Rental income	–	30
Gain on sale of property, plant and equipment	–	259
OTHER INCOME	**243**	**291**

5. REINSURANCE AND OTHER (REDUCTIONS)/RECOVERIES

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Gross reinsurance recoveries	(146,018)	(185,382)
Movement in discount	22,835	57,887
TOTAL DISCOUNTED REINSURANCE AND OTHER (REDUCTIONS)/RECOVERIES	**(123,183)**	**(127,495)**

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Gross reinsurance receivable	1,225,047	2,585,979
Discount	(16,278)	(39,113)
DISCOUNTED REINSURANCE RECEIVABLE	**1,208,769**	**2,546,866**
Other recoveries		
Crown	–	2,723
Sundry receivables	301	1,788
Aon Benfield	16,428	75,966
TOTAL OTHER RECOVERIES	**16,729**	**80,477**
TOTAL OUTSTANDING REINSURANCE AND OTHER RECOVERIES	**1,225,498**	**2,627,343**
Current	1,170,840	1,975,549
Non-current	54,658	651,794
	1,225,498	**2,627,343**
RECONCILIATION OF MOVEMENT IN OUTSTANDING REINSURANCE AND OTHER RECOVERIES		
Outstanding reinsurance and other recoveries at 1 July	2,627,343	4,074,344
Reinsurance and other (reductions)/recoveries	(123,183)	(127,495)
Reinsurance and other recoveries received during the year	(1,278,662)	(1,319,506)
OUTSTANDING REINSURANCE AND OTHER RECOVERIES AT 30 JUNE	**1,225,498**	**2,627,343**

The Commission anticipates that a significant proportion of the cost of damage relating to the Canterbury earthquake sequence will be recovered from reinsurers. At 30 June 2014 the total actuarial valuation of reinsurance recoveries was reduced by $146,018,000 to $4,341,514,000. This reduction was passed through the Reinsurance and other (reductions)/recoveries category within the Statement of Comprehensive Income.

Cash flow projections for reinsurance recoveries are discounted for the time value of money. The discount is reassessed at the end of each financial year to take into account changes to interest rates, payment patterns and settlement periods. At 30 June 2014, the discount for the outstanding reinsurance recoveries was reduced by $22,835,000 to $16,278,000. This adjustment increased the discounted reinsurance recoveries for the current financial year.

Aon Benfield recoveries relates to work which was peformed in June 2014 for which the Commission has requested a reinsurance recovery. As at 30 June 2014 payment had not been received.

The assumptions used in estimating the recoveries can be found in Note 2.

6. CLAIMS REDUCTION

SUMMARY	2014 CURRENT YEAR $(000)	2014 PRIOR YEARS $(000)	2014 TOTAL $(000)	2013 CURRENT YEAR $(000)	2013 PRIOR YEARS $(000)	2013 TOTAL $(000)
Gross claims expense – undiscounted	(111,874)	446,589	334,715	(36,730)	349,199	312,469
Discount	1,661	(64,855)	(63,194)	–	(145,062)	(145,062)
GROSS CLAIMS EXPENSE – DISCOUNTED	**(110,213)**	**381,734**	**271,521**	**(36,730)**	**204,137**	**167,407**

Current year claims expense comprises amounts paid (or estimates of amounts payable) in relation to natural disaster damage sustained during the current financial year. Prior years' claims expense relates to amounts paid (or estimates of amounts payable) where the damage occurred in prior financial years. Changes to prior years' claims expense occurs when the actual or estimated settlement values of claims changed during the current financial year.

During the current year, there were also further non-Canterbury claims for which the paid and payable value is $110,213,000.

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)	ACTUAL 2012 $(000)	ACTUAL 2011 $(000)	CUMULATIVE TOTAL* $(000)
CANTERBURY CLAIMS EXPENSE					
Advertising and publicity	(596)	(1,207)	(945)	(3,777)	(6,525)
Amortisation of intangibles	(695)	(129)	–	–	(824)
Fees paid to the auditor					
Audit of the financial statements	(209)	(193)	(203)	–	(605)
Data analytics	–	(38)	(20)	–	(58)
Call centres and claims management – third party	(2,748)	(6,840)	(37,505)	(21,293)	(68,386)
Claims assessment fees	(12,047)	(13,785)	(69,007)	(92,737)	(187,576)
Commissioners' fees	–	–	(30)	(60)	(90)
Consultant assurance services	(86)	–	(245)	(711)	(1,042)
Claims administrators and contractors	(5,201)	(7,735)	(21,293)	(17,925)	(52,154)
Depreciation	(3,216)	(5,173)	(4,761)	(1,076)	(14,226)
Employee remuneration and benefits	(70,566)	(61,283)	(22,880)	(2,429)	(157,158)
Engineers and consultants *(i)*	(30,554)	(50,491)	(41,140)	(21,810)	(143,995)
Impairment loss	(396)	–	–	–	(396)
Loss on sale of property, plant and equipment	(99)	(24)	–	–	(123)
Office rental	(4,259)	(4,485)	(2,743)	(1,486)	(12,973)
Other costs	(16,184)	(18,384)	(13,376)	(9,462)	(57,406)
Project management and infrastructure – rebuilding programme	(89,653)	(84,981)	(63,890)	(23,579)	(262,103)
Restructuring costs	(25)	(29)	–	–	(54)
Superannuation contribution costs	(1,727)	(1,145)	(336)	(5)	(3,213)
Travel and accommodation	(5,313)	(6,135)	(23,440)	(29,094)	(63,982)
CANTERBURY CLAIMS HANDLING EXPENSES INCURRED	**(243,574)**	**(262,057)**	**(301,814)**	**(225,444)**	**(1,032,889)**
Provision for future claims handling expenses (undiscounted)	218,225	137,286	14,900	(600,900)	(230,489)
Claims settlements (undiscounted)	457,849	475,375	(255,515)	(11,445,485)	(10,767,776)
Discount	(64,855)	(145,062)	(620,938)	890,938	60,083
CANTERBURY ESTIMATED COST OF EARTHQUAKES	**367,645**	**205,542**	**(1,163,367)**	**(11,380,891)**	**(11,971,071)**
OTHER (NON-CANTERBURY) CLAIMS					
Other claims expenses *(ii)*	(85,784)	(37,315)			
Other claims handling costs	(10,340)	(820)			
CLAIMS REDUCTION	**271,521**	**167,407**			

6. Claims Reduction (continued)

(i) *For 2014, engineering consultancy and valuation costs have reduced due to the majority of this work relating to dwelling exposures having been completed.*

(ii) *This consists predominantly of Cook Strait and Eketahuna earthquake claims.*

* *Cumulative Total represents the total expense of the Canterbury event since September 2010.*

7. OPERATING COSTS (EXCLUDING CLAIMS EXPENSE AND CANTERBURY CLAIMS HANDLING EXPENSE)

COSTS GROUPED BY FUNCTION *	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
Catastrophe response programme	(15,850)	(14,838)	(14,209)
Public education	(1,356)	(1,359)	(1,571)
Research (excluding GeoNet)	(7,092)	(7,250)	(5,156)
GeoNet programme	(9,494)	(8,656)	(9,734)
Investment costs	(1,087)	(710)	(1,191)
TOTAL EXPENDITURE BY FUNCTION EXCLUDING CLAIMS EXPENSE	**(34,879)**	**(32,813)**	**(31,861)**
COSTS GROUPED BY EXPENSE TYPE			
Advertising and publicity *(i)*	(2,877)	(599)	(872)
Amortisation of intangibles	(1,003)	(1,198)	(974)
Fees paid to the auditor			
Audit of the financial statements	(169)	(124)	(165)
Policy compliance review	–	–	(27)
Commissioners' fees	(284)	(221)	(188)
Consultants and contractors	(2,670)	(3,411)	(4,291)
Consultant assurance services	(71)	–	(17)
Depreciation	(3,261)	(3,170)	(3,376)
Employee remuneration and benefits	(6,394)	(6,535)	(5,078)
Grants for earthquake research	(2,753)	(3,319)	(2,010)
GeoNet operating costs	(6,355)	(5,891)	(6,505)
Investment and custodial expenses – third party	(142)	(141)	(171)
Loss on property, plant and equipment	(32)	–	(62)
Office rental	(385)	(454)	(457)
Restructuring costs	–	–	(725)
Sponsorships	(380)	(550)	(350)
Superannuation contribution costs	(216)	(103)	(173)
Technology costs	(6,133)	(5,902)	(4,928)
Other administration costs	(1,754)	(1,195)	(1,492)
TOTAL OPERATING COSTS (EXCLUDING CLAIMS EXPENSE AND CLAIMS HANDLING EXPENSE)	**(34,879)**	**(32,813)**	**(31,861)**

(i) *Advertising and publicity spend in 2014 predominantly relates to the Fix, Fasten and Don't Forget campaign.*

* *Total expense for each function, as reported in the Statement of Comprehensive Income, including employee remuneration and the allocation of overheads.*

8. INVESTMENT INCOME

	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
GLOBAL EQUITIES			
Equity gains	231	–	348
Foreign exchange losses	(2)	–	–
	229	**–**	**348**
NZ GOVERNMENT STOCK			
Interest and discount income	74,174	63,966	97,197
Price revaluation (losses)	(42,598)	(109,998)	(82,234)
Realised gains on disposal	–	45,718	–
	31,576	**(314)**	**14,963**
OTHER SHORT-TERM INVESTMENTS			
Interest income	24,561	–	5,925
TOTAL INVESTMENT INCOME	**56,366**	**(314)**	**21,236**

9. MAJOR BUDGET VARIANCES

The 2014 financial year budget was approved by the Board on 12 April 2013, and was based on the latest available actuarial valuation at that time. The 2014 actuals were based on the 30 June 2014 actuarial valuation and reflect the most recent information and assumptions.

Statement of Comprehensive Income

REINSURANCE AND OTHER (REDUCTIONS)/RECOVERIES

The total reinsurance recoverable from the Canterbury events has been reassessed in the June 2014 actuarial valuation and is $146m lower than as at June 2013. This reduction is recognised through the Statement of Comprehensive Income creating a variance to budget.

CLAIMS REDUCTION

Claims reduction is a favourable $97m, made up of a reduction in Canterbury claims of $269m and a favourable discounting adjustment of $26m. This is partially offset by lower risk margin amortisation compared to budget of $155m and an increase of $43m for the other claims mainly due to the Cook Strait and Eketahuna earthquakes.

INVESTMENT ACTIVITIES

Investment income is favourable to budget due to lower number of claims payments than budgeted resulting in higher investment balances, combined with the value of Government stock reducing in value less than anticipated. This is due to yield rates having decreased in the latter stages of the 2014 financial year.

Statement of Financial Position

OUTSTANDING REINSURANCE AND OTHER RECOVERIES

The total reinsurance recoverable is lower than budget due to the June 2014 actuarial valuation reassessing the amount at $146m lower than June 2013.

INVESTMENTS

Investments are higher than budgeted due to the lower number of Canterbury claim settlements than budgeted. This has meant that fewer investments have needed to be liquidated to meet cash requirements.

OUTSTANDING CLAIMS LIABILITY

Canterbury claim settlements have not occurred at the rate expected in the budget due to legal, policy and operational complexities.

9. Major Budget Variances (continued)

Statement of Cash Flows

CLAIMS SETTLEMENTS AND HANDLING COSTS; REINSURANCE AND OTHER RECOVERIES

Canterbury claim settlements have not occurred at the rate expected in the budget due to legal, policy and operational complexities. While claim settlements have not occurred at the rate budgeted, reinsurance cash flows are in line with budget due to the timing of recoveries which includes reaching the reinsurance recoverable limit for the February 2011 earthquake.

PURCHASE OF INVESTMENTS

As claim settlements have been slower than the rate budgeted, the Commission has invested surplus cash in term deposit products to maximise returns. This investment is on a phased basis to ensure that the Commission has cash available to meet settlement payment requirements.

10. NATURAL DISASTER FUND

	ACTUAL 2014 $(000)	BUDGET 2014 $(000)	ACTUAL 2013 $(000)
CAPITALISED RESERVES	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS			
Balance as at 1 July	(2,870,431)	(2,861,456)	(3,092,074)
Net surplus and total comprehensive income	288,853	291,095	221,643
BALANCE AS AT 30 JUNE	**(2,581,578)**	**(2,570,361)**	**(2,870,431)**
CLOSING BALANCE OF THE NATURAL DISASTER FUND	**(1,081,578)**	**(1,070,361)**	**(1,370,431)**

CAPITALISED RESERVES

1,500,000,000 ordinary shares of $1.00 each deemed to have been issued and paid up in full from the Fund on 1 October 1988.

CAPITAL MANAGEMENT

The Natural Disaster Fund comprises retained surpluses, deficits and capitalised reserves. The Commission is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

The Commission prudently manages reinsurance, revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure it effectively achieves its objectives and purpose, whilst remaining a going concern.

COMMISSION SOLVENCY

The Commission has exposure to liabilities estimated to be in excess of its current level of assets. In the event that the Commission's assets are insufficient to meet its liabilities, the Crown, under Section 16 of the Act, is obliged to provide, by way of grant or advance, sufficient funds to meet the shortfall (refer also Note 1). The Crown has confirmed, in writing, its commitment to meet this obligation. The Commission anticipates that the Natural Disaster Fund will be depleted during the 30 June 2015 financial year, but the final timing may be dependent on the outcomes of a declaratory judgment, legal challenges and other factors outside the Commission's immediate control.

11. OTHER RECEIVABLES

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Goods and Services Tax	47,650	49,198
TOTAL RECEIVABLES	**47,650**	**49,198**

12. FINANCIAL INSTRUMENTS

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE* THROUGH PROFIT OR LOSS		
NZ Government securities	1,448,115	1,491,653
Term deposits	141,428	845,926
	1,589,543	**2,337,579**
LOANS AND RECEIVABLES		
Cash at bank	734,695	427,518
Premiums receivable	55,522	54,761
Outstanding reinsurance and other recoveries	1,225,498	2,627,343
Other receivables	47,650	49,198
	2,063,365	**3,158,820**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Trade and other payables	(39,719)	(51,394)
Provisions	(1,897)	(19)
	(41,616)	**(51,413)**
OUTSTANDING CLAIMS LIABILITY	**(4,531,720)**	**(6,665,830)**

* *Fair value*

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

» level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

» level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

» level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Commission's financial instruments that are measured at fair value are classified within level 1, for the current and prior year.

Investments

Section 12 of the Act and Section 103 of the Crown Entities Act 2004 give the Minister of Finance authority to issue directions to the Commission.

A direction from the Minister of Finance was issued on 1 November 2001 permitting investments to be held in New Zealand Government securities (New Zealand Government stock, inflation-indexed stock and Treasury bills), New Zealand bank securities (maximum $250 million) and global equities up to a maximum of 35% of total investments. All investments in New Zealand Government securities are only tradable with the New Zealand Debt Management Office (NZDMO).

A direction from the Minister of Finance was issued on 13 September 2010 permitting investments to be held in New Zealand bank securities up to a maximum of $2 billion. A new Ministerial direction, endorsing the 2010 direction, was issued on 15 September 2011.

12. **Financial Instruments (continued)**

Investments (continued)

At 30 June 2014 the fair values and concentrations of the Commission's investments were as follows:

	2014 FAIR VALUE $(000)	2014 % OF TOTAL INVESTMENT	2013 FAIR VALUE $(000)	2013 % OF TOTAL INVESTMENT
NZ Government stock	1,093,517	68.8	1,130,268	48.4
NZ Government inflation-indexed stock	354,598	22.3	361,385	15.5
TOTAL GOVERNMENT SECURITIES	**1,448,115**	**91.1**	**1,491,653**	**63.9**
TERM DEPOSITS	**141,428**	**8.9**	**845,926**	**36.1**
TOTAL INVESTMENTS	**1,589,543**	**100.0**	**2,337,579**	**100.0**
Current*	329,080	20.7	845,926	36.1
Non-current*	1,260,463	79.3	1,491,653	63.9
	1,589,543	**100.0**	**2,337,579**	**100.0**

** Classification as current or non-current is based on the contractual period of the instrument.*

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Commission's investments in Government stock, Treasury bills and New Zealand bank securities expose it to interest rate risk.

The Commission passively manages its Government stock portfolio. This means that the portfolio is exposed to an interest rate risk closely matched to the New Zealand Government stock index.

In the event of a major natural disaster, and the need to immediately sell Government stock, the NZDMO has agreed to buy back the Commission's Government stock at pre-natural disaster prices. In practice, following the Canterbury earthquakes, sales of Government stock have been (and will continue to be) spread out over many months, and as market prices have been favourable this facility has not been required.

The Commission's investments have the following average market yields and durations:

	2014		2013	
	YIELD	DURATION	YIELD	DURATION
NZ Government stock	4.08%	4.36 yrs	3.63%	5.12 yrs
NZ Government inflation – indexed stock	2.07%	1.56 yrs	1.55%	2.57 yrs
Long and short term deposits	3.70%	22 days	3.55%	49 days
On-call funds	3.51%	n/a	2.76%	n/a

INTEREST RATE RISK SENSITIVITY

A change in interest rates (yields) affects the price (fair value) that the Commission would receive upon the sale of a security.

The fair value is arrived at by discounting the cash flows arising from a financial instrument at the market yield and recognising the change in the Statement of Comprehensive Income. An identical increase or decrease in interest rates will therefore not produce an identical outcome. A 50-basis point increase in interest rates would increase the deficit at balance date by $25,723,341 (2013: $32,370,059). A 50-basis point decrease would decrease the deficit by $26,466,886 (2013: $33,408,901).

12. Financial Instruments (continued)

Investments (continued)

CASH FLOW INTEREST RATE RISK

The Commission does not invest in variable rate instruments, and is therefore not subject to cash flow interest rate risk.

CREDIT RISK

The Commission is exposed to the credit risk of a bank or the Crown defaulting on an investment. The Commission reduces credit risk by investing funds only in securities issued by approved New Zealand banks that have a short-term credit rating of A-1 or higher from Standard and Poor's. Exposure to any one bank with a rating of less than A-1+ is restricted to a maximum of 15% of total bank securities, but for banks with a rating of A-1+, the exposure may be extended to 25%. No collateral is held by the Commission in respect of bank balances or short-term securities due to the credit rating of financial institutions with whom the Commission transacts business. At balance date the Commission held short-term securities with seven registered banks. $399,074,549 was held on-call and $432,659,740 was held in term deposits (2013 on-call: $353,833,744, term deposits: $890,967,730).

Other

CREDIT RISK

The Commission limits its exposure to very large-scale natural disasters through the purchase of reinsurance. The Commission is exposed to the credit risk of a reinsurer defaulting on its obligations. Note 19 explains how the Commission minimises the risk of default. The Commission reduces credit risk by placing reinsurance with counterparties who have a credit rating of AAA to A- from Standard and Poor's (i.e. from "extremely strong" to "strong") and limiting its exposure to any one reinsurer or related group of reinsurers.

During the 2013 financial year one reinsurer's rating, who EQC was receiving reinsurance payments from, had their rating downgraded to BBB+ for a period of time. The reinsurer's rating was upgraded during the 2014 financial year.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings (if available) or to historical information about counterparty default rates.

12. Financial Instruments (continued)

Other (continued)

CREDIT RATINGS – FINANCIAL INSTRUMENTS

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
COUNTERPARTIES WITH CREDIT RATINGS		
Cash at bank and term deposits		
AA-	770,780	1,172,862
A+	105,343	100,582
TOTAL	**876,123**	**1,273,444**
Reinsurance recoveries		
AA	57,903	83,977
AA-	394,220	881,088
A+	528,628	1,116,473
A	163,431	282,848
A-	81,015	205,473
BBB+	–	52,973
TOTAL	**1,225,197**	**2,622,832**
Crown recoveries		
AA+	**–**	**2,723**
GST receivable		
AA+	**47,650**	**49,198**
Premiums receivable		
AA-	19,611	18,917
A+	13,521	13,098
A	3,557	3,441
A-	18,772	19,276
Other	61	29
TOTAL	**55,522**	**54,761**
Counterparties without credit ratings		
SUNDRY RECEIVABLES	**301**	**1,788**

The Insurance Prudential Supervision Act 2010 (IPSA) repealed the Insurance Companies (Ratings and Inspection) Act 1994 from 7 March 2012. The IPSA does not require EQC to obtain a license and therefore EQC is not obliged by the current insurance legislation to hold a rating.

LIQUIDITY RISK

The Commission's financial liabilities consist of claims payable, provisions, and trade and other payables. It is expected that the majority of trade payables outstanding at balance date will be settled within 12 months (2013: 12 months). The majority of outstanding claims are expected to be settled within two years.

The Commission's liquidity risk is the risk of having insufficient liquid funds available to meet claims, and trade and other payables as they fall due. To manage this risk, the Commission has increased the strategic allocation of investments invested in bank securities to 5%–35% or up to an absolute amount of $1 billion (a temporary increase to $1.25 billion was approved by the EQC Board in March 2014) with the duration of the bank and term deposits not exceeding 180 days. Bank securities' maturity dates have been spread to ensure that approximately $50 million is available each week to meet operational requirements. Following the Canterbury earthquakes, cash at bank has been held at higher levels to provide for claims expenses and settlements.

All other financial instruments are highly liquid and can be sold in a relatively short time-frame to meet any operational requirements.

13. PROPERTY, PLANT AND EQUIPMENT

2014	NON-CANTERBURY				CANTERBURY				GEONET			
COST	FURNITURE AND EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	MOTOR VEHICLES $(000)	COMPUTER HARDWARE $(000)	FURNITURE AND EQUIPMENT $(000)	MOTOR VEHICLES $(000)	COMPUTER HARDWARE $(000)	LAND $(000)	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)
At 1 July 2013	350	137	37	888	7,896	10	7,023	–	753	2,150	31,267	**50,511**
Additions	4	19	–	10	1,867	–	371	1,230	–	186	2,527	**6,214**
Transfer	(5)	–	–	4	(4)	–	5	–	–	–	–	**–**
Disposals	(276)	(5)	(37)	(164)	(1,316)	–	(812)	–	–	(204)	(16)	**(2,830)**
At 30 June 2014	**73**	**151**	**–**	**738**	**8,443**	**10**	**6,587**	**1,230**	**753**	**2,132**	**33,778**	**53,895**
ACCUMULATED DEPRECIATION												
At 1 July 2013	(292)	(69)	(16)	(725)	(3,234)	(3)	(5,559)	–	(273)	(1,574)	(17,990)	**(29,735)**
Depreciation charge	(16)	(13)	(2)	(91)	(1,851)	(3)	(1,362)	–	(29)	(322)	(2,788)	**(6,477)**
Transfer	4	–	–	(3)	4	–	(5)	–	–	–	–	**–**
Disposals	248	3	18	164	855	–	803	–	–	204	16	**2,311**
Impairment	–	–	–	–	–	–	–	(396)	–	–	–	**(396)**
At 30 June 2014	**(56)**	**(79)**	**–**	**(655)**	**(4,226)**	**(6)**	**(6,123)**	**(396)**	**(302)**	**(1,692)**	**(20,762)**	**(34,297)**
CARRYING AMOUNTS AT 30 JUNE 2014	**17**	**72**	**–**	**83**	**4,217**	**4**	**464**	**834**	**451**	**440**	**13,016**	**19,598**

2013	NON-CANTERBURY				CANTERBURY				GEONET			
COST	FURNITURE AND EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	MOTOR VEHICLES $(000)	COMPUTER HARDWARE $(000)	FURNITURE AND EQUIPMENT $(000)	MOTOR VEHICLES $(000)	COMPUTER HARDWARE $(000)	LAND $(000)	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)
At 1 July 2012	473	15	47	987	6,338	2,790	5,414	–	1,361	2,121	29,135	**48,681**
Additions	3	37	–	62	2,347	10	2,262	–	26	351	2,005	**7,103**
Transfer	(115)	85	–	(40)	(208)	–	(64)	–	(634)	(128)	762	**(342)**
Disposals	(11)	–	(10)	(121)	(581)	(2,790)	(589)	–	–	(194)	(635)	**(4,931)**
At 30 June 2013	**350**	**137**	**37**	**888**	**7,896**	**10**	**7,023**	**–**	**753**	**2,150**	**31,267**	**50,511**
ACCUMULATED DEPRECIATION												
At 1 July 2012	(355)	(2)	(17)	(757)	(1,915)	(735)	(3,187)	–	(176)	(1,353)	(15,856)	**(24,353)**
Depreciation charge	(16)	(6)	(16)	(108)	(1,955)	(347)	(2,872)	–	(30)	(320)	(2,879)	**(8,549)**
Transfer	71	(61)	–	18	80	–	7	–	(67)	(95)	173	**126**
Disposals	8	–	17	122	556	1,079	493	–	–	194	572	**3,041**
At 30 June 2013	**(292)**	**(69)**	**(16)**	**(725)**	**(3,234)**	**(3)**	**(5,559)**	**–**	**(273)**	**(1,574)**	**(17,990)**	**(29,735)**
CARRYING AMOUNTS AT 30 JUNE 2013	**58**	**68**	**21**	**163**	**4,662**	**7**	**1,464**	**–**	**480**	**576**	**13,277**	**20,776**

14. INTANGIBLE ASSETS

2014	NON-CANTERBURY		CANTERBURY			
COST	SOFTWARE $(000)	CLAIMS MANAGEMENT SYSTEM $(000)	SOFTWARE $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
At 1 July 2013	650	5,505	2,067	**8,222**	628	**8,850**
Additions	513	–	93	**606**	3,038	**3,644**
Transfer	101	–	91	**192**	(230)	**(38)**
Disposals	(23)	–	(9)	**(32)**	–	**(32)**
At 30 June 2014	**1,241**	**5,505**	**2,242**	**8,988**	**3,436**	**12,424**
ACCUMULATED AMORTISATION						
At 1 July 2013	(231)	(2,659)	(214)	**(3,104)**	–	**(3,104)**
Amortisation charge	(216)	(788)	(694)	**(1,698)**	–	**(1,698)**
Disposals	2	–	1	**3**	–	**3**
At 30 June 2014	**(445)**	**(3,447)**	**(907)**	**(4,799)**	**–**	**(4,799)**
CARRYING AMOUNTS AT 30 JUNE 2014	**796**	**2,058**	**1,335**	**4,189**	**3,436**	**7,625**

2013	NON-CANTERBURY		CANTERBURY			
COST	SOFTWARE $(000)	CLAIMS MANAGEMENT SYSTEM $(000)	SOFTWARE $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
At 1 July 2012	162	5,171	–	**5,333**	702	**6,035**
Additions	397	219	1,857	**2,473**	–	**2,473**
Transfer	91	115	210	**416**	(74)	**342**
At 30 June 2013	**650**	**5,505**	**2,067**	**8,222**	**628**	**8,850**
ACCUMULATED AMORTISATION						
At 1 July 2012	(84)	(1,791)	–	**(1,875)**	–	**(1,875)**
Amortisation charge	(117)	(857)	(129)	**(1,103)**	–	**(1,103)**
Transfer	(30)	(11)	(85)	**(126)**	–	**(126)**
At 30 June 2013	**(231)**	**(2,659)**	**(214)**	**(3,104)**	**–**	**(3,104)**
CARRYING AMOUNTS AT 30 JUNE 2013	**419**	**2,846**	**1,853**	**5,118**	**628**	**5,746**

15. TRADE AND OTHER PAYABLES

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Trade payables and accruals	(34,681)	(46,959)
Tax on reinsurance	(5,038)	(4,435)
	(39,719)	**(51,394)**

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximates their fair value.

In 2014, the accrual for annual leave of $2,033,000 from 2013 has been reclassified from Provisions to Trade and Other Payables.

16. PROVISIONS

	MAKE GOOD $(000)	EMPLOYEE BENEFITS $(000)	TOTAL $(000)
BALANCE AT 1 JULY 2012	–	(18)	(18)
Additional provisions	–	(3)	(3)
Provisions released	–	2	2
Amount used	–	–	–
BALANCE AT 30 JUNE 2013	**–**	**(19)**	**(19)**
Additional provisions	(347)	(1,536)	(1,883)
Provisions released	–	5	5
Amount used	–	–	–
BALANCE AT 30 JUNE 2014	**(347)**	**(1,550)**	**(1,897)**
Current	(329)	(1,393)	(1,722)
Non-current	(18)	(157)	(175)
TOTAL PROVISION	**(347)**	**(1,550)**	**(1,897)**

Provision for make good costs

A provision has been established for anticipated future costs associated with restoring leased premises to their original condition at the end of the lease term.

The leases have varying expiry dates up to 2018. The actual payment dates and costs will be known once each lease reaches its expiry date and the extent of the corresponding make good is ascertained.

Provision for employee benefits

A provision has been established to recognise the probable amounts to vest to employees in the future based on the achievement of service milestones.

17. UNEARNED PREMIUM LIABILITY

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Unearned premium liability at 1 July	(142,231)	(110,426)
Deferral of premiums on contracts written in the period	(145,917)	(142,231)
Earning of premiums written in previous periods	142,231	110,426
UNEARNED PREMIUM LIABILITY AT 30 JUNE	**(145,917)**	**(142,231)**

18. UNEXPIRED RISK LIABILITY

The unexpired risk liability was determined as follows:

CALCULATION OF DEFICIENCY	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Cost of future claims from unexpected risks, undiscounted – central estimate	143,561	143,177
Administration and reinsurance costs for unexpired risks	89,724	81,543
Reinsurance recoveries, undiscounted	(16,087)	(18,068)
NET PREMIUM LIABILITIES, UNDISCOUNTED – CENTRAL ESTIMATE	**217,198**	**206,652**
Discounting	(5,061)	(3,659)
NET PREMIUM LIABILITIES, DISCOUNTED – CENTRAL ESTIMATE	**212,137**	**202,993**
Risk margin	3,436	–
NET PREMIUM LIABILITIES	**215,573**	**202,993**
Unearned premium liability	(145,917)	(142,231)
NET DEFICIENCY	**69,656**	**60,762**

UNEXPIRED RISK LIABILITY	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
Unexpired risk liability balance at 1 July	(60,762)	(128,574)
Movement for the year	(8,894)	67,812
UNEXPIRED RISK LIABILITY AT 30 JUNE	**(69,656)**	**(60,762)**

Legislation recognises that the Commission's premiums may be inadequate to meet its liabilities in any one year by enabling it to set aside any annual surplus free of tax in the Natural Disaster Fund and, in the case of a very severe natural disaster (that exceeds both the Fund and reinsurance recoveries) by providing for a Crown guarantee.

19. INSURANCE RISKS

The Commission must accept exposure to claims for the natural disasters as specified in the Act and therefore may not seek to reduce its claims exposure by diversification of its business over classes of insurance or geographical region. The premium level is set by the Earthquake Commission Regulations 1993.

REINSURANCE PROGRAMME

The Commission limits its exposure to very large-scale natural disasters through the purchase of reinsurance with the objectives of:

- minimising the overall cost to secure mandated protection to New Zealand homeowners;
- implementing a reinsurance programme that provides stability over time against reasonably foreseeable events;
- providing flexibility in the reinsurance agreement terms and conditions should the Crown determine a different risk profile under the natural disaster insurance scheme; and
- minimising the risk of default amongst reinsurers by limiting its exposure to any one reinsurer or related group of reinsurers, by applying the following policies:
  - setting a target for the overall programme at placement that achieves a weighted average score of Standard and Poor's (S&P) financial strength rating of A or better;
  - normally placing reinsurance with organisations who have the following security ratings:

    S&P: AAA to A- (i.e. from "extremely strong" to "strong"); or

    Best's: A++ to A- (i.e. from "superior" to "excellent"); and
  - diligent examination by the Commission's management of the case for inclusion of a non-complying reinsurer, with the assistance of its reinsurance broker, and obtaining Board approval of any decision to include such reinsurers.

CROWN UNDERWRITING FEE

Pursuant to Section 17 of the Act, the Commission is required to pay a fee to the Crown as determined by the Minister of Finance, for the guarantee provided under Section 16 of the Act (refer Notes 1 and 10). The Minister of Finance determined that $10 million be paid for the year ended 30 June 2014 (2013: $10 million).

INTEREST RATE RISK AND CREDIT RISK

No direct exposure to interest rate risk results from the financial assets or liabilities arising from insurance or reinsurance contracts. Financial assets and liabilities arising from insurance or reinsurance contracts are stated in the Statement of Financial Position at the amount that best represents the maximum credit risk exposure at balance date. Refer to Note 12 for concentrations of credit risk.

RESEARCH AND EDUCATION

The Commission seeks to indirectly reduce the extent of claims incurred by the dissemination of research and through public education programmes.

20. CONTINGENT LIABILITIES AND ASSETS

EQC received 469,251 claims from the Canterbury earthquakes, of which some disputes and the possibility of lawsuits is inevitable. EQC as at 30 June 2014, is defending 160 existing lawsuits relating to claims under the Earthquake Commission Act 1993.

21. COMMITMENTS

CLAIMCENTER SERVICES CONTRACT

In 2007, the Commission entered into a services contract for the provision of a computer system for claims handling, processing and allocation.

SYSTEM SUPPORT SERVICES (HOSTING)

The System Support Services agreement provides the equipment, hosting in secure data centres and operational support for the computer system for claims handling, processing and allocation.

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
OPERATING COMMITMENT		
Not later than one year	3,267	3,312
Later than one year but not later than two years	3,250	3,267
Later than two years but not later than five years	2,160	5,410
TOTAL CLAIMCENTER COMMITMENT	**8,677**	**11,989**

APPLICATION SUPPORT

The Application Support agreement covers the provision of development resources to configure and enhance the claims management system application to ensure it functions optimally for claims processing at EQC.

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
OPERATING COMMITMENT		
Not later than one year	2,893	2,893
Later than one year but not later than two years	2,058	2,075
Later than two years but not later than five years	1,159	2,933
TOTAL CLAIMCENTER COMMITMENT	**6,110**	**7,901**

REINSURANCE CONTRACTS

The Commission has signed contracts for reinsurance in the international market.

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
OPERATING COMMITMENT		
Not later than one year	127,948	128,019
Later than one year but not later than two years	27,500	25,208
TOTAL REINSURANCE COMMITMENTS	**155,448**	**153,227**

MUSEUMS

The Commission provides sponsorship for specific exhibitions at museums across New Zealand. The Commission regularly reviews the contracts.

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
OPERATING COMMITMENT		
Not later than one year	350	50
Later than one year but not later than two years	300	50
TOTAL MUSEUM COMMITMENTS	**650**	**100**

21. Commitments (continued)

RESEARCH GRANTS

Future research grants which have been approved by the Board.

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
OPERATING COMMITMENT		
Not later than one year	1,499	1,874
Later than one year but not later than two years	892	832
Later than two years but not later than five years	1,253	822
Later than five years	–	7
TOTAL RESEARCH GRANT COMMITMENTS	**3,644**	**3,535**

GNS SCIENCE

The Commission has a contract with GNS Science for the development and implementation of a seismic monitoring and reporting network (GeoNet). The term of the GeoNet agreement, dated December 2009, is for 10 years, but provides for a funding commitment from EQC only for the first 5 years of the term. The Commission's funding commitment beyond 30 June 2015 must be agreed between the parties.

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
CAPITAL COMMITMENT		
Not later than one year	3,274	3,250
Later than one year but not later than two years	–	3,274
OPERATING COMMITMENT		
Not later than one year	5,890	5,818
Later than one year but not later than two years	–	5,890
TOTAL GNS SCIENCE COMMITMENTS	**9,164**	**18,232**

BUILDING LEASES

The Commission has a non-cancellable long-term lease on premises in Wellington, plus other shorter term leases in Wellington, Christchurch and Hamilton to provide premises for Canterbury earthquake operations. The annual lease payments on the long-term lease are subject to three-yearly reviews, but are included below based on current rates.

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
OPERATING COMMITMENT		
Not later than one year	2,021	4,199
Later than one year but not later than two years	1,675	2,012
Later than two years but not later than five years	1,723	3,491
TOTAL BUILDING LEASE COMMITMENT	**5,419**	**9,702**

OTHER COMMITMENTS

The Commission has material contracts with Fletcher Construction, Tonkin and Taylor and Fuji Xerox. The amounts for future years are variable and not quantifiable.

22. RELATED PARTY TRANSACTIONS

The Earthquake Commission is a Crown Entity of the New Zealand Government and all significant transactions with the Crown result from Ministerial directions given under the Earthquake Commission Act 1993 or Section 103 of the Crown Entities Act 2004.

Key Management Personnel Compensation

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
SALARIES AND OTHER EMPLOYEE BENEFITS	2,629	2,184

Key management personnel for the 2014 year included all Commissioners, the Chief Executive and ten senior managers (2013: all Commissioners, the Chief Executive and seven senior managers).

- KB Taylor has an associated entity that has lodged claims with the Commission. No payments have been made to this entity in the current financial year (2013: $10,584).
- A O'Connell and a close family member have lodged claims with the Commission. The Commission paid $148,000 in the current financial year.
- M Daly has a close family member who has lodged a claim with the Commission. The Commission paid $37,000 in the current financial year.
- P Kiesanowski has lodged a claim with the Commission. As at 30 June 2014 this claim remains outstanding.
- T Burt, a former Commissioner had an associated entity that had lodged claims with the Commission. In 2013 the Commission paid $31,893, no payments have been made in the current financial year.
- In the 2013 financial year the Commission purchased services of $414,441 from Kiwi Income Property Trust, a company of which a close relative of KB Taylor and P Hughes (a former Commissioner) were shareholders. The services purchased related to office rental. In 2014 Kiwi Income Property Trust was no longer a related party.
- In the 2013 financial year the Commission purchased services of $38,122 from Ngai Tahu Property Ltd, a company of which T Burt, a former Commissioner, was a director (Chairman). The services purchased related to car park rental. In 2014 Ngai Tahu Property Ltd was no longer a related party.
- In the 2014 financial year the Commission received levies from insurance companies within the Suncorp Group of $73,361,121, a company of which R Bell is a shareholder. In 2013 Suncorp Group was not a related party.
- In the 2014 financial year the Commission received levies of $110,742,922 from IAG New Zealand Limited, a former employer of M Daly. M Daly has an entitlement to executive performance rights with respect to IAG share based remuneration in the event that certain conditions are met. This entitlement terminates in December 2015. In 2013 IAG New Zealand Limited was not a related party.
- The Commission purchased insurance of $38,781 from Southern Cross Medical Care Society, an organisation of which KB Taylor is a director (2013: $36,805).
- The Commission purchased services of $111,934 from City Care Limited, an organisation of which P Kiesanowski is the Acting Chief Financial Officer. The services purchased were for the supply of steel plates and concrete blocks for use in testing. In 2013 City Care Limited was not a related party.
- The Commission purchased services of $6,510 from New Zealand Red Cross, an organisation of which P Kiesanowski is a director. The services purchased related to first aid courses. In 2013 New Zealand Red Cross was not a related party.
- The Commission purchased services of $1,739 from Red Bus Limited, an organisation of which P Kiesanowski is a director. The services purchased related to the hiring of buses. In 2013 Red Bus Limited was not a related party.
- B Emson, a former member of the senior management team, had an associated entity that has lodged claims with the Commission. In 2014 the Commission paid $11,385 (2013: $206,645) in relation to claims from this entity.
- E Hicks, a member of the senior management team, has close family members who have lodged claims with the Commission. No payments have been made in the current financial year (2013: $1,658).
- G Kettle, a member of the senior management team has lodged a claim with the Commission. As at 30 June 2014 no payment has been made.
- R Stiven, a member of the senior management team has lodged a claim with the Commission. As at 30 June 2014 no payment has been made.

22. Related Party Transactions (continued)

» J Whitfield, a member of the senior management team has an interest in a claim lodged with the Commission. As at 30 June no payment has been made.

The payments for the lodged claims are GST inclusive.

A small number of personnel employed by the Commission during the year were close family members of key management personnel. The terms and conditions of their employment arrangements were no more favourable than the Commission would have adopted if there were no relationship to key management personnel. At 30 June 2014 two employees (2013: one employee) fell into this category.

COLLECTIVELY, BUT NOT INDIVIDUALLY SIGNIFICANT, TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

In conducting its activities, the Commission is required to pay various taxes and levies (such as GST, FBT, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Commission is exempt from paying income tax.

The Commission also transacts for goods and services from entities controlled, significantly influenced, or jointly owned by the Crown. Transactions with these government-related entities for the year ended 30 June 2014 totalled $28.1 million (2013: $24.4 million) and included the following items:

Crown	Crown underwriting fee (refer Note 18)
GNS Science	GeoNet seismic monitoring programme (refer Note 21)
Te Papa Tongarewa	Public education grant (refer Note 21)
Inland Revenue Department	Canterbury disaster response assistance

The Commission supported geological research at New Zealand universities and paid State-owned enterprises for postage, air-travel and power.

As at 30 June 2014, the Commission has unsettled claims with the Canterbury Earthquake Recovery Authority (CERA) as a result of the Crown's Red Zone offer to property owners. Under the sale and purchase arrangement with property owners in the Red Zone, CERA becomes the beneficiary for some or all of the proceeds of the submitted claims. While the value of the settlement with CERA has not been estimated, the value of this claim is included in the actuarial valuation of the Commission's total liability and accounted for in the financial statements.

During the year, the Commission earned interest of $3,691,944 from term deposits and on call deposits with Kiwibank (2013: $198,931). The balance of deposits at 30 June 2014 was $105,000,000 (2013: $100,000,000).

During the year, the Commission earned interest of $74,174,000 from Government stock with Treasury (2013: $97,197,000). The balance of NZ Government securities at 30 June 2014 was $1,448,115,000 (2013: $1,491,653,000).

The total value of remuneration paid to each Board member during the year was:

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)	
M Wevers	69	1	Appointed 12 June 2013, Chairman from 1 August 2013
MC Wintringham	4	41	Appointed Deputy Chairman 1 June 2004, as Chairman 26 July 2006. Term concluded 31 July 2013
KB Taylor	45	29	Appointed 18 August 2006, as Deputy Chairman 1 May 2009
G McLachlan	–	11	Appointed 1 May 2009. Term concluded 31 December 2012
D Bovaird	1	23	Appointed 1 January 2010. Term concluded 31 July 2013
R Black	36	23	Appointed 1 December 2010
T Burt	12	23	Appointed 1 December 2010. Term concluded 31 December 2013
P Hughes	–	13	Appointed 1 October 2011. Term concluded 25 June 2013
G Smith	36	23	Appointed 1 October 2011
A O'Connell	30	–	Appointed 1 September 2013
R Bell	31	–	Appointed 1 August 2013
M Daly	10	–	Appointed 14 March 2014
P Kiesanowski	10	–	Appointed 14 March 2014
TOTAL	**284**	**187**	

22. Related Party Transactions (continued)

INDEMNITY AND INSURANCE DISCLOSURE

The Commission has provided a deed of indemnity to each Board member in relation to certain activities undertaken in the performance or intended performance of Commission functions.

The Commission effected and maintained "Directors' and Officers' Liability" and "Professional Indemnity" insurance cover during the financial year, in respect of the liability or costs of any Board member, or employee.

23. EMPLOYEE REMUNERATION

The numbers of employees whose total remuneration paid or payable for the financial year was in excess of $100,000, in $10,000 bands, are as follows:

$(000)	ACTUAL 2014	ACTUAL 2013
100–110	32	81
110–120	89	83
120–130	45	15
130–140	16	10
140–150	14	5
150–160	7	7
160–170	9	4
170–180	5	4
180–190	8	1
190–200	–	1
200–210	–	1
210–220	–	1
220–230	2	2
230–240	3	1
240–250	–	1
250–260	1	1
260–270	2	–
270–280	–	1
280–290	1	–
290–300	1	–
310–320	1	–
320–330	–	1
350–360	–	1
410–420	–	1
420–430	1	–
	237	**222**

In addition to the above, and in accordance with confidential contractual agreements, payment of $247,510 was made during the year (2013: $753,893).

24. RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)
NET SURPLUS	**288,853**	**221,643**
Add non-cash items:		
Depreciation and amortisation	8,175	9,652
Impairment of land	396	–
TOTAL NON-CASH ITEMS	**8,571**	**9,652**
LESS ITEMS CLASSIFIED AS INVESTING ACTIVITIES		
Discount income and investment price revaluations	(56,366)	(21,236)
Loss/(gain) on disposal of property, plant and equipment	131	(173)
TOTAL ITEMS CLASSIFIED AS INVESTING ACTIVITIES	**(56,235)**	**(21,409)**
ADD/(LESS) MOVEMENTS IN STATEMENT OF FINANCIAL POSITION ITEMS:		
Premiums receivable	(761)	1,004
Outstanding reinsurance and other recoveries	1,401,845	1,447,001
Other receivables	1,548	(32,769)
Prepayments	(316)	(5,632)
Trade and other payables	(11,675)	17,720
Provision	1,878	861
Outstanding claims liability	(2,134,110)	(1,972,170)
Unearned premium liability	3,686	31,805
Unexpired risk liability	8,894	(67,812)
NET MOVEMENTS IN WORKING CAPITAL ITEMS	**(729,011)**	**(579,992)**
NET CASH FLOW FROM OPERATING ACTIVITIES	**(487,822)**	**(370,106)**

25. EVENTS AFTER BALANCE DATE

There were no significant events after balance sheet date.

STATEMENT OF SERVICE PERFORMANCE

BACKGROUND

This Statement of Service Performance (SSP) reports information on EQC's output performance for the 2013–2014 financial year (the financial year). EQC's functions, as set out in section 5 of the EQC Act, are reported as four output classes:

» Output 1: Customer Services (claims handling, Catastrophe Response Programme);

» Output 2: Administration of the Act, Insurance Scheme and Natural Disaster Fund (risk funding);

» Output 3: Research; and

» Output 4: Education.

For each output class this SSP contains an overview of operations for the financial year including aggregate and contextual information. This is followed by information on the detailed performance measures and targets in EQC's 2013–2016 Statement of Intent (SOI) for specific aspects of EQC's operations.

While this SSP reports EQC's performance for each output, in reality the performance of one output is often linked to the performance of another. For example, obtaining adequate and affordable reinsurance (Output 2) is supported by Output 1 – transparency in claims settlement and insurers/reinsurers being able to assess their liability.

REPORTING CLAIMS HANDLING

EQC insures residential property (buildings, contents and land) from damage caused by specified natural disasters – namely earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami; and (for land only) storm or flood. EQC also insures for fire caused by any of the above natural disasters.[3] EQC may settle each claim component (exposure) by cash payment, replacement, reinstatement (repair) or, in the case of residential dwellings, by relocation.[4 5]

Customers typically regard a claim as 'settled' when:

» they have received a full cash payment from EQC for valid dwelling, contents or land exposures; and/or

» dwelling repairs managed by EQC are 'practically complete' (i.e. where the repair work is complete and, where relevant, the site has passed back to the owner).

EQC reports this customer view of settlement as the point at which the claim is '**resolved**'. This view is also reflected in our progress reporting on our website. We refer to this as the '**customer perspective**' in this Annual Report.

In contrast and from an insurance claims processing perspective, the claim is not '**closed**' until all administrative requirements ***for each exposure*** in the customer's claim have been completed.[6] We have referred to this as the '**insurance perspective**' in this Annual Report. The administrative requirements are different for dwelling, contents and land damage. An example of such requirements for dwelling and contents claims would be the completion of documentation between EQC and private insurers where the amount of damage under the exposure has exceeded the EQC cap amount for that exposure.

EQC's performance in this Annual Report is described from both the ***customer perspective*** (referred to as 'claims resolved') and the ***insurance perspective*** (referred to as 'exposures closed') perspectives. This approach has been taken to ensure that the Annual Report:

» transparently reports exposure activity during the financial year; and

» is consistent with EQC's public reporting of progress during the year (e.g. updates and scorecards on our website).

3 In this document the terms 'natural disaster' and 'natural disaster damage' should be read as they are defined in section 2 of the EQC Act 1993.

4 A 'claim' can include individual dwelling, contents or land components. Separately those components are referred to as 'exposures'. Because each type of exposure is defined in legislation separately and is settled separately, EQC measures 'exposures' as it is the best overall measure for EQC of the workload that EQC faces.

5 Dwelling and land claims may include cumulative damage caused by a series of events, while contents claims will generally be per event.

6 Completing all administrative requirements often extends beyond the time when the customer regards the claim as 'settled' (i.e. the cash payment or repair dates).

As a consequence, completion rates in this Annual Report reflect each perspective as indicated by exposure activity tables that have insurance focused completion rates (insurance perspective) whereas, output performance measures have customer focused completion rates (customer perspective). We have highlighted where this distinction is applied to information in this SSP.

Although timeframes for claim lodgement and settlement are specified in the EQC Act, deadlines for these may fall within a different reporting period from the event itself. The one-year time limit for claim payment (after the amount of damage has been duly determined) specified in the EQC Act invariably will not fall within the same reporting year.[7]

THE CANTERBURY EARTHQUAKES

Prior to the Canterbury earthquakes, EQC had only occasionally taken responsibility for organising repairs to damaged homes or land. Claims were mostly settled by cash payment. EQC's operations in response to the Canterbury earthquakes have been very different. EQC's operations in Canterbury include:

» the CHRP dwelling repairs;

» facilitating urgent repairs to dwellings; and

» conducting a land research programme to determine effective land repair methodologies.

Key considerations in establishing and operating CHRP in Canterbury included ensuring the quality of repairs to the Canterbury housing stock; and the containment of repair cost push inflation (e.g. construction related costs of any post-event demand surge).

Before the Canterbury earthquakes EQC's systems were designed to deal with single events and to cash settle the claims. To accommodate multiple claims, multiple exposures, temporary and urgent repairs, multiple unit buildings, apportionment[8] and the accurate linking of claims with individual properties, EQC has had to make extensive changes to its systems and processes.

OUTPUT 1: **CUSTOMER SERVICES**

OUTPUT 1 OBJECTIVES

The customer service experience with EQC is almost entirely related to claims handling. Accordingly, the objectives for this output are:

» providing customers with the necessary information and tools to enable them to lodge claims with EQC within the statutory period;

» assessing and resolving claims within a timeframe and to standards of fairness acceptable to the Government, public and reinsurers, and in accordance with the EQC Act;

» improving customer satisfaction for the service delivered; and

» delivering the CHRP quickly, safely, properly and at best possible price.

EQC's aim is to ensure all customers receive their correct entitlement under the EQC Act. Managing this process well is important for all New Zealanders, as EQC's claims handling process determines the costs to levy-payers (and to taxpayers, in the event the Crown guarantee is called on). Accuracy also matters for third parties (e.g. mortgage holders, private insurers, international reinsurers) who look for certainty about their costs and risks, so they can price these accordingly.

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7 Where a claim relates to a residential building or residential land affected by the Canterbury earthquakes, the Canterbury Earthquake (Earthquake Commission Act) Order 2012 provides an exemption from this one-year timeframe where settlement is to be by reinstatement.

8 In 2011 the High Court ruled that EQC cover is reinstated after each event as long as the property remains insured. Therefore, for claims for damage from multiple events, EQC has used a process to determine when the damage occurred to establish which costs EQC needs to cover for each event and which costs may rest with a private insurer. This process is called 'apportionment'.

OVERVIEW OF OUTPUT 1 OPERATIONS 2013–14

Canterbury earthquake claims

EQC's operations for the reporting year continued to be dominated by the processing of claims (or exposures) from the Canterbury earthquake series. Table 1 contains a summary of exposures from Canterbury events between 4 September 2010 and 30 June 2014 from an ***insurance perspective***. As explained earlier (see Background – 'Reporting Claims handling') the percentage closure rates in Tables 1 and 2 below differ from the corresponding rates from a ***customer perspective*** of progress as reported in some of the performance measures for Output 1.

TABLE 1: EXPOSURE PROCESSING ACTIVITY FOR THE CANTERBURY EARTHQUAKES – COMBINED DATA FOR THE 2010–11, 2011–12, 2012–13 AND 2013–14 FINANCIAL YEARS

	LODGED	CLOSED	OPEN AT THE END OF THE FINANCIAL YEAR	CUMULATIVE $ PAID TO 30 JUNE 2014 (EXCLUDING CHE;[9] GST EXCLUSIVE)
Content exposures	186,493	183,546 (98%)	2,947	$433,620,634
Land exposures	145,269	94,931 (65%)	50,338	$183,990,130
Dwelling exposures	424,651	230,962 (54%)	193,689	$5,882,085,968
Total exposures	**756,413**	**509,439 (67%)**	**246,974**	**$6,499,696,732**

Table 2 provides a summary of Canterbury claims processing activity by exposure from an ***insurance perspective*** for the financial year.

TABLE 2: SUMMARY OF EXPOSURE PROCESSING ACTIVITY FOR THE CANTERBURY EARTHQUAKES FOR THE 2013–14 FINANCIAL YEAR

	OPEN AT 30 JUNE 2013	PLUS OPENED DURING THE FINANCIAL YEAR	LESS CLOSED DURING THE FINANCIAL YEAR	EQUALS OPEN AT THE END OF THE FINANCIAL YEAR	$ PAID DURING THE FINANCIAL YEAR (EXCLUDING CHE; GST EXCLUSIVE)
Content Exposures	17,206	695	14,954	2,947	$36,911,027
Land Exposures	79,956	17,103	46,721	50,338	$136,368,723
Dwelling Exposures	267,800	1,958	76,069	193,689	$1,428,463,688
Total Exposures	**364,962**	**19,756**	**137,744**	**246,974**	**$1,601,743,438**

Table 3 provides a summary of dwelling damage claims resolution for the 2013–14 financial year from a ***customer perspective***. The numbers and rates in Table 3 differ from the ***insurance perspective*** (exposures closed) as reported in Tables 1 and 2.

TABLE 3: SUMMARY OF DWELLING DAMAGE CLAIMS PROCESSING ACTIVITY (BOTH CASH AND MANAGED REPAIR) FOR THE CANTERBURY EARTHQUAKES

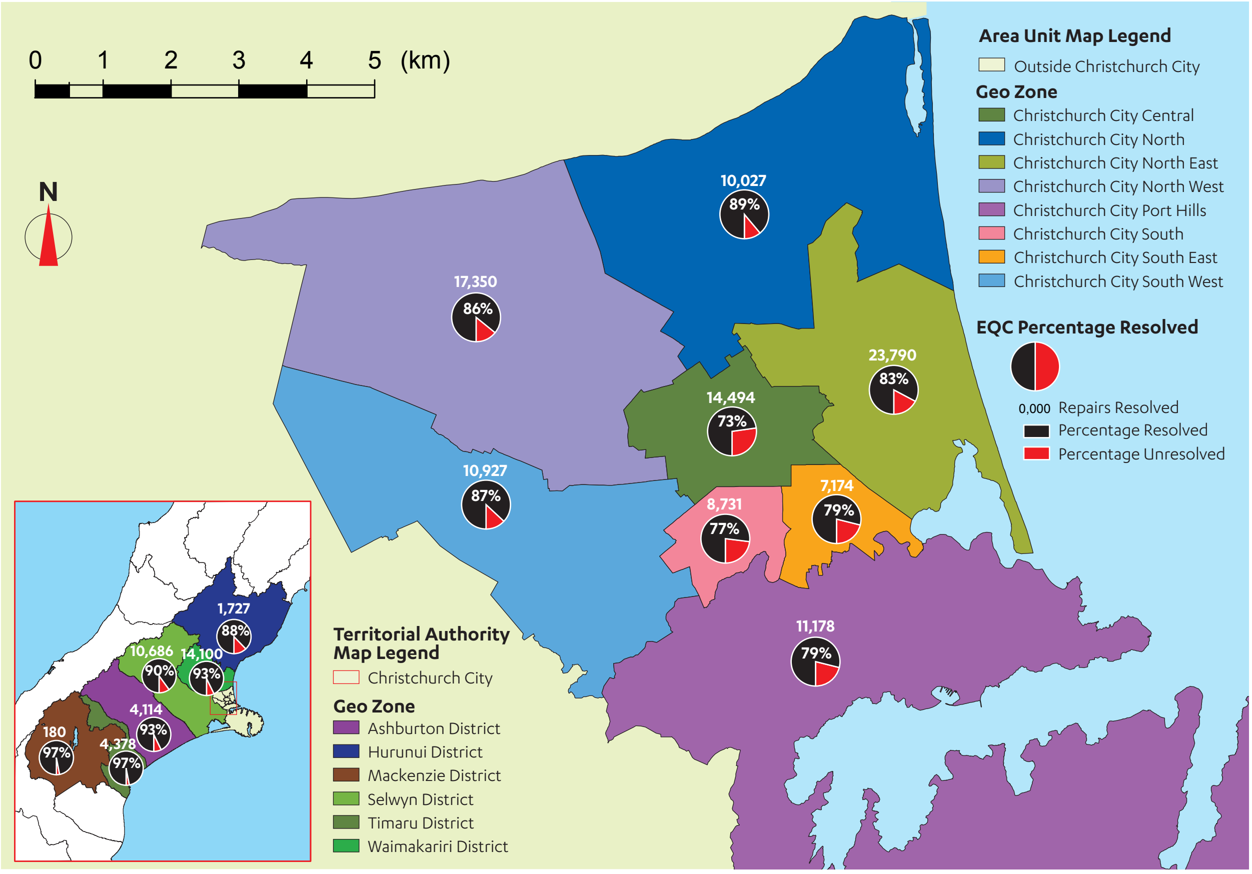
DAMAGE BAND (EXCLUDING DWELLINGS CONFIRMED AS HAVING NO DAMAGE)	TOTAL DWELLINGS WITH DAMAGE	NOT RESOLVED* AS AT 30 JUNE 2013	LESS RESOLVED DURING THE 2013–14 FINANCIAL YEAR	EQUALS NOT RESOLVED AT END OF THE 2013–14 FINANCIAL YEAR	PERCENT CUMULATIVE RESOLVED
Damage in excess of $100,000	27,317	4,699	1,456	3,243	88.1%
Damage under $100,000 but in excess of $15,000	80,175	41,144	22,334	18,810	76.5%
Damage under $15,000	62,029	35,989	30,959	5,030	91.9%
Totals	**169,521**	**81,832**	**54,749**	**27,083**	**84.0%**

** Resolved means that all claims have been fully paid by cash settlement or repairs completed. Residential Red Zone properties are treated as resolved if the claim is resolved with the original claimant. Claims that have exceeded EQC's statutory cap are treated as resolved if all applicable cap payments have been made.*

9 Claims handing expenses (CHE).

Figure 1 provides an overview of the geographic[10] spread of building damage claims resolved as at 30 June 2014. Building damage claims in Figure 1 are defined according to individual insured residential buildings – some of which contain multiple dwellings and, consequently, multiple exposures. As a result, building claim numbers in Figure 1 differ from dwelling claim numbers in Table 3.

FIGURE 1: PERCENTAGE OF BUILDING DAMAGE CLAIMS RESOLVED (CUSTOMER PERSPECTIVE) BY GEOGRAPHIC (GEO) ZONE AS AT 30 JUNE 2014



Canterbury land claims

Damage to land from the Canterbury earthquakes has been extensive. Land damage includes inundation by liquefaction and subsidence on flat land, and rock fall and land collapse in the Port Hills. In addition there is increased flooding vulnerability (IFV) and increased liquefaction vulnerability (ILV) in a future event. IFV and ILV are some of the most complicated types of damage that EQC has addressed.

During the financial year EQC resolved 99% (7,406) of Port Hills land claims and 62% (38,942) of simple flat land claims.[11]

Table 4 summarises Canterbury land exposure processing activity by EQC for the 2013–14 financial year from an ***insurance perspective*** (exposures closed). The percentage exposure closure rates in Table 4 differ from the ***customer perspective*** (claims resolved) of progress as reported in some performance measures for Output 1.

10 Within Christchurch City and other Canterbury Territorial Local Authority districts.

11 This relates to observable damage only (such as cracking or undulation). An additional settlement may be made in future should the land insured by EQC be confirmed as having another form of damage covered by EQC (e.g. increased vulnerability to flooding). At the time the settlements for observable damage were made, EQC was unable to confirm which properties had potentially suffered other forms of damage.

TABLE 4: CUMULATIVE LAND EXPOSURE PROCESSING ACTIVITY FOR THE CANTERBURY EARTHQUAKE SERIES AS AT 30 JUNE 2014 FINANCIAL YEAR

	LODGED	CLOSED	OPEN	CUMULATIVE TOTAL PAID TO 30 JUNE 2014 (EXCLUDING CHE AND GST EXCLUSIVE)
Total land exposures	**145,269**	**94,931**	**50,338**	**$183,990,130**

Canterbury multi-unit buildings (MUBs)

As detailed in Table 5, there are four categories of multi-unit buildings:

» semi-detached and terraced dwelling units;

» apartment buildings, body corporates, buildings with a single insurance policy;

» mixed commercial and residential properties;[12] and

» rest homes and retirement village complexes.

Multi-unit building claims have been complex to resolve because:

» there was limited information about which insured dwellings were in fact part of a multi-unit building;[13]

» there are different owners (with varying forms of title and decision rights) with individual units often being separately insured and generally not with the same insurer;

» some buildings involve units with a mixture of under and over cap claims so EQC and one or more private insurers are involved; and

» multi-unit buildings often have shared structural elements such as foundations, external walls, roofs and drainage systems meaning that progressing some repairs may require agreement between all owners and insurers (referred to as 'dependent repairs').

The above complexities mean that multi-unit building claims, where there are dependent repairs, are not recorded as resolved until all settlements (repairs or cash payments) are completed for all the damaged dwellings in the building. Table 5 provides a summary of Canterbury claims processing activity for the four categories of multi-unit buildings for the 2013–14 financial year.

TABLE 5: CLAIMS FOR EARTHQUAKE DAMAGED MULTI-UNIT BUILDINGS IN CANTERBURY AS AT 30 JUNE 2014

MULTI-UNIT BUILDING (MUB) CATEGORIES	TOTAL NUMBER OF DWELLINGS/MUBS AND COMPLEXES	CUMULATIVE RESOLVED DWELLINGS, MUBS AND COMPLEXES	OPEN AT 30 JUNE 2014
Semi-detached and terraced dwelling units	17,983 dwelling units in 7,134 buildings	11,689 dwelling units	6,294 dwelling units
Apartment buildings, body corporates, buildings with a single insurance policy	11,016 dwellings units in 2,683 buildings	1,254 buildings	1,429 buildings
Mixed commercial and residential	351 dwellings units in 266 buildings	84 buildings	182 buildings
Rest homes and retirement village complexes (multiple buildings containing mixed commercial and residential properties)	90 complexes	65 complexes	25 complexes

By the end of the financial year EQC had:

» completed the identification of 29,350 multi-unit building earthquake damaged dwelling units (excluding units in rest homes and retirement villages);

» categorised them to distinguish between those where each unit was separately insured (often by different insurers) from those with a single insurance policy covering all of the units / dwellings in the building; and

» identified the settlement path for all but 75 multi-unit buildings involving 265 customers.

12 EQC covers a 'residential building' as defined in the EQC Act, which may include a non-residential (e.g. commercial) component as long as the area of the dwelling or dwellings constitutes 50 percent or more of the total area of the building.

13 For example, this fact was not necessarily recorded at the time that the policy was issued.

CANTERBURY HOME REPAIR PROGRAMME

CHRP is EQC's managed repair programme for Canterbury homes generally with damage between $15,000 and $100,000 (GST exclusive) per claim. Fletcher EQR manages the contracts between individual contractors and EQC to carry out the repairs. CHRP performance is reported by practical completion (i.e. resolved) per dwelling. In addition to managing the repair of properties, CHRP has been involved in:

» facilitating urgent repairs. This included (pursuant to Ministerial Direction in 2011) a temporary, Crown-funded, expansion of the emergency repair approach to uninsured residential properties during a limited period after the February 2011 earthquake; and

» delivering the chimney replacement and Winter Heat and insulation initiatives.

Table 6 provides a summary of cumulative CHRP activity to 30 June 2014. Table 6 relates to CHRP repairs and so does not include dwelling claims cash settled.

TABLE 6: CHRP DWELLING REPAIRS COMPLETED FOR THE 2013–14 YEAR AND CUMULATIVE FOR THE 2010–11, 2011–12, 2012–13 AND 2013–14 FINANCIAL YEARS

DWELLING REPAIRS THROUGH CHRP	REPAIRS COMPLETED* AS AT 30 JUNE 2013	REPAIRS COMPLETED DURING THE FINANCIAL YEAR	CUMULATIVE REPAIRS COMPLETED AS AT 30 JUNE 2014
Dwelling repairs	40,113	16,814	56,927
Urgent repairs	56,960	2,591	59,551
Heating units installed	18,868	207	19,075
Totals	**115,941**	**19,612**	**135,553**

'completed' means: all planned substantive repairs in CHRP have passed practical completion.

When the CHRP is completed EQC expects that about 70,000 homes will have been repaired through the programme. The cumulative total of 56,927 building repairs at 30 June 2014 means that CHRP is more than 80 percent complete.

EQC announced a stretch target for the completion of CHRP of December 2014. As at 30 June 2014 this stretch target was forecast to not be met with the expectation that a relatively small proportion of eligible properties (possibly fewer than 3,000 dwellings) will remain to have repairs completed in 2015.

CHRP vulnerable customer repairs

In Canterbury, some customers (or family members in the same property) who are living in earthquake damaged dwellings may have a heightened risk to their wellbeing, for example due to health conditions or their age. Where such a risk is verified EQC will prioritise the vulnerable customer's claim for CHRP repairs or cash settlement – depending on the customer's preference.

Some vulnerable customers are identified by relatives, community and health organisations. Some self-identify, but others do not come forward. In addition, customers may be healthy today but fall ill tomorrow. EQC's programme for responding to vulnerable customer needs includes:

» proactively identifying, over time, potentially vulnerable customers from its own and other sources (as at 30 June 2014 EQC had cumulatively identified 28,009 potentially vulnerable customers);

» verifying vulnerable customer needs in consultation with customers;

» where required, referring vulnerable customer dwellings for prioritised repair. Not all vulnerable customers require prioritised repair. Prioritised repairs can also include urgent repairs to resolve habitability and/or weathertightness issues. As at 30 June 2014, EQC has cumulatively referred 11,888 vulnerable customers to CHRP of which 9,365 vulnerable customers were prioritised and had their repairs completed or underway; and

» providing individual case management on a case-by-case basis to assist vulnerable customers through the repair process. As at 30 June 2014 there were 1,078 vulnerable customers receiving various forms of individual case management.

On average, CHRP has commenced vulnerable customer repairs 25% faster, through the Programme, than those without prioritisation. As a customer's health, age or family circumstances change so does the pool of potentially vulnerable, verified vulnerable and prioritised repairs with CHRP.[14]

Table 7 provides a summary of vulnerable customer CHRP property repairs completed and EQC cash settlement for the financial year and the cumulative total since the start of CHRP.

TABLE 7: VULNERABLE CUSTOMER CHRP REPAIRS AND CASH SETTLEMENTS IN THE 2013–14 FINANCIAL YEAR

	2013–14 FINANCIAL YEAR (AS AT 30 JUNE 2014)			CUMULATIVE TOTAL COMPLETED SINCE THE START OF CHRP (AS AT 30 JUNE 2014)
VULNERABLE CUSTOMER DWELLING AND URGENT REPAIRS THROUGH CHRP AND BY CASH SETTLEMENT BY EQC	COMPLETED, DEFECTS LIABILITY PERIOD YET TO EXPIRE	UNDERWAY	COMPLETED, DEFECTS LIABILITY PERIOD EXPIRED	
Vulnerable customer CHRP dwelling repairs	3,174	2,523	3,364	9,365
Vulnerable customer CHRP urgent repairs*	370	0	0	4,366
Vulnerable customers cash settled with EQC	5,705	2,015	0	14,106
Totals	**9,249**	**4,528**	**3,364**	**31,515**

**The cumulative total in this table is greater than the total number of potentially vulnerable customers identified by EQC because some vulnerable customers who had CHRP urgent repairs may also have had CHRP dwelling and/or additional urgent repairs, or a cash settlement.*

CHRP repair cost control and inflation

A focus for CHRP performance is completing all repairs cost effectively. To ensure this, CHRP endeavours to use all repair resources effectively, economically and without waste.

The measures used to manage repair costs generally include:

» the application of a standardised approach to repair strategies and defined maximum costs that are derived from market information (the rates ceiling); and

» ensuring contractor variances are subject to approval processes.

As at the end of the financial year the cost of repairs completed during the year have on average exceeded by 5.5% the cost in the latest Statement of Works (SOW) that precedes the engagement of a contractor.

A key consideration for establishing a managed repair programme such as CHRP is mitigating the effect of cost-push inflation. Following the Canterbury earthquakes, it was anticipated there would be demand for repair resources that would exceed available supply which would fuel such inflationary pressures.

To help mitigate any Canterbury inflationary pressures, repair work is planned and managed so that contractors can operate as efficiently as possible and repair costs are managed through the application of a rates ceiling.

From February 2011 to June 2014, EQC calculates that the cost of a typical CHRP dwelling repair in Canterbury has increased by 14.2% which equates to a compound average annual increase of 3.8% per annum. Of the 14.2%, just under half is due to the impact of building code compliance and other regulatory changes during the period. The balance relates to the impact of increased labour and materials costs which equates to a compound annual average increase of 2.1%.

The 3.8% compound average annual increase for CHRP dwelling repairs compares favourably with cost increases reported by Statistics New Zealand. For new houses built in Canterbury during the year ending March 2014, Statistics New Zealand reported a cost increase of 7.6%.[15] Also, during the same period, the reported national cost increase for property maintenance was 4.5%.

14 Meaning that prioritised repair may no longer be required. In addition, some prioritised vulnerable customers have chosen to delay their repairs or opt for cash settlement of their claim.

15 http://www.stats.govt.nz/browse_for_stats/economic_indicators/CPI_inflation/ConsumersPriceIndex_HOTPMar14qtr/Commentary.aspx

CHRP repair quality and customer satisfaction with repairs

Ensuring that repairs are made to an acceptable standard was also a key consideration in establishing a managed repair programme. All repairs are to result in no less (and no more) than the standard EQC is obliged to comply with under the EQC Act. The actions used by EQC and its agent (Fletcher EQR) to manage the quality of CHRP repairs include:

» contractor accreditation and performance management processes;

» contract supervision, quality assurance inspections and post completion audits; and

» where defects are identified, remediation by the responsible contractor. Where work does not reach the required standard the cost of remediation is met by the responsible contractor – typically through forgone retention payments.

Since July 2013 EQC has conducted a weekly survey of 100 CHRP customers to establish their satisfaction with the repairs completed. Customer opinions sought include:

» the quality of the work;

» resolution of any issues that arose during the repair;

» the quality of communication with the homeowner; and

» contractor behaviour and on-site safety.

Since July 2013 and as at 30 June 2014 EQC had 4,125 responses to its CHRP customer repair satisfaction survey. 85% of the respondents reported being satisfied or very satisfied with the repairs completed. By comparison, the 2013 Building Research Association of New Zealand (BRANZ) survey of satisfaction with builders in 31 territorial local authorities reported that 81% of respondents (647) were fairly satisfied with their builder's service and 19% were fairly dissatisfied with the service provided. The 19% dissatisfaction rate is similar to that found in research commissioned in 2010 by the Department of Building and Housing of home owners granted a building consent in 2005.

COOK STRAIT AND EKETAHUNA EARTHQUAKE CLAIMS

In contrast to the Canterbury earthquakes, the 2013 Cook Strait and 2014 Eketahuna earthquakes resulted in considerably less damage and fewer numbers of claims than the Canterbury earthquake sequence. EQC's approach has therefore been to cash settle claims for these events. Tables 8 and 9 contain a summary of claims processing activity for the Cook Strait and Eketahuna events from an ***insurance perspective***. The closure rate for exposures in Tables 8 and 9 differ from the ***customer perspective*** of progress (i.e. claim 'resolved' but not necessarily 'closed' for EQC's purposes) as reported in the performance measures for Output 1.

TABLE 8: EXPOSURE PROCESSING ACTIVITY FOR THE COOK STRAIT EARTHQUAKES FOR THE 2013–14 FINANCIAL YEAR

COOK STRAIT EARTHQUAKES	LODGED	OPEN	CLOSED	TOTAL PAID AS AT 30 JUNE 2014 (EXCLUDING CHE AND GST EXCLUSIVE)
Content exposures	1,605	497	1,108	$1,109,548
Land exposures	904	523	381	$206,715
Dwelling exposures	11,114	4,461	6,653	$18,219,487
Total exposures	**13,623**	**5,481**	**8,142**	**$19,535,750**

TABLE 9: SUMMARY OF EXPOSURE PROCESSING ACTIVITY FOR THE EKETAHUNA EARTHQUAKES FOR THE 2013–14 FINANCIAL YEAR

EKETAHUNA EARTHQUAKES	LODGED	OPEN	CLOSED	PAID AS AT 30 JUNE 2014 (EXCLUDING CHE AND GST EXCLUSIVE)
Content exposures	1,105	773	332	$257,923
Land exposures	373	311	62	$31,857
Dwelling exposures	4,642	3,590	1,052	$2,907,933
Total exposures	**6,120**	**4,674**	**1,446**	**$3,197,713**

CUSTOMER SATISFACTION

Customers' lives are often disrupted significantly by natural disaster damage to their property. The efficiency of our claims handling systems and processes and the manner in which claims are handled by EQC has a significant impact on the customer experience and perception of EQC and its service during this stressful time. EQC customers expect consistent, timely, accurate and customer-centric settlement of claims.

Defining and communicating with customers on timeframes and processes for assessments, house repairs and claim settlement has been difficult particularly for complex claims such as MUBs. Consequently the frustration experienced by many of EQC's customers has been reflected in customer dissatisfaction and, as compared to previous financial years, an increase in the number of Official Information Act requests and complaints to the Ombudsman.

For the period December 2012 to 30 June 2014, EQC's external customer satisfaction survey[16] reported that 33% of customers expressed satisfaction with the overall quality of service they received. For non-Canterbury events, 63% of customers reported that they were satisfied with the overall quality of service. As well as the shorter time frames for claim resolution, we attribute some of the higher customer satisfaction rating for non-Canterbury events to EQC converting the lessons learned from Canterbury into improvements in claims handling.

During the financial year EQC received 5,050 new customer complaints.[17] Including complaints that were being resolved at the start of the financial year EQC resolved 5,619 complaints. The majority of customer complaints related to the assessment of damage with the balance spread over a broad range of individual customer concerns. The average time to resolve complaints in the financial year was 83 days.

In July of 2013 the Chief Ombudsman and the Privacy Commissioner continued their joint investigation into EQC's handling of Official Information Act and Privacy Act requests. At the time of the investigation EQC customers were experiencing a six to seven month delay for a response to their requests and there was a backlog of 1,300 requests. This meant that EQC was failing to comply with the statutory requirements of the Official Information Act and the Privacy Act.

By the time the Ombudsman's report[18] was published on 13 December 2013 (containing 13 recommendations for improvement) EQC had already made improvements to its information request processing operations and was working on eliminating the backlog which stood at 1,191 overdue requests. By 30 April 2014 EQC:

» had eliminated the backlog of information requests;

» was meeting all new customer information requests within the 20 day statutory deadline;

» had made improvements to EQC's information request processing that resulted in the Chief Ombudsman closing three of the recommendations in the Ombudsman's report; and

» was progressing work on addressing the remaining report recommendations.

16 Telephone survey conducted quarterly by UMR Research on behalf of EQC. The survey covers 1,205 customers whose claim has been accepted, and excluding customers whose claim was to be resolved through CHRP. Customers were asked to rate their satisfaction with the overall quality of service delivery.

17 A 'complaint' is what is recorded in the EQC complaints system. The recording of a 'complaint' does not necessarily reflect customer dissatisfaction (e.g. customers may simply be seeking clarification of assessment findings, or a further explanation of their entitlements and/or how a settlement decision was made in light of those entitlements).

18 *'Information fault lines – Accessing EQC Information in Canterbury. A Joint report of the Chief Ombudsman and the Privacy Commissioner into the Earthquake Commission's handling of information requests in Canterbury'.*

SAFETY

On-going promotion of the joint EQC and Fletcher EQR *safe6* programme, which targets the most likely fatal risks, resulted in continuing reduction in reportable injury frequency. By the end of the financial year 11,000 staff, contractors and sub-contractors cumulatively had attended health and safety inductions. Other targeted training workshops and seminars were held including a refresher asbestos awareness raising course which ran over three days in late 2013 and was attended by approximately 10,000 individuals working on the repair programme. As at the 30 June 2014 there have been more than 35 million hours worked, with zero worker fatalities.

OUTPUT 1 PERFORMANCE MEASURES

QUANTITY MEASURES

MEASURE			2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
Lodgement	1.1 Lodgement of claims after 3 months deadline		<1%	Target not achieved 3.7%	
Assessment	1.2 For events with fewer than 10,000 claims, loss is quantified within 90 days of claim lodged with EQC		92%	Target not achieved 69.4%	• e.g. Eketahuna earthquake
	1.3 For events with an estimated 10,000–100,000 claims, an initial assessment of the loss is quantified within 180 days of the claim being lodged with EQC		92%	Target not achieved 73.9%	• e.g. Cook Strait earthquakes
	1.4 For events estimated to result in over 100,000 claims, loss is quantified within 270 days of claim lodgement		92%	No new events with greater than 100,000 claims	
Resolution	**Non-Canterbury claims**	1.5 Claims are settled within one year of quantification of loss	100%	Target not achieved 98.4%	• 'Settled' reflects the customer perspective (claim resolved)
	Canterbury Claims	1.6 Urgent repairs completed within 10 days of validation by EQC	95%	Target achieved 99.9%	• 'Urgent' means required to make dwelling safe, secure or weathertight • The result reported is urgent repairs in progress within 10 days of validation (excluding insurer verification)
		1.7 CHRP repairs resolved costing more than $50,000	100% by Dec. 2013		• This measure is has been replaced by the new measure 1.8
		1.8 Proportion of dwelling claims resolved for claims greater than $50,000 and less than maximum entitlement	95%	Target not achieved 70.4%	• Claims with a SOW document that was not in a format which allowed calculation of the measure result were excluded from the result. These claims represented 4% of the measured population • Excludes MUBs with more than one repair and over cap dwellings • The maximum entitlement is generally $100,000
		1.9 Proportion of contents claims resolved	–	98.4%	
		1.10 Proportion of all dwelling claims resolved	65%		• This measure is has been replaced by the new measure 1.11
		1.11 Proportion of all dwelling claims resolved by cash payment and through the managed repair programme	85%	Target not achieved 84%	• 'Resolved' reflects the customer perspective • Claims with a SOW document that was not in a format that allowed calculation of the measure result were excluded from the result. These claims represented 4% of the measured population • Excludes MUBs with more than one repair and over cap dwellings
		1.12 Proportion of land claims resolved	75%	Target not achieved 59.9%	

QUALITY MEASURES

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
Lodgement	1.13 Claims validated within 10 days of receipt of the first notice of loss	90%		• As indicated in EQC's 2012–13 Annual Report, this measure is no longer reported
	1.14 Rate of accepted claims declared by EQC as invalid	12%	Target not achieved 29.7%	• As EQC accepts only valid claims the result for this measure is reported as the 'rate of declinature due to invalidity'
Assessment	1.15 Reassessment arising from customer disputes where the variance is found to be greater than 10%	15%	Result not reported	• The focus for this measure is now resolving customer disputes and customer satisfaction measures 1.18, 1.19
	1.16 **Land damage claims** (in aggregate) – the average variance between the cost of settling the claims (measured by the latest complete assessment of the claims costs) and the actual final cost of settling the claims	Not greater than 20%	Target achieved 2.4% over the agreed settlement	• The 'cost of settling the claim' is amount actually paid to the customer • The 'latest complete assessment of the claims costs' is the agreed settlement (being the lower of valuation or remediation value and excluding multi-unit buildings)
	1.17 **Cash settled dwelling claims** – the average variance between the latest complete assessment of the cost to settle the claim, and the *actual final* cost of settling the claim	Not greater than 20%	Target achieved 3.6% over SOW	• Claims with a SOW document that was not in a format that allowed calculation of the measured result were excluded from the result. These claims represented 4% of the measured population (excluding multi-unit buildings and over cap claims) • The 'latest complete assessment' means the assessment (SOW) that precedes the contractor's review of the scope and price of the repair
	1.18 **Dwelling claims settled by managed repair** – the average variance between the latest complete assessment of the cost to settle the claim, and the *actual final* cost of settling the claim	Not greater than 20%	Target achieved 10.5% over SOW	• Claims with a SOW document that was not in a format that allowed calculation of the measure result were excluded from the result. These claims represented 4% of the measured population • Excludes MUBs and over cap claims • Includes urgent repairs
	1.19 EQC managed repairs that meet the relevant building standards or first post-repairs inspection	100%	Result not reported	• As indicated in EQC's 2012-13 Annual report the repair quality focus is now customer satisfaction with repairs completed (measure 1.23)
	1.20 Recorded disputes resolved prior to third-party mediation (measure reworded for clarity)	96%	Target achieved 99.17%	• 'Recorded disputes' are those recorded in EQC's dispute (complaint) management system
Overall	1.21 Customer (claimant) satisfaction of EQC's claim-handling process – average rating	70%	Target not achieved: Canterbury events: 33% for customers whose claim has been accepted and resolved Non-Canterbury events: 63% for customers whose claim has been accepted and resolved	• Data for this measure is from a quarterly external survey conducted by UMR Research for EQC. Customers surveyed include people with claims for different types of natural disaster events in New Zealand. The survey excludes CHRP customers. The survey period covered in this Annual Report is December 2012 to June 2014. See also 'Customer satisfaction' discussion in this report

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
SAFE REPAIR OR REBUILD OF PROPERTIES				
CHRP	1.22 Workplace harm (*safe6* programme commenced 2013)	Zero workplace harm	EQR target not achieved TRIFR = 7.2 per million hours worked EQC TRIFR = 3.2 per million hours worked	• Reported as the Total Recordable Injury Frequency Rate (TRIFR) i.e. injury rate per million hours worked • Includes medical treatment and lost time injuries. The TRIFR for the Business Leader Health and Safety Forum members for 2012/13 was 4.6 (http://www.zeroharm.org.nz/assets/docs/benchmarking/Forums-Benchmark-report-2012-13.pdf) • Fletcher EQR have a target TRIFR of less than 7.0
	1.23 Additional measure (not in 2013–2016 SOI): CHRP customer satisfaction with repairs completed		85% of surveyed customers report as being satisfied or very satisfied with the repairs completed	• Consistent monthly measurement started from July 2013, so this financial year becomes the base year for future reporting

COST MEASURES

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
Overall	1.24 Budget claims handling expenses (CHE)	$240m (Budget)	Target not achieved $243.6m	
	1.25 Claims handling expenses as a proportion of claims paid over the life of the programme (Based on the June 2012 ILVR report)	10%	Target not achieved 13.7%	
CHRP	1.26 Labour and materials costs	No more than 1.5 times the corresponding annual CPI rate	EQC now refers to the Canterbury house price index (rather than the national CPI) as part of assessing repair cost-push inflation as it is more relevant to a large-scale regional repair programme	• The cost of a CHRP repair as at 30 June is on average 14.2 percent higher than in Feb 2011 (base year). • EQC estimates that about 6.5 percentage points is as a result of changes to building code compliance and other regulatory changes; the balance being attributed to labour and materials inflation
	1.27 PMO cost managed within budget	100%	Target achieved 100%	
	1.28 Repair cost managed within assessed cost	100%	Result not reported	• As indicated in our 2012–13 Annual Report the focus for this measure is now on repair cost variance for all substantive repairs in the CHRP repair programme. This is reported as measure 1.18

OUTPUT 2: ADMINISTRATION OF THE ACT, INSURANCE SCHEME AND NATURAL DISASTER FUND

This output involves administration of the Natural Disaster Fund (the Fund), including collection of the premiums[19] payable, protection of the Fund's value through the investment of money held in the Fund and reinsurance in respect of the whole or part of the insurance provided under the EQC Act. EQC pays for claims for natural disaster damage from the Fund. The assets in the Fund are invested to help meet future natural disaster insurance liabilities.[20] The Crown Entities Act 2004 imposes a duty on the EQC Board to manage the Fund prudently. Premium payers and reinsurers expect us to manage our business cost-effectively and with appropriate transparency.

Approximately 90 percent of New Zealand dwellings have EQC cover, as the owners hold private dwelling insurance with cover for fire damage.[21]

Output 2 covers EQC's activities and services including:

» the administration of the Fund – including collection of the premiums payable;

» the investment of money held in the Fund; and

» obtaining reinsurance.

OUTPUT 2 OBJECTIVES

The objectives for this output are to ensure:

» EQC's forecast gross premium income meets targets;

» EQC's administration of the scheme and management of any claims against the scheme, together with EQC's research output, reduces the pricing of the New Zealand risk by the world's reinsurance companies.

» EQC is able to renew its reinsurance programme so that, together with Fund assets, this is sufficient to meet the maximum probable loss.

Operationally, this output is managed through:

» monitoring revenue receipts;

» coordinating and monitoring stakeholder relationships;

» provision of information and guidance on levy calculation to the insurance industry; and

» improving the collection and quality of levy payer information.

OVERVIEW OF OUTPUT 2 OPERATIONS 2013–14

In the financial year EQC has been successful in securing its core reinsurance programme and reinstatement premium protection. As at 30 June 2014 EQC has around $1.6 billion in investments comprised of $1.1 billion in Government stock, $355 million in Government inflation-indexed bonds and $141 million in term deposits. In addition, EQC had $735 million in cash at bank.

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19 Premiums for insurance under the EQC Act were last increased on 31 October 2011 (effective from February 2012) to better reflect the earthquake risk to residential or personal property and help rebuild the Natural Disaster Fund. Premiums are calculated and collected on behalf of EQC by insurance companies via the fire insurance policies they issue or renew. Key drivers of premium income include the amount of housing stock and insurance coverage.

20 As a result of meeting claims for damage from the Canterbury earthquakes, the Fund has been depleted. EQC's investments in international equities were discontinued in 2012. Premium income now accounts for a substantially larger proportion of income than previously.

21 Estimate derived from the total amount of EQC premiums received and relevant national housing statistics.

OUTPUT 2 PERFORMANCE MEASURES

QUANTITY MEASURES

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
EQC Levy	2.1 Forecast gross levies (Premiums) collected	$268.2m	Target exceeded $274.1m	• Recognised in the Statement of Comprehensive Income
Reinsurance	2.2 Amount secured per event with reinstatement	$2.5 billion	Target exceeded actual placement $3.86 billion	• For the reinsurance year 1 June 2014–1 June 2015

QUALITY MEASURES

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS
EQC Levy (Premium)	2.3 Collection of gross premiums declared by insurers and brokers	100%	Target achieved 100%
Reinsurance renewal	2.4 Coverage	Nationwide coverage for the natural disasters covered in the EQC Act	Target achieved

COST MEASURES

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
EQC levy	2.5 EQC levy (Premium) collection costs as a percentage of total cash premiums collected	Less than 2.6%	Target achieved 2.5%	
Reinsurance renewal	2.6 Cost of securing	EQC obtains sufficient reinsurance at an affordable price to protect the value of the Fund	Target achieved	• Relates to reinsurance renewal for 2014–15

OUTPUT 3: **RESEARCH**

Effective natural disaster hazard and risk management is vital if New Zealand is to develop greater resilience to the impact of natural disasters. By taking a role in national natural hazard risk management, EQC will add more value to the research and education outputs we deliver as well as contributing to risk reduction. A key priority in the SOI for both outputs 3 and 4 in the reporting year was therefore *"Preparing for what may lie ahead – world leading research and education"*.

In pursuing this priority through our research and education outputs we expect to be able to expand the opportunities for:

» investing in New Zealand's natural hazard risk management knowledge, science and technology. The Canterbury earthquakes have reaffirmed the importance of investing in the right type of quality research pre-event;

» engaging across the different government sectors and local authorities who have devolved local leadership responsibilities, encouraging a more integrated and well-coordinated approach to natural hazard risk management; and

» developing an improved understanding of New Zealand's natural disaster risks across sectors and disciplines through partnerships, networks, collaborative interest groups supporting the translation of science into practice, and to build capability.

OUTPUT 3 OBJECTIVES

The objectives of this output are to contribute to:

» improving the management of New Zealand's natural hazard risks;

» the reduction of damage and disruption following a natural disaster; and

» reduced uncertainty for the insurance/reinsurance market.

OVERVIEW OF OUTPUT 3 OPERATIONS 2013–14

Research and education activity in the financial year included:

(a) Facilitate greater co-ordination in natural hazard risk management. Collaborative activity during the year included working with:

- Local Government New Zealand on public risk management and community resilience;
- Ministry of Business, Innovation and Employment – building controls, construction and engineering; and
- The Building Research Association of New Zealand – improving the resilience of buildings.

(b) Working with stakeholders and contributing expert advice:

- Treasury – risk financing;
- Auckland City Council – continued EQC's partnership on the *Determining Volcanic Risk in Auckland* project with activity during the financial year on impact of lava flows, scenario and evacuation planning; and
- Wellington regional and local councils, the Accident Compensation Corporation, National Institute of Water and Atmospheric Research (NIWA), GNS Science and universities progressed the *It's Our Fault* study of Wellington's earthquake risk. Research activity in the financial year covered tsunami and liquefaction vulnerability in Wellington and the Hutt Valley and the likely shaking effect of a large earthquake near Wellington.

(c) Funding world class research:

- funded $9.188 million for GeoNet – New Zealand's national geophysical hazard monitoring system;
- jointly sponsored (with the Ministry for Primary Industries) a new Chair in the Economics of Disasters at Victoria University, Wellington;
- allocated $1 million to 20 new research projects that included social science, geology, geophysics, statistics and engineering under the EQC biennial grants scheme; and
- awarded $500,000 to a mix of masters, doctoral and post-doctoral students to a range of research disciplines and topics relevant to disaster risk reduction.

OUTPUT 3 PERFORMANCE MEASURES

QUANTITY MEASURES

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
Research Capability	3.1 Biennial grants	All grant applications of sufficient merit are awarded funding within budget	Target achieved 20 projects awarded funding within budget under the 2014 biennial grants programme	• Total funded is $1,000,475 over the two years – 2013, 2014
	3.2 Post-graduate students	All post-graduate applications of sufficient merit are awarded funding within budget	Target achieved 15 projects awarded within budget	• Research projects can have a duration of up to four years. • Funding under post-graduate programme this financial year totalled $464,068
	3.3 All scholarship and awards of merit are funded within budget	Three	Three ongoing awards were under way at the start of the reporting year	• No new awards granted this year • The three ongoing awards represented total funding of $61,000 per annum
Science-to-Practice	3.4 Post-disaster investigation reports and lessons learned published within 12 months of event	100%	No investigations in this period	
	3.5 Funded reports are presented in sector print media and/or presented at conferences or stakeholder workshops	100%	Two projects completed. One project has been presented as a report to BRANZ. Presentation of the second project is pending	

QUALITY MEASURES

MEASURE		2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
Research Capability	3.6 Completed research supports at least one peer-reviewed, academic paper or report within one year of completion	90%	Target achieved 100%	
	3.7 GeoNet achieves all contracted objectives	100%	Target achieved 100%	
	3.8 Research and capability grants meet all contracted objectives	100%	All grants have submitted reports and on track to meet their contacted objectives	• The work programmes for research capability grants can cover a number of financial years
Science-to-Practice	3.9 Funded activities achieve all contracted objectives	Demonstrated collaboration with local government	All funded activities (grants) have submitted reports and are on track to meet their objectives	• Funded activities can cover a number of financial years
		Demonstrated collaboration across agencies, professional disciplines	All funded activities (grants) have submitted reports and are on track to meet this objective	• Funded activities can cover a number of financial years
	3.12 Engineering Lifelines Programme	Participation of utility providers and local government in annual technical forum	Target achieved	

COST MEASURES

MEASURE	2013–14 SOI BUDGET/FUNDING AGREEMENT TARGETS*	2013–14 RESULTS
3.13 GeoNet	$9.068 million	Achieved – $9.188 million actual matched the approved funding agreement amount of $9.188 million
3.12 Research capability	$883,000	Achieved – $1.733 million actual was within approved budget of $1.935 million
3.13 Science-to-practice	$1.177 million	Achieved – $916,066 actual was within the approved budget of $1.396 million

** Budget funding targets in the SOI were indicative funding only. Actual budgets/funding agreement are approved by EQC's Board annually in relation to the prevailing priorities and may differ from the budget targets in the SOI. The target is approved budget or better.*

OUTPUT 4: **EDUCATION**

Under the EQC Act, one of EQC's statutory functions is to facilitate education about:

» matters relevant to natural disaster damage;

» methods of reducing or preventing natural disaster damage; and

» the insurance provided under the EQC Act.

The EQC Act does not permit EQC to carry out mitigation activities for residential dwelling owners, so EQC cannot directly affect levels of disaster mitigation activity. While prime responsibility lies with insured residential property owners, they need information and guidance on the most effective and prudent measures to take to mitigate the risk of natural disaster damage. They also need to know what to expect of EQC if their property is damaged by a natural disaster.

EQC therefore pursues national and regional education initiatives on ways to reduce and prevent natural disaster damage. This will include capturing lessons learned from the Canterbury earthquakes and other recent natural disaster events and taking advantage through our education initiatives of the current high levels of public interest in natural hazard risks.

OUTPUT 4 OBJECTIVES

The objectives for this output are to improve:

» the levels of knowledge of and activity by New Zealanders to make their homes safer from natural perils; and

» levels of understanding of EQC's role.

OVERVIEW OF OUTPUT 4 OPERATIONS 2013–14

EQC's education initiatives during the year focused on improving New Zealanders' knowledge and activities to make their home safe from natural disaster events. Education initiatives in the financial year were:

» the Fix, Fasten and Don't Forget education campaign using hard-hitting television commercials;

» the Awesome Forces exhibition at Te Papa;

» the Canterbury Quakes exhibition in the Nelson Provincial Museum;

» in collaboration with the Ministry of Civil Defence and Emergency Management, a press and internet campaign urging people to protect what is most valuable to them – ahead of the Canterbury 22 February 2011 anniversary; and

» virtual field trip on volcanoes, landslides and tsunamis in the Bay of Plenty.

OUTPUT 4 PERFORMANCE MEASURES

QUANTITY MEASURES

MEASURE	2013–14 SOI TARGETS	2013–14 RESULTS
4.1 Number of students participating in Virtual Field Trips (Virtual field trips (VFT) help improve understanding of geo-hazards, how New Zealand manages them and EQC's role in building New Zealand's resilience. A VFT consists of a teacher and subject experts on location, communicating with students through online video and audio feeds.)	2,700	Target achieved 3,631
4.2 Student participation in EQC Schools Fund (Te Papa visits)	500	Target achieved 1,035

QUALITY MEASURES

MEASURE	2013–14 SOI TARGETS	2013–14 RESULTS	NOTES
4.3 Percentage of New Zealanders who are knowledgeable of natural hazard safety in the home	At least 45%	Result not reported	• This measure has been combined with measure 4.4 as natural hazard mitigation in the home which includes knowledge of safety in the home
4.4 Percentage of New Zealanders are knowledgeable of natural hazard mitigation in the home	At least 70%	Target not achieved 46%	• Data for this measure is sourced from an external quarterly survey conducted by Nielsen for EQC – *Monitoring the Effectiveness of the Earthquake Commission's Communication Programme : Nielsen Quarterly Survey.*

COST MEASURES

MEASURE	2013–14 SOI TARGETS	2013–14 RESULTS
4.5 Virtual Field Trips	$32,500	Target achieved $32,500
4.6 EQC Schools Fund (Te Papa visits)	$15,000	Target achieved $15,000

OTHER DISCLOSURES

COOK STRAIT AND EKETAHUNA EARTHQUAKES

WHEN	MAGNITUDE	LOCATION
5.09 pm, Sunday, 21 July 2013	6.5	20 km east of Seddon, depth 17 km
2.31 pm, Friday, 16 August 2013	6.6	10 km south east of Seddon, depth 8 km
2.52 pm, Monday, 20 January 2014	6.2	15 km east of Eketahuna, depth 33 km

In July and August 2013 the upper South Island and lower North Island were shaken by two damaging earthquakes causing significant damage to buildings in Seddon, some land damage and landslips blocking several roads. In Wellington, there was moderate damage to some buildings.

COOK STRAIT EARTHQUAKES: CLAIM PROCESSING PROGRESS AT 30 JUNE 2014

» 99 percent of the 13,623 exposures have been assessed;

» 8,142 exposures have been closed;

» $19.5 million has been paid to claimants – mostly to Marlborough District claimants with the balance to Wellington City, Kapiti Coast and Hutt City.

Significant though they were, the Cook Strait earthquakes would have been even more notable had they not occurred in the shadow of Canterbury. The pattern of damage in Marlborough ranged from light in Blenheim to more serious in Ward and Seddon. Seven buildings in Ward and Seddon experienced damage that exceeded the EQC maximum entitlement or 'cap' for a residential building.

In managing these events, we made early contact with the Marlborough District Council to ascertain the most impacted areas – dealing first with vulnerable persons and families and then claims closest to the epicentre.

With Council and community help, we established a temporary base in Seddon and began assessing earthquake damage within a day of the first quake. The relationships set up with community members at the outset were invaluable.

The EQC temporary base later shifted to Blenheim as assessments progressed. Community engagement was vital in our response and the EQC Chief Executive and General Manager Customer Services attended community meetings jointly hosted with Marlborough District Council at Seddon and Ward and responded to questions about our work.

Cook Strait claims are being cash settled with individual owners managing their repairs.

EQC IS MOST GRATEFUL TO SEDDON RESIDENT MARIE FLOWERDAY (CENTRE) WHO PROVIDED VALUABLE ASSISTANCE HELPING US LIAISE WITH THE COMMUNITY SO OUR STAFF COULD ADDRESS ISSUES QUICKLY. HERE SHE IS WITH CUSTOMERS RICHARD AND SHIRLEY LEMAIRE.

EKETAHUNA EARTHQUAKE: CLAIM PROCESSING PROGRESS AT 30 JUNE 2014

EQC received 6,120 exposures, primarily from Eketahuna, Woodville and Pahiatua. Temporary EQC bases for assessments were established in Palmerston North and Lower Hutt. At 30 June 2014, 99 percent of assessments were complete and 1,446 exposures closed. At 30 June 2014, a total of $3.2 million had been paid to claimants.

OUR WORK IN CANTERBURY

THE CANTERBURY HOME REPAIR PROGRAMME

As noted earlier, during 2013–2014 EQC completed a further 17,000 CHRP repairs and most of the remaining repairs should be completed by the end of December 2014. Being part of CHRP means that all aspects of the repair are taken care of including compliance, quality monitoring and control and remedying of any defects identified. CHRP expenditure, detailed in the Statement of Service Performance, continues to be a large contributor to the Canterbury economy.

The structure of CHRP delivery was reorganised during 2013–2014 to better align with changing operational requirements. The 20 repair delivery hubs were streamlined and repairs are now managed from six main hubs and one site office in Akaroa.

HEALTH AND SAFETY ASPECTS OF THE PROGRAMME

Safety is of paramount importance and, as detailed in the Statement of Service Performance, EQC has maintained an excellent safety record. The emphasis on safety at both CHRP and within EQC itself was acknowledged in May 2014 when EQC's Health and Wellbeing Manager was named the New Zealand Institute of Safety Management's Health and Safety Practitioner of the Year at the 2014 New Zealand Workplace Health and Safety Awards.

ASBESTOS REFRESHER TRAINING AT CBS ARENA 2013

LAND SETTLEMENTS

EQC is unique among insurers by providing explicit cover for land damage. In Canterbury, land damage has been extensive due to inundation by liquefaction on flat land, and rock fall and land collapse in the Port Hills. In addition, increased flooding vulnerability (IFV) and increased liquefaction vulnerability (ILV) in a future earthquake have been recognised for the first time as types of land damage under the EQC Act.

IFV and ILV are some of the most complex forms of damage that EQC is dealing with following the Canterbury earthquakes. It is anticipated that a significant number of these claims will not be settled until 2015 due to the engineering and legal issues that need to be resolved. As noted earlier in this Report, EQC has applied to the High Court for a declaratory judgment on our proposed approach to settling land claims resulting from IFV.

At 30 June 2014 7,406 of approximately 7,500 Port Hills land claims had been resolved; and 38,942 of 63,067 simple flat land claims had been resolved.

Increased Liquefaction Vulnerability (ILV)

In some areas of Canterbury, the ground surface subsided due to the earthquakes and yet the groundwater table remained at a constant level. As a result, the groundwater table is closer to the surface, resulting in a thinner ground crust and higher likelihood of liquefaction damage occurring in a future earthquake.

Engineering firm Tonkin & Taylor, on behalf of EQC, is completing the assessment process for ILV and it is estimated that approximately 7,000 properties in the green zone will be confirmed as having ILV damage covered by EQC.

Ground Improvement Trials: Dealing with liquefaction vulnerability

To increase understanding of options to mitigate the impacts of future liquefaction, in 2013 EQC (with co-sponsors the Ministry of Business, Innovation and Employment (MBIE) and Housing New Zealand Corporation) initiated a series of ground improvement trials in the residential red zone. The ground improvement trials have been overseen by engineering firm Tonkin & Taylor with support from the University of Canterbury, Cornell University, University of California, University of Texas and other leading engineering consultancy firms.

The trials are exploring techniques for strengthening land vulnerable to liquefaction in future events for both bare land (e.g. where a damaged dwelling is being completely demolished and rebuilt) and where a dwelling will remain in place throughout the strengthening process.

The trials have drawn on global experience and include methods to stiffen the land such as compaction, compressing the land using columns of stone aggregate and mixing cement into soil in various configurations. The results have been tested using explosions and other means of simulating earthquake activity.

Since completion of the trials, EQC has been working with private insurers and a number of property owners in Christchurch and Kaiapoi to pilot the techniques in ‘real-life’ situations. The aim is to better understand practicalities and how the techniques can be installed cost-effectively. Costing information from the pilot work is important to enable EQC to quantify and then settle potential ILV land claims.

We are working with MBIE and building and resource consenting authorities to ensure lessons learned can be incorporated into revised guidance for the consenting and repair of damaged buildings and land.

Increased Flooding Vulnerability (IFV)

In some parts of Christchurch the earthquakes caused changes to residential land that renders some houses more susceptible to flooding or to a greater depth and frequency of flooding.[22]

EQC has identified approximately 9,000 green zone properties that have potentially experienced IFV damage covered by EQC. Work is now underway to confirm the modelling results through engineering review. Following this, valuation assessments will be undertaken to confirm that the property has suffered a reduction in value as a result of the IFV. Subject to the High Court declaratory judgment sought by EQC, this is the final test to confirm that the property is eligible for a settlement for IFV.

Approach to land claim settlement

EQC will generally settle land claims through a cash payment based on the cost of repair, up to EQC’s maximum liability. This maximum amount is often (but not always) the value of a parcel of land that is the minimum lot size under the relevant District Plan.

If a repair method is not available, or it is unlikely the repair will receive consent, then EQC may choose to settle based on an assessment of the loss in property value as a direct consequence of the land damage.

EQC is also exploring whether it could contribute to Christchurch City Council planned area-wide flood mitigation schemes as a way of settling some IFV damage claims.

22 It is important to note that EQC does not cover IFV caused by factors other than damage to the insured area of land within the insured landholding. Damage outside the property (e.g. the narrowing of waterways or changes in drainage infrastructure) is not covered by EQC.

Declaratory Judgment

As noted earlier in this Report, EQC has sought declarations from the High Court on questions relating to EQC's coverage of residential land with IFV due to the Canterbury earthquakes.

The particular issues that EQC has asked the Court to consider are:

» to confirm EQC's determination that IFV is a form of land damage covered by the EQC Act;

» to decide whether a settlement based on the loss of market value that the property has suffered due to the IFV damage is permitted under the EQC Act. This method of settlement has been publicly referred to as 'diminution of value' (DOV). EQC proposes to use this settlement method for properties vulnerable to flooding where it is not possible to identify a repair to the land which is feasible and consentable;

» to confirm that EQC's approach to assessing IFV damage and calculating a DOV settlement is appropriate and not unreasonably excluding properties or leading to under-compensation.

Consideration by the Court of these issues will help to assure EQC and claimants that the final settlements are soundly based. To ensure that a broad range of arguments were put to the Court, EQC encouraged the Insurance Council of New Zealand and other parties to join in the proceedings.

EQC asked the Court to appoint two amici curiae (friends of the Court). One will be representing the position of the residents of Christchurch, while the other will argue any other positions not taken by other parties during the proceedings.

Southern Response is also participating in the proceedings.

MULTI-DWELLING BUILDINGS (MULTI-UNIT BUILDINGS)

Among the most complex claims are those relating to multi-dwelling buildings. Multi-dwelling buildings are typically semi-detached or terraced houses, but there are also significant numbers of apartment blocks.

The complexities arise from dwellings often having different owners and separate private insurers. Where the repair is confined entirely to a single dwelling, or there is a common insurer for all the dwellings (e.g. in a unit title development where there is a body corporate), the settlement is relatively straightforward. However, damage to shared structural elements such as foundations, external walls and roofs can be much more complicated and time-consuming, as this will require agreement between EQC, multiple owners and private insurers about the overall repair strategy and apportionment of costs.

EQC has been working with private insurers to find the best approach for managing repairs in such buildings where they fall within the range covered by CHRP. One potential approach could involve a private insurer managing the repair of all dwellings in the building, including where the damage repair costs do not exceed the EQC cap. Such an approach would ensure occupants experience minimum disruption as all the dwellings in the building are repaired at the same time by a single repairer.

By 30 June 2014 all multi-dwelling building claims had been identified and 99 percent of owners advised how they will be settled. As with all other EQC claims, settlement can be in cash or repair.

RESEARCH

INTRODUCTION

New Zealand is a geologically active zone, straddling two moving sections of the Earth's outer shell – the Pacific and Australian tectonic plates. This interaction generates earthquakes across the country, particularly concentrated within 200 kilometres of the boundary of the plates, an area where 95 percent of New Zealanders live.

Volcanic ash eruptions occur in the central North Island and much larger although rarer destructive eruptions are also possible. Volcanic activity can continue for decades with damaging effects ranging from increased sediment loading and flooding of waterways to acid rain and gas corrosion down-wind.

These and all other natural hazards covered by the EQC Act come within the scope of EQC's research interests. As a general rule, the less likely the event, the bigger the impact if it happens. This makes such risks difficult to assess over human time-scales. Although large losses are infrequent they can be catastrophic and sustained.

EQC supports research and education aimed at understanding hazard and risk and reducing potential harm before it occurs. This includes discipline-based capability programmes or Fellowships at Auckland, Massey, Victoria and Canterbury universities. Research areas include volcanic risk, geotechnical engineering, earthquake engineering, geological hazards, and land use planning.

The very large losses in Canterbury highlight the need to transfer research findings into practice where this will substantially increase resilience against the impacts of natural disasters.

CHAIR IN THE ECONOMICS OF DISASTERS

In 2013, EQC, Victoria University and the Ministry for Primary Industries jointly sponsored a new *Chair in the Economics of Disasters*. The primary focus is research and the application of economics and public policy insights into the management of natural disasters. The goal is to provide invaluable new knowledge to prepare New Zealand for future threats – be they from geological or weather-related perils covered by the EQC Act, or biosecurity incursions and disease outbreaks that may be addressed through other statutes.

THE ALPINE FAULT

Traditionally, Wellington has been seen as the high-risk scenario for a damaging event, but scientists are now confident of a high potential for a very large and damaging earthquake on the southern Alpine Fault in the next 30 to 50 years which would be felt strongly in the South Island in particular. EQC's support for GeoNet has been essential in providing the geophysical monitoring infrastructure necessary to attract international science collaborators to New Zealand.

AUCKLAND VOLCANOES

Our largest city is built on an active volcanic field. The *Determining Volcanic Risk in Auckland* (DEVORA) project receives funding from EQC in a partnership with Auckland City Council. Key DEVORA achievements in 2013/14 include evidence showing that Rangitoto may have erupted for an extended time, changing planning assumptions about potential scenarios for future events including eruption styles and the impact of lava flows in different parts of the city and evacuation planning. The production of ash in a new volcanic event has the potential to disrupt air and ground traffic and there could be small earthquakes. National economic losses could be of the order that might be expected from a large event on the Alpine Fault.

THE WELLINGTON REGIONAL RISK PROJECT

It's Our Fault is a comprehensive study of Wellington's earthquake risk. The project is jointly funded by EQC (a collaboration with Wellington regional and local councils and ACC) and is led by GNS Science in collaboration with Massey University, NIWA, the University of Canterbury and Victoria University. Key achievements in the last year include improved understanding of the timing of the most recent large subduction earthquake near Wellington and the likely shaking effects of such an event, and improved understanding of the tsunami hazard and of liquefaction vulnerability in Wellington and the Hutt Valley. This knowledge is informing planning for a more resilient region.

GEONET

EQC is the principal sponsor of GeoNet – New Zealand's national geological hazard monitoring system – with funding of $9.188 million in the 2013–2014 financial year. GeoNet facilitates the collection, processing, and interpretation of geophysical data from a network of about 550 geophysical instruments located throughout New Zealand to improve the detection and understanding of earthquakes, volcanic unrest, land deformation and stability, geothermal activity and tsunami. The data it provides is invaluable in understanding New Zealand's geological risks.

IMPROVING SCIENCE AND PRACTICE

EQC activities undertaken to improve science and practice related to natural disaster hazards include:

» support for the New Zealand Society for Earthquake Engineering (NZSEE);

» support to New Zealand Lifelines Committee and National Forum; and

» collaboration with the Ministry of Business, Innovation and Employment and NZSEE on re-development of technical guidance for seismic assessment of buildings.

EQC BIENNIAL GRANTS

Under the EQC biennial grants scheme, $1 million was allocated in 2014 to 20 new research projects across a wide range of disciplines including social science, geology, geophysics, statistics and engineering. Demand for post-graduate grants increased significantly in 2013–2014 and 14 new awards totalling approximately $500,000 were made to a mix of masters, doctoral and post-doctoral students, again covering a wide range of research disciplines and topic areas relevant to disaster risk reduction.

EDUCATION

Resilience in the face of natural catastrophes can be built in many ways. Education plays a key part and EQC supports a broad range of initiatives to achieve this. In the last year, we brought home to New Zealanders the importance of quake-proofing their homes against falling furniture and flying debris.

Despite Canterbury being fresh in minds, our research showed that many, even in Canterbury, could do more to minimise the risk of damage from a major event. To encourage this, EQC commissioned a series of three hard-hitting commercials designed to make sure that we *Fix. Fasten. Don't Forget*. A Canterbury-specific campaign was prepared that featured local identities Todd Blackadder and Sam Johnston. The three core commercials were screened in cinemas around the rest of the country.

EQC continues to be a proud supporter of exhibitions such as *Awesome Forces* at Te Papa, *Quake City* at the Canterbury Museum and a *Canterbury Quakes* exhibition in the Nelson Provincial Museum.

In another initiative we also joined forces with Civil Defence to deliver a press and internet campaign urging people to protect what is most valuable to them – people and homes – ahead of the 22 February earthquake anniversary. We also ran a virtual field trip for school students to the Bay of Plenty to explore the issues related to volcanoes, landslides and tsunamis.

Engagement in support of improved hazard risk management practice is an important strategic dimension to EQC's education role. This effort includes promoting a more thoughtful consideration of hazard risk in decision-making and improved attention to the range of options in risk treatment beyond risk transfer (such as land use and building controls), as well as contributing to building national capability across a wide range of professional sectors such as engineering, planning and risk governance. In the last 12 months there has been renewed focus on new forms of collaboration with:

- *Local Government New Zealand (LGNZ)* in recognition of the pivotal role local authorities have in public risk management processes and community resilience;
- *Ministry of Business, Innovation and Employment* on matters related to their role in oversight of building controls, construction and engineering sectors (as well as funders of national science capability);
- *Building Research Association New Zealand (BRANZ)* on improving the resilience of buildings and the information to support this, scoping opportunities to leverage joint networks and processes for optimising knowledge transfer;
- *Treasury* and *LGNZ* on matters related to risk financing, national risk assessment and loss modelling capability, and optimising national hazard risk management approaches.

PEOPLE, SAFETY AND CAPABILITY

INTRODUCTION

It's not only what we do as an organisation that contributes to achieving our outcomes, it's how we do it. EQC is a rapidly changing organisation which, in the past three years, has ramped up from just 22 people before the earthquakes, to a peak of more than 1,800. During that time, our staff roles have changed dramatically depending on the business need. Initially, the need was to get around 750,000 assessments done. At first, these were to determine a settlement path for building claims, then we had to focus on land and now we have more specialised needs such as determining potential vulnerability to liquefaction in a new earthquake, or to flooding.

The skills needed are constantly changing and our staff members have to be adaptable, flexible and empathetic. Many are on short-term contracts which end when the job they were engaged to do is over. They have to cope with a high degree of uncertainty – that is the nature of the post-earthquake environment – and deal with situations where the answer isn't always obvious. The majority of our people work in Canterbury, and the problems they help our customers with are often the same they experience when they go home at night.

We achieve our goals by having capable and committed people and we support them through a range of initiatives and programmes that enable them to work in an environment that is free from harm; and one where they can access learning and development opportunities to assist their careers post-EQC. We also focus on building strong leadership capability.

BEING A GOOD EMPLOYER

The way we work with our people and the environment we promote is integral to EQC achieving its objectives, complying with statutory obligations and enabling the recovery of communities affected by natural disasters. To ensure that our people regard us as a good employer we have implemented a number of initiatives that encourage staff interaction and engagement. We have focused this year on health and wellness activities, our equal employment opportunities (EEO) initiatives including implementing our EEO policy and understanding our staff demographics, and learning and development opportunities.

Our focus continues to be on attracting, supporting and developing our people, consistent with the seven elements of being a good employer as identified by the New Zealand Human Rights Commission.

ELEMENTS	INITIATIVES
Leadership, Accountability and Culture	We refreshed our Standards of Integrity and Conduct. We also introduced the *Foundations for Leadership* programme for frontline leaders which has been bolstered with a *Leading through Change* workshop in recognition of the Canterbury work tapering off.
Recruitment, Selection and Induction	We have a number of initiatives in place to attract and retain high-calibre people, improve capability, enhance professional development and improve the general work environment. Our aim is to attract skilled people who are committed to helping customers recover from a natural disaster. We focus our recruitment selection decisions on competencies, skills and experience and support our new starters with a comprehensive orientation and induction programme which often includes technical skill-based training.
Employee Development, Promotion and Exit	We develop our staff capacity through technical skill-based training, onsite mentoring and coaching, and internal and external secondments. We focused on opportunities for current staff to be transferred or promoted into new roles with a number of staff promoted into new internal roles. We conduct exit interviews and all staff have an opportunity to provide feedback on their experience at EQC when they leave. The information is consolidated and used to determine what we can do to improve our environment.
Flexibility and Work Design	We provide flexible working arrangements to allow for family connection and we transfer employees between offices nationally. All roles have a clear position description that outlines the key result areas, skills and competencies required to be successful in the role.
Remuneration, Recognition and Conditions	Our remuneration strategy and policy is reviewed annually and we balance the need to recognise and reward individual contributions, while taking into account business objectives, affordability, fairness, market factors, recruitment and retention.
Harassment and Bullying Prevention	Our policies have a principles-based approach which helps us to focus on the behaviours expected from our people. Our standard policies dealing with conduct, harassment and discrimination, and disciplinary matters, reflect this as well as providing reference on where to access further information and support if required. We review our EEO polices on an annual basis.
Safe and Healthy Work Environment	We have employee health and safety representatives in each site to ensure a healthy and safe working environment. Health and safety is emphasised in our induction programme and on-going education. Wellness initiatives include the implementation of *Tracksuit Inc*, an interactive web-based health and wellbeing monitoring programme, EQC *Office Safe* which provides interactive information on the top five hazards, and the annual *Healthy Heart* programme. For our field staff we have worked with our rebuild partner to implement *safe6* to ensure that we have zero fatalities. Initiatives such as *Office Safe*, *Healthy Heart*, flu vaccines and ergonomic assessments help create and maintain a healthy work environment.

PROFILE OF OUR PEOPLE

We support staff with reported disabilities and a disability register is held in case of emergency.

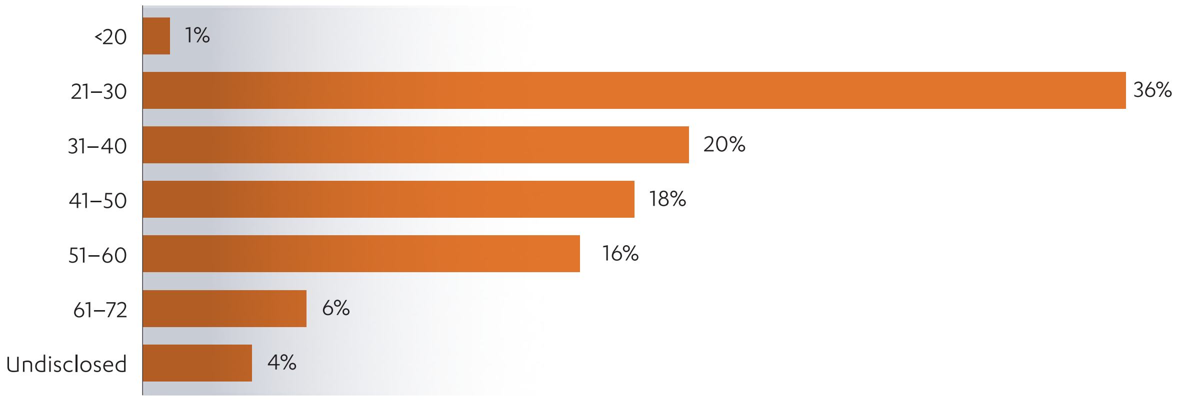
One of our strengths is the diverse range of staff we have working with us. This includes New Zealand European, Maori, Pasifika, and Asian. Further work is being undertaken to allow us to report statistically on our diversity.

PROFILE OF OUR PEOPLE	2011/12	2012/13	2013/14
Headcount	888	1,345	1,161
Male	54%	56%	52%
Female	46%	44%	48%
Staff turnover*	2.09%	29.3%	28.3%
High achievers**	N/A	18%	24%
High achiever turnover	N/A	N/A	10%
Average number years of service	1.04	1.34	1.7

**Staff turnover is based on unplanned resignations for permanent and fixed term employees only. In 2012 we made a significant change from outsourcing to employing people. However we are not able to offer permanent roles and this has had an impact on the turnover rate.*

***High achievers are employees who achieve an 'exceeds' or 'outstanding' performance rating. High achiever turnover is measured by voluntary resignations of high-performing staff.*

Age Profile



ULTRA VIRES TRANSACTIONS

EQC has identified a small number of claims for natural disaster damage caused by the Canterbury earthquake that may, inadvertently, have been settled in a manner that is not strictly in accordance with the EQC Act.

MINISTERIAL DIRECTIONS

In summary, directions to EQC (made by the Minister responsible for EQC) that remained current at 30 June 2014 were:

» **Effective 1 November 2001** – requirements for how EQC should invest and manage the Natural Disaster Fund, and when EQC should consult with the Minister of Finance. This allowed the Commission to diversify the investment of the Fund to include (up to certain limits) New Zealand Government securities, global equities and New Zealand bank bills.[23]

» **Effective 14 December 2010** – giving EQC additional functions in relation to additional land remediation activities to certain parts of Christchurch and Waimakariri districts. This enabled EQC to: investigate options to remediate certain land in these areas to a higher standard than the statutory minimum; prepare a Concept Design Report for land remediation works in 'Zone C' land; and carry out work to mitigate lateral spread in Spencerville.

» **Effective 18 April 2011** – giving EQC additional functions in relation to entering into and carrying out its roles and responsibilities under a Memorandum of Understanding with the Waimakariri District Council relating to certain additional land remediation works in the district.

» **Effective 15 September 2011 (until 14 September 2014)** – a direction amending the direction effective 1 November 2001 – requirements for how EQC should invest and manage the Natural Disaster Fund, and when EQC should consult with the Minister of Finance.

» **Effective 20 December 2012** – to allow EQC to pay out on damage apportioned to unclaimed events.

» **Effective 2 December 2013** – to amend the direction effective 20 December 2012 such that no excess applies in respect of the unclaimed for event.

EQC is also subject to whole of government directions such as the whole of government direction regarding all-of-government shared authentication services (presented to Parliament on 22 July 2008). There is also a series of whole of government directions that came into force in the year to 30 June 2014 – for more information see http://www.ssc.govt.nz/whole-of-govt-directions-dec2013.

23 Given that the Fund is expected to be depleted in the near future and is now managed on a liquidity basis, EQC is working with the Treasury with a view to seeking Ministerial agreement to an appropriate amendment to the performance objectives in this Direction.

DIRECTORY

MINISTER RESPONSIBLE FOR THE EARTHQUAKE COMMISSION

THE HON GERRY BROWNLEE

SIR MAARTEN WEVERS – CHAIR
KNZM, BSC, BA(HONS)

Sir Maarten joined the Board of EQC in June 2013, and took up the role of Chair in August that year. He was previously High Commissioner to Papua New Guinea and Ambassador to Japan, and General Manager, Government Business, at New Zealand Post. Sir Maarten served as Chief Executive of the Department of the Prime Minister and Cabinet between 2004 and 2012, to Prime Ministers Helen Clark and John Key. He is a trustee of the Fred Hollows Foundation of New Zealand, a member of the Investment Advisory Panel for the Primary Growth Partnership, and a member of the Ministry of Social Development Audit Committee. Sir Maarten is also Registrar of Pecuniary and Other Specified Interests of Members of Parliament.

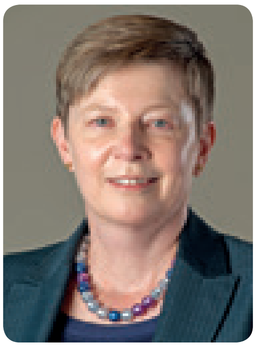
Term ends: 31 May 2016

KEITH TAYLOR – DEPUTY CHAIR
BCA, BSC, FIA (LONDON), FIAA, AFIOD

Keith Taylor was appointed to the EQC Board in August 2006. He is a former Group Managing Director and Chief Executive Officer of TOWER Ltd. Keith has experience in governance and the insurance industry, and is widely skilled in strategic and business planning. He has a number of Board positions including Chair of the Government Superannuation Fund Authority, Chair of Gough Holdings Limited, Deputy Chair of the Reserve Bank of New Zealand and Director/ Trustee of the Southern Cross Healthcare Group.

Terms ends: 30 June 2016

DR ALISON O'CONNELL – COMMISSIONER
MA, MSC, PHD, FIA



Alison is a researcher and policy adviser who was appointed to the EQC Board in September 2013. Before moving to Christchurch in 2006, she was chief executive of the Pensions Policy Institute in London. Having trained as an actuary, her risk management skills are complemented by experience in strategy consulting gained at Swiss Re and McKinsey.

Term ends: 30 June 2015

PAUL KIESANOWSKI – COMMISSIONER
BCOM, CA

Paul Kiesanowski was appointed to the EQC Board in March 2014. He is a former partner of KPMG. Paul brings strong financial management skills, risk management and assurance over a career working with a large number of clients. Mr Kiesanowski is also a Director of New Zealand Red Cross, a Trustee of the Red Cross Foundation, and a Director of The Red Bus Company.

Term ends: 28 February 2017

ROGER BELL – COMMISSIONER

MINSTD, FIINZ, CIP

Roger Bell was appointed to the EQC Board in August 2013. As past Chief Executive of Vero Insurance, he has a passion for organisational excellence. He has recently retired from the Board of the New Zealand Business Excellence Foundation having served as a Director for 11 years and as Chairman. He is a Fellow (by examination) of the Australia & New Zealand Institute of Insurance & Finance, and has completed the Executive Program at the University of Michigan Business School. Roger is also a strong advocate for animal welfare as a Director of SPCA Auckland and also sits on the Board of iCompare, a start-up aggregator of financial services.

Term ends: 30 June 2015

RUSSELL BLACK – COMMISSIONER

BE (CIVIL)(HONS), FRENG (UK), FHKENG, FIPENZ, FHKIE

Russell Black was appointed to the EQC Board in December 2010. Prior to 2010 he spent 34 years managing major infrastructure projects in Hong Kong, Singapore, England and China. Russell is currently a Director of Northpower Ltd and the NSW Government's North West Rail Project Advisory Board, and runs his own project management consultancy business, Leafcutter Ltd.

Term ends: 30 June 2016

GORDON SMITH – COMMISSIONER

Gordon Smith was appointed to the EQC Board in October 2011. He is a former Chief Executive Officer of Farmers' Mutual Group and holds four directorships in New Zealand. Gordon has considerable experience in banking, finance and insurance. He owns an independent business consultancy that works with a wide variety of companies in the areas of strategic direction, business growth and enhanced profitability and is Managing Director of a niche general insurance agency.

Term ends: 30 June 2017

MARY JANE DALY – COMMISSIONER

BCOM, MBA

Mary Jane Daly was appointed to the EQC Board in March 2014. She was formerly Executive General Manager at State Insurance. Prior to this she was Chief Financial Officer for IAG New Zealand having joined the company in October 2006. Before joining IAG, Mary Jane spent four years with Fonterra as Group Treasurer and Risk Manager. She has a strong background in banking and finance with extensive experience in a variety of roles both in New Zealand and the UK. She is an Independent Director of the New Zealand Green Building Council, the Airways Corporation of New Zealand and TSM NZ Limited.

Term ends: 28 February 2017

EXECUTIVE LEADERSHIP TEAM

I Simpson – BSc (Hons), MBA, Chief Executive

D Barber, GM Stakeholder Engagement & Reputation

H A Cowan – PhD, GM Reinsurance, Research & Education

B P Dunne – BSc, BA (Hons), MA (Dist.), Cert MS, GM Strategy, Policy & Legal & GM Information Systems & Transformation

G Kettle, GM Customer & Claims

R Stiven, GM Canterbury Home Repair Programme

G Dudgeon – BSc (Hons), Chief Risk Officer

E K Hicks – BCom, CA, Chief Financial Officer

H Stewart – BBS (ER), FHRINZ (Fellow), GM Organisational Development

J Whitfield, GM Project Portfolio Management

AUDITORS

Deloitte (On behalf of the Auditor-General)

BANKER

ANZ Bank New Zealand Limited, Wellington

SOLICITORS

Chapman Tripp, Wellington

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